SAN MIGUEL CORPORATION

August 10, 2012

The Philippine Stock Exchange, Inc.
Disclosure Department
3rd Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

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

Gentlemen:

We transmit herewith a copy of the Company's Final Prospectus dated 10 August 2012 in connection with the public offer of 1,067,000,000 Series "2" Preferred Shares of the Company.

Very truly yours,

MARY ROSE S. TAN
Assistant Corporate Secretary

SAN MIGUEL CORPORATION

Primary Offer in the Philippines of 1,067,000,000 Series "2" Preferred Shares
consisting of
Subseries "2-A": 7.500% per annum,
Subseries "2-B": 7.625% per annum and
Subseries "2-C": 8.000% per annum

at an Offer Price of ₱75.00 per Share

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

Sole Issue Manager
The Hongkong and Shanghai Banking Corporation Limited

Joint Bookrunners
The Hongkong and Shanghai Banking Corporation Limited
UnionBank of the Philippines
BDO Capital & Investment Corporation
China Banking Corporation
RCBC Capital Corporation
First Metro Investment Corporation
ING Bank N.V., Manila Branch
Philippine Commercial Capital, Inc.
SB Capital and Investment Corporation
Standard Chartered Bank
United Coconut Planters Bank

Participating Underwriters
Insular Investment Corporation
PNB Capital & Investment Corporation

Selling Agents
Bank of Commerce
Trading Participants of the Philippine Stock Exchange, Inc.

This Prospectus is dated August 10, 2012

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

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

The Offer Shares are being offered for subscription solely in the Philippines through the Sole Issue Manager, The Hongkong and Shanghai Banking Corporation Limited, and The Hongkong and Shanghai Banking Corporation Limited, UnionBank of the Philippines, BDO Capital & Investment Corporation, China Banking Corporation, RCBC Capital Corporation, First Metro Investment Corporation, ING Bank N.V., Manila Branch, Philippine Commercial Capital, Inc., SB Capital and Investment Corporation, Standard Chartered Bank, and United Coconut Planters Bank (collectively, the "Joint Bookrunners") at a subscription price of ₱75.00 per share (the "Offer Price" or the "Issue Price").

On April 18, 2012, the Board of Directors of the Company (the "Board of Directors") approved the increase in the authorized capital stock of the Company from ₱22,500,000,000.00 divided into 3,390,000,000 common shares and 1,110,000,000 Series "1" Preferred Shares, both with par value of ₱5.00 per share, to ₱30,000,000,000.00 divided into 3,790,000,000 common shares, 1,110,000,000 Series "1" Preferred Shares and 1,100,000,000 Series "2" Preferred Shares, all with par value of ₱5.00 per share (the "Increase"). On June 14, 2012, the stockholders of the Company approved the Increase and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares. On July 24, 2012, the Board of Directors authorized the issuance and offer to the general public of up to a total of 1,067,000,000 Series "2" Preferred Shares pursuant to the increase in authorized capital stock of SMC under such terms and conditions as the management of SMC may deem advantageous to it.

The application for Increase will be filed with the Securities and Exchange Commission ("SEC") no later than September 14, 2012.

The Company can issue the Offer Shares only upon the approval by the SEC of the Increase.

Following the Offer and the approval of the Increase by the SEC, the Company will have (i) 3,790,000,000 common shares, (ii) 970,506,353 Series "1" Preferred Shares and (iii) 1,067,000,000 Series "2" Preferred Shares issued and outstanding. The holders of the Offer Shares do not have identical rights and privileges with holders of the existing common shares and Series "1" Preferred Shares of the Company.

Dividends may be declared at the discretion of the Board of Directors and will depend upon SMC's future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations (both at the parent and subsidiary levels) and other factors the Board of Directors may deem relevant. While there is no assurance that SMC will declare dividends on the Offer Shares in the future, SMC has consistently paid quarterly cash dividends to both its common shareholders in the amount of ₱0.35 and to its preferred shareholders in the amount of ₱1.50, details of which are found on page 150.

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

As and if cash dividends are declared by the Board of Directors, cash dividends on the Series "2" Preferred Shares shall be at the fixed rates of: Subseries "2-A": 7.500% per annum; Subseries "2-B": 7.625% per annum; and Subseries "2-C": 8.000% per annum, in all cases calculated for each share by reference to the Issue Price thereof in respect of each Dividend Period (each, the "Dividend Rate" for the relevant subseries). Subject to limitations on the payment of cash dividends as described in the section on the "Terms of the Offer", dividends on the Series "2" Preferred Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a "Dividend Payment Date"), which date shall be no later than 15 calendar days from the end of the relevant Dividend Period. A "Dividend Period" shall be the period commencing on the Final Issue Date, as defined in the section on "Terms of the Offer", and having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of, the immediately succeeding Dividend Period.

The dividends on the Series "2" Preferred Shares will be calculated on a 30/360-day basis and will be paid quarterly in arrears on each Dividend Payment Date, as and if declared by the Board of Directors, provided that, for the first Dividend Period, the first dividend shall be the sum of (a) the dividend accrued from the Final Issue Date up to the end of the first Dividend Period using the Dividend Rate, and (b) such additional amount as may be determined by the Board of Directors considering that the proceeds of the Offer will be placed in a special deposit account of the Bangko Sentral ng Pilipinas ("BSP") if the approval by the SEC of the Increase is not obtained by the Subscription Payment Date.

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

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

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

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

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

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

The Company has filed an application for the listing of the Offer Shares on the Philippine Stock Exchange, Inc. ("PSE") and expects to receive the approval of said application after the Increase shall have been approved by the SEC. Once the Offer Shares are listed on the PSE, SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Offer Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares.

The gross proceeds of the Offer are expected to reach approximately ₱80,025,000,000.00 The net proceeds from the Offer, estimated to be at ₱78,449,577,343.75 and determined by deducting from the gross proceeds the total issue management and underwriting fees, registration and listing fees, taxes and other related fees and out-of-pocket expenses, will be used by the Company: (i) to redeem the existing ₱ 72.8 billion Series "1" Preferred Shares of SMC and (ii) for general corporate purposes (see "Use of Proceeds" on page 75). The estimated underwriting fee shall be ₱645,362,903.23, including any amounts to be paid to any selling agents.

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

No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Joint Bookrunners. The distribution of this Prospectus and the offer and sale of the Offer Shares may, in certain jurisdictions, be restricted by law. The Company and the Joint Bookrunners require persons into whose possession this Prospectus comes, to inform themselves of and observe all such restrictions. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer in such jurisdiction.

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

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

Each person contemplating an investment in the Offer Shares should make his own investigation and analysis of the creditworthiness of SMC and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Offer Shares. A person contemplating an investment in the Offer Shares

should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. Investing in the Offer Shares involves a higher degree of risk compared to debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Offer Shares, see the section on “Risks Factors” starting on page 49.

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

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CURRENT.

SAN MIGUEL CORPORATION
By:

RAMON S. ANG
President

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

Doc No. 121
Page No. 26
Book No. IV
Series of 2012.

CARMELA T. 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

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Forward-looking Statements

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

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

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

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

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

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

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

Definition of Terms

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

AAI	Atlantic Aurum Investments BV
ACA	Automatic Cost Adjustment Mechanism
AGNP	A. G. N. Philippines, Inc.
Air Phil	Air Philippines Corporation
ASEAN	The Association of Southeast Asian Nations, consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
Banking Day	A day, except Saturday or Sunday or legal holidays, in which facilities of the Philippine banking system are open and available for clearing and the banks are open for business in Metro Manila
BellTel	Bell Telecommunication Philippines, Inc.
BERI	Bonanza Energy Resources, Inc
BIR	Bureau of Internal Revenue of the Philippines
Board of Directors	Board of Directors of SMC
BOT	Build operate transfer
bpd	Barrels per day
BSP	Bangko Sentral ng Pilipinas
BSP Rate	The weighted average rate for the purchase of U.S. Dollars with Pesos, as published by the BSP
Clean Air Act	The Philippine Clean Air Act of 1999
Clean Water Act	The Philippine Clean Water Act of 2004
Corporation Code	Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines
DA	The Department of Agriculture of the Philippines
DAMI	Daguma Agro Minerals, Inc.
DENR	Department of Environment and Natural Resources of the Philippines
Distribution Code	The Philippine Distribution Code
DOE	Department of Energy of the Philippines
DOH	Department of Health of the Philippines, including the FDA
DSO	Dairy products, spreads and oils
DTI	Department of Trade and Industry of the Philippines
EBITDA	Earnings before interest, taxes, depreciation and amortizations

ECA	Energy Conversion agreement
ECC	Environmental Compliance Certificate
EIS	Environmental Impact Statement
EISS Law	Philippine Environmental Impact Statement System
EPIRA	Electric Power Industry Reform Act of 2001
ERC	Energy Regulatory Commission of the Philippines
ETPI	Eastern Telecommunications Philippines, Inc.
Expanded VAT Law	The Philippine Republic Act No. 9337
FDA	The Food and Drug Administration of the Philippines
FDDC Act	The Philippine Foods, Drugs and Devices, and Cosmetics Act, as amended by the Food and Drug Administration Act of 2009
FIA	Foreign Investment Act of 1991
FSMA	Financial Services and Markets Act 2000
Grid Code	The Philippine Grid Code
GSMI	Ginebra San Miguel Inc., including as the context requires, its subsidiaries
GWh	Giga-watt hours
Ilijan Power Plant	Natural gas fired combined cycle power plant with installed capacity of 2 x 600 MW located in Ilijan, Batangas
IMS	Integrated Management System
IPP	Independent Power Producer
IPPA	Independent Power Producer Administrator
IPPA agreement	Independent Power Producer Administration agreement
ISO	International Organization for Standardization
Joint Bookrunners	The Hongkong and Shanghai Banking Corporation Limited, UnionBank of the Philippines, BDO Capital & Investment Corporation, China Banking Corporation, RCBC Capital Corporation, First Metro Investment Corporation, ING Bank N.V., Manila Branch, Philippine Commercial Capital, Inc., SB Capital and Investment Corporation, Standard Chartered Bank, and United Coconut Planters Bank
Kirin	Kirin Holdings Company, Limited
LGU	Local government unit
Liberty	Liberty Telecoms Holdings, Inc.
Livestock and Poultry Feeds Act	The Philippine Livestock and Poultry Feeds Act, including its implementing rules and regulations
LPG	Liquefied petroleum gas
LSFO	Low sulfur fuel oil
Magnolia	Magnolia Inc.

MARINA	Maritime Industry Authority of the Philippines
Meat Inspection Code	The Meat Inspection Code of the Philippines
MEQ	Minimum Energy Quantity
Meralco	Manila Electric Company
MRT-7	Metro Rail Transit Line 7
Must Pay Volume	The monthly generation payments SMC Global Power must pay, which comprises a "must pay" amount for electricity sold up to a given volume
MW	Mega-watt
NEA	National Electrification Administration of the Philippines
NGCP	National Grid Corporation of the Philippines
NPC	National Power Corporation of the Philippines
NVRC	New Ventures Realty Corporation
NYG	Nihon Yamamura Glass Co. Ltd.
Offer	Offering of the Offer Shares
Offer Price	₱75.00 per Share
Oil Deregulation Act	The Philippine Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998
Order	Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005
Packaging Group	San Miguel Yamamura Packaging Corporation, San Miguel Yamamura Packaging International Limited and its subsidiaries, San Miguel Yamamura Asia Corporation and Mindanao Corrugated Fibreboard Inc.
PAL	Philippine Airlines, Inc.
PCGG	Presidential Commission on Good Government
PDS	Philippine Dealing System
PDTC	The Philippine Depository & Trust Corporation
PEMC	Philippine Electricity Market Corporation
Peso or ₱	Philippine Peso, the lawful currency of the Republic of the Philippines
PET	Polyethylene Terephthalate
Petron	Petron Corporation
PFF Act	The Philippine Food Fortification Act of 2000
PFRS	Philippine Financial Reporting Standards
PhilHealth	Philippine Health Insurance Corporation
PIDC	Private Infra Dev Corporation
PPA	Power purchase agreement
PPP	Public-Private Partnership

Price Act	The Price Act
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	Power supply contract
PSE	The Philippine Stock Exchange, Inc.
RMP-2	Phase 2 of the Refinery Master Plan of Petron
San Roque IPPA Agreement	IPPA for the operation of the San Roque Power Plant
San Roque Power Plant	Hydroelectric multipurpose power plant with installed capacity of 345 MW located in San Manuel, Pangasinan
Saudi Aramco	Saudi Arabian Oil Company
SCCP	The Securities Clearing Corporation of the Philippines
SEC	Securities and Exchange Commission of the Philippines
SEPC	Sultan Energy Philippines Corp.
Series "1" Preferred Shares	Preferred Shares issued by SMC in 2009
SLEX	South Luzon Expressway
SMB	San Miguel Brewery Inc., including as the context requires, its subsidiaries
SMBIL	San Miguel Brewing International Ltd.
SMC or the Company or the Parent Company	San Miguel Corporation, a corporation incorporated under the laws of the Republic of the Philippines
SMC Global Power	SMC Global Power Holdings Corp. including, as the context requires, its subsidiaries
SMC Group	SMC and its subsidiaries
SMEC	San Miguel Energy Corporation
SMEII	San Miguel Equity Investments Inc.
SMFI	San Miguel Foods, Inc.
SMHC	San Miguel Holdings Corp.
SMPFC	San Miguel Pure Foods Company, Inc., including as the context requires, its subsidiaries
SMPI	San Miguel Properties, Inc.
SMYAC	San Miguel Yamamura Asia Corporation
SMYPC	San Miguel Yamamura Packaging Corporation
SPDC	Strategic Power Dev. Corp.
SPPC	South Premiere Power Corp.
SRPC	San Roque Power Corporation
SSS	Social Security System
Sual ECA	The ECA between NPC and TeaM Energy

Sual IPPA Agreement	IPPA Agreement for operation of the Sual Power Plant
Sual Power Plant	2 x 500 MW Coal-fired power plant located in Sual, Pangasinan
Subseries	Subseries of the Series "2" Preferred Shares
TADHC	Trans Aire Development Holdings Corp.
T1 Volume	80% of the statutory rate SMC Global Power charges Meralco for supplying electrical power under the offtake agreement between SMC Global Power and Meralco for the given month multiplied by a factor equal to the volume sold
Tax Code	The Philippine National Internal Revenue Code of 1997, as amended
TCCs	Tax Credit Certificates
TeaM Energy	TeaM Sual Corporation
TPLEX	Tarlac–Pangasinan–La Union Expressway
TransCo	National Transmission Corporation
Underwriting Agreement	Underwriting Agreement dated August 10, 2012, among SMC and the Joint Bookrunners
Universal LRT	Universal LRT Corporation (BVI) Limited
VAT	Value added tax
Vega	Vega Telecom Inc.
WESM	Wholesale Electricity Spot Market

Executive Summary

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

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

Brief Background on the Company

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

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

- acquired 68.26% equity interest in Petron Corporation ("Petron")
- acquired the rights, pursuant to Independent Power Producer Administrator ("IPPA") agreements with Power Sector Assets and Liabilities Management Corporation ("PSALM") to administer three power plants in Sual and San Roque in Pangasinan and Ilijan in Batangas
- owns a 32.39% equity interest in the Manila Electric Company ("Meralco")
- made the following infrastructure acquisitions:
    a. a 35.0% equity interest in Private Infra Dev Corporation ("PIDC")
    b. a 93.0% equity interest in Trans Aire Development Holdings Corp. ("TADHC", formerly known as Caticlan International Airport Development Corporation)
    c. a 51.0% equity interest in Universal LRT Corporation (BVI) Limited ("Universal LRT")
    d. a 46.53% equity interest in Atlantic Aurum Investments BV ("AAI")
- made the following telecommunications acquisitions:
    a. a 41.48% equity interest in Liberty Telecommunications Holdings, Inc. ("Liberty")
    b. a 100.0% equity interest in Bell Telecommunication Philippines ("BellTel")
    c. a 100% equity interest in A.G.N. Philippines, Inc. ("AGNP") which holds 40% interest in Eastern Telecommunications Philippines, Inc. ("ETPI") and 37.7% equity interest in ETPI through its wholly-owned subsidiary, San Miguel Equity Securities, Inc. ("SMESI")
- acquired a 100.0% equity interest in each of the three concession holders of coal deposits in the Southern Mindanao region – namely, Daguma Agro Minerals, Inc. ("DAMI"), Bonanza Energy Resources, Inc. ("BERI") and Sultan Energy Phils. Corp. ("SEPC")
- acquired 49% equity interest in Trustmark Holdings Corporation and Zuma Holdings and Management Corporation, the holding companies of Philippine Airlines, Inc. ("PAL") (through PAL Holdings, Inc.) and Air Philippines Corporation ("Air Phil"), respectively.

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

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

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

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

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

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

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

Major developments in the SMC Group are discussed in Management's Discussion and Analysis of Financial Position and Performance, found on page 167.

Core Businesses:

Beverages

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

Food

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

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

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

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

Packaging

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

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

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

Properties

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

New Businesses

Fuel and Oil

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

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

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

Energy

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

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

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

Infrastructure

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

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

Telecommunications

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

Liberty Telecom

SMC owns 41.48% of Liberty in partnership with Qatar Telecom (32.65%) and White Dawn Solutions Holdings, Inc. (18.36%), with the remaining shares owned by the public. Liberty is a telecommunications carrier offering services including nationwide telephone service, data communications, inter-exchange carrier services and international voice and data connectivity services.

BellTel

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

ETPI

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

Airline

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

Competitive Strengths

SMC believes that its principal strengths include the following:

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

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

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

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

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

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

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

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

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

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

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

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

In 2009, SMC generated ₱30,013 million of recurring Earnings Before Interests, Tax, Depreciation and Amortization ("EBITDA") and ₱57,799 million of net income attributable to Parent Company, with ₱6,249 million of capital expenditure. In 2010, they generated ₱52,536 million of recurring EBITDA and ₱ 20,091 million of net income attributable to Parent Company with ₱8,518 million of capital expenditure. In 2011, they generated ₱77,150 million of recurring EBITDA and ₱17,518 million of net income attributable to Parent Company with ₱26,426 million of capital expenditure. As of March 31, 2012, they generated ₱21,637 million of recurring EBITDA and ₱8,477 million of net income attributable to Parent Company with ₱8,012 million of capital expenditure.

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

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

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

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

Fuel and oil: The Philippines is a net importer of refined petroleum products and is expected to remain dependent on imports. SMC believes that the less urbanized areas in the Philippines are

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

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

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

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

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

- ***Ancillary business opportunities*:** SMC believes it has opportunities within its existing businesses to secure new growth opportunities along the routes of its infrastructure projects by using the relevant land area to conduct business and activities. Potential initiatives of this type include installing SMC-related billboard and other forms of advertisements, building service stations, retail outlets, rest stops and kiosks along toll roads.

- ***Immediate distribution channel*:** The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of over 1,900 Petron service stations provides an immediate distribution channel for retail sales for SMC products.

- ***Economies of scale*:** SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.

- ***Integration*:** SMC plans to continue pursuing vertical integration across the established and strategic businesses, such as supplying the fuel and oil and power requirements of its businesses internally and leveraging its power distribution capability through Meralco.

Business Strategies

The principal strategies of SMC include the following:

- **Enhance value of established businesses.** SMC aims to enhance the value of its established businesses through the pursuit of operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

- **Continue to diversify into industries that underpin the development and growth of the Philippine economy.** In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

- **Identify and pursue synergies across businesses through vertical integration, platform matching and channel management.** SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.

- **Invest in and develop businesses with dominant market positions.** SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include constructing new power plants and expanding power generation portfolio, building additional service and micro-filling stations and expanding food distribution networks. SMC believes its strong domestic market position provides a brand and effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses it believes have the potential to gain dominant positions in their respective markets.

- **Adopt world-leading practices and joint development of businesses.** SMC intends to develop strategic partnerships with global industry leaders, including, for example, Kirin and NYG in the beverages and packaging businesses. These partnerships provide marketing and expansion opportunities, and they also potentially provide liquidity and opportunities for SMC to divest minority stakes in its businesses creating value for its shareholders.

Risks of Investing

Prospective investors should consider that the Company can issue the Offer Shares only upon the approval by the SEC of the Increase.

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

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

(For a more detailed discussion, see “Risk Factors” on page 49)

Use of Proceeds

The Offer Price shall be at ₱75.00. The net proceeds from the Offer are estimated to be ₱ ₱78,449,577,343.75, after deducting expenses relating to the issuance of the Offer Shares. Proceeds of the Offer will be used by the Company: (i) to redeem the existing ₱72.8 billion Series "1" Preferred Shares and (ii) for general corporate purposes (for a more detailed discussion, see "Use of Proceeds" on page 75).

Plan of Distribution

SMC plans to issue the Offer Shares to institutional and retail investors through a public offering to be conducted through the Joint Bookrunners and Selling Agents (for a more detailed discussion, see "Plan of Distribution" on page 78).

Expected Timetable

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

Dividend Rate Setting Date	August 6, 2012
Start of Offer Period	August 13, 2012
Last Day of Offer Period	September 14, 2012
Filing of Amended Articles of Incorporation and Certificate of Increase in Capital Stock	Not later than September 14, 2012
Subscription Payment Date	September 21, 2012
Submission to the PSE Board of Directors for the Approval of the Listing of the Offer Shares	Not later than October 10, 2012
Listing Date and Commencement of Trading on the PSE	Not later than October 12, 2012

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

Summary of Financial Information

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

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

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2011	2010	2009	2012	2011
		(Audited)		(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales	₱535,775	₱ 246,156	₱ 174,213	₱ 142,039	₱ 126,592
Cost of sales	432,321	173,929	124,295	115,345	99,300
Gross profit	103,454	72,227	49,918	26,694	27,292
Selling and administrative expenses	(47,500)	(37,619)	(30,249)	(11,853)	(10,157)
Interest expense and other financing charges	(27,443)	(16,578)	(7,926)	(7,169)	(6,757)
Interest income	4,618	3,023	5,989	1,102	1,451
Equity in net earnings of associates	2,824	6,817	2,816	1,350	630
Gain on sale of investments and property and equipment	1,046	529	50,630	538	50
Other income (charges) – Net	(12)	7,095	(6,843)	3,879	(59)
Income before income tax	36,987	35,494	64,335	14,541	12,450
Income tax expense	8,483	11,438	3,706	2,806	2,414
Net income	₱ 28,504	₱ 24,056	₱ 60,629	₱ 11,735	₱ 10,036
Attributable to:					
Equity holders of the Parent Company	₱ 17,518	₱ 20,091	₱ 57,799	₱ 8,477	₱ 7,138
Non-controlling interests	10,986	3,965	2,830	3,258	2,898
	₱ 28,504	₱ 24,056	₱ 60,629	₱ 11,735	₱ 10,036
Earnings per common share attributable to equity holders of the Parent Company basic	₱ 4.97	₱ 6.18	₱ 19.21	₱ 2.96	₱ 2.44
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 4.94	₱ 6.14	₱ 19.10	₱ 2.94	₱ 2.42
Consolidated Statements of Financial Position Data					
Assets					
Total current assets	₱ 308,179	₱ 279,538	₱ 298,113	₱ 368,230	
Total noncurrent assets	582,357	550,262	140,378	608,624	
Total assets	₱ 890,536	₱ 829,800	₱ 438,491	₱ 976,854	

Liabilities and Equity					
Current liabilities					
Total current liabilities	₱ 190,830	₱ 178,224	₱ 94,029	₱ 234,802	
Total noncurrent liabilities	400,606	384,751	103,524	416,399	
Equity					
Equity attributable to equity holders of the Parent Company	229,414	216,031	213,817	235,670	
Non-controlling interests	69,686	50,794	27,121	89,983	
Total equity	299,100	266,825	240,938	325,653	
Total liabilities and equity	₱ 890,536	₱ 829,800	₱ 438,491	₱ 976,854	
Cash Flow Data					
Net cash provided by (used in):					
Operating activities	₱ 32,207	₱ 45,314	₱ 13,368	₱ 2,892	₱ 3,893
Investing activities	(70,488)	(126,931)	49,155	(17,890)	(18,228)
Financing activities	42,335	(2,226)	32,550	29,768	15,725
Effect of exchange rates changes in cash and cash equivalents	(181)	(380)	(2,601)	(235)	(175)
Net increase/(decrease) in cash and cash equivalents	3,873	(84,223)	92,472	14,535	1,215
Cash and cash equivalents at beginning of year	125,188	209,411	116,939	128,975	125,188
Cash and cash equivalents held for sale	(86)	-	-	-	-
Cash and cash equivalents at end of period	₱ 128,975	₱ 125,188	₱ 209,411	₱ 143,510	₱ 126,403

Capitalization

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

(in ₱ Millions)	As of March 31, 2012 (Unaudited)	As adjusted for maximum Issue Size of ₱ 80.025 Billion (Prior to the creation of Offer Shares)	As adjusted for maximum Issue Size of ₱ 80.025 Billion (Upon the creation of Offer Shares)
Current Liabilities			
Drafts and loans payable	₱ 103,055	₱ 103,055	₱ 103,055
Accounts payable and accrued expenses	84,207	84,207	84,207
Finance lease liabilities – current portion	15,387	15,387	15,387
Income and other taxes payable	10,840	10,840	10,840
Dividends payable	2,038	2,038	2,038
Current maturities of long-term debt – net of debt issue costs	19,275	19,275	19,275
Total Current Liabilities	234,802	234,802	234,802
Noncurrent Liabilities			
Long term debt – net of current maturities and debt issue costs	209,254	209,254	209,254
Deferred tax liabilities	12,596	12,596	12,596
Finance lease liabilities – net of current portion	189,043	189,043	189,043
Other noncurrent liabilities	5,506	5,506	5,506
Total Non-current Liabilities	416,399	416,399	416,399
Equity			
Common stock – ₱ 5.00 par value Authorized – 3,390,000,000shares Issued – 3,279,447,613 shares		16,397	16,397	16,397
Series "1" Preferred stock – ₱ 5.00 par value Authorized – 1,110,000,000 shares Issued – 970,506,353 shares		4,852	4,852	4,852
Deposit For Future Subscription			80,025	
Series "2" Preferred stock – ₱ 5.00 par value Authorized – 1,100,000,000 shares Issued – 1,067,000,000 shares				5,335
Additional paid-in capital		103,579	103,579	178,269
Revaluation Surplus		1,355	1,355	1,355
Cumulative Translation Adjustments		5,284	5,284	5,284
Retained earnings				

Appropriated		24,664	24,664		24,664
Unappropriated		146,969	146,969		146,969
Treasury Stock			(67,430)	(67,430)	(67,430)
Equity attributable to equity holders of the parent			235,670	315,695	315,695
Non-controlling interests	89,983		89,983		89,983
Total Equity	325,653		405,678		405,678
Total Capitalization	**976,854**		1,056,879		1,056,879

Terms of the Offer

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

Issuer	San Miguel Corporation ("SMC", the "Company")
Offer Size	₱80.025 billion
Instrument	Series "2" cumulative, non-voting, non-participating, non-convertible preferred shares (the "Series "2" Preferred Shares") consisting of up to One Billion One Hundred Million (1,100,000,000) preferred shares. The Series "2" Preferred Shares will be issued in up to three subseries out of an increase in authorized capital stock ("Increase"). All subscription payments received in the Offer (as this term is used below) will fund the Increase.
The Offer	SMC, through the Joint Bookrunners, is offering for subscription up to 1,067,000,000 Series "2" Preferred Shares (the "Offer"). The Series "2" Preferred Shares may be issued in up to three subseries, at the discretion of the Issuer: ▪ Subseries "2-A"; ▪ Subseries "2-B"; and ▪ Subseries "2-C".
Increase in Authorized Capital Stock	The Board of Directors approved the Increase on April 18, 2012. On June 14, 2012, the stockholders of SMC approved the Increase and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares. The application for Increase will be filed with the SEC no later than September 14, 2012.
Final Issue Date	The Offer Shares shall be issued upon the approval by the SEC of the Increase (the "Final Issue Date"). SMC shall register the Offer Shares in the name of the subscribers within five Banking Days from the approval by the SEC of the Increase or the Subscription Payment Date, whichever is later.
Subscription Payment Date	Targeted to be on September 21, 2012; provided that the Issuer shall have the option to accept subscription payments earlier than September 21, 2012 should it decide to file the application for Increase earlier than September 14, 2012.

Use of Proceeds	SMC shall apply ₱1,575,422,656.25 of the total subscription payments to the payment of fees and expenses of the Offer; ₱72,787,976,475.00 to the redemption of Series "1" Preferred Shares; and ₱5,661,600,868.75 for general corporate purposes.
Par Value	The Series "2" Preferred Shares have a par value of ₱5.00 per share.
Issue Price	The Series "2" Preferred Shares shall be offered at a price of ₱75.00 per share.
Dividend Rate	As and if cash dividends are declared by the Board of Directors, cash dividends on the Series "2" Preferred Shares shall be at the fixed rates of: • Subseries "2-A": 7.500% per annum; • Subseries "2-B": 7.625% per annum; and • Subseries "2-C": 8.000% per annum in all cases calculated for each share by reference to the Issue Price thereof in respect of each Dividend Period (each, the "Dividend Rate" for the relevant subseries).
Dividend Rate Step-Up	Unless the Series "2" Preferred Shares are redeemed by SMC on the applicable Optional Redemption Dates (as defined below under "Optional Redemption and Purchase"), the Dividend Rate shall be adjusted thereafter to the higher of: (a) the Dividend Rate, or (b) (i) for Subseries "2-A", if not redeemed on the fifth anniversary from the Final Issue Date of the subseries, the 10-year PDST-F rate on such anniversary date or, if not a Banking Day, on the preceeding Banking Day plus 3% per annum; (ii) for Subseries "2-B", if not redeemed on the seventh anniversary from the Final Issue Date of the subseries, the 15-year PDST-F rate (which rate, if not existing on the date of redemption, shall be interpolated on a straight line basis from the 10-year PDST-F rate and 20-year PDST-F rate) on such anniversary date or, if not a Banking Day, on the preceeding Banking Day plus 3% per annum; and (iii) for Subseries "2-C", if not redeemed on the tenth anniversary from the Final Issue Date of the subseries, the 20-year PDST-F rate on such anniversary date or, if not a Banking Day, on the preceeding Banking Day plus 3% per annum.
Dividend Payment Dates	Subject to limitations described in "Conditions on Payment of Cash Dividends", dividends on the Series "2" Preferred Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a "Dividend Payment Date"), which date shall be no later than 15 calendar days from the end of the relevant Dividend Period. A "Dividend Period" shall be the period commencing on the Final Issue Date and having a duration of

	three months, and thereafter, each of the successive periods of three months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of the immediately succeeding Dividend Period. The dividends on the Series "2" Preferred Shares will be calculated on a 30/360-day basis and will be paid quarterly in arrears on each Dividend Payment Date, as and if declared by the Board of Directors, provided that, for the first Dividend Period, the first dividend shall be the sum of (a) the dividend accrued from the Final Issue Date up to the end of the first Dividend Period using the Dividend Rate, and (b) such additional amount as may be determined by the Board of Directors considering that the proceeds of the Offer will be placed in a special deposit account of the BSP if the approval by the SEC of the Increase is not obtained by Subscription Payment Date. If the Dividend Payment Date is not a Banking Day, cash dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of cash dividends to be paid.
Conditions on Payment of Cash Dividends	The declaration of cash dividends will be subject to the discretion of the Board of Directors to the extent permitted by law. The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where (a) payment of the cash dividend would cause SMC to breach any of its financial covenants or (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Series "2" Preferred Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Series "2" Preferred Shares and that have an equal right to dividends as the Series "2" Preferred Shares. If the profits available to distribute as dividends are, in the opinion of the Board of Directors, not sufficient to enable SMC to pay in full on the same date both cash dividends on the Series "2" Preferred Shares and the dividends on other shares that have an equal right to dividends as the Series "2" Preferred Shares, SMC is required first, to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that Dividend Payment Date on any shares with a right to dividends ranking in priority to that of the Series "2" Preferred Shares; and second, to pay cash dividends on the Series "2" Preferred Shares and any other shares ranking equally with the Series "2" Preferred Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the right to dividends with the Series "2" Preferred Shares. Any such cash dividends deferred or not declared in accordance with the above provisions shall constitute "Arrears of Dividends" which shall accrue cash dividends at the prevailing Dividend Rate. The profits available for distribution are, in general and with some adjustments, equal to the accumulated, realized profits of SMC less accumulated, realized loss.

	Cash dividends on the Series "2" Preferred Shares will be cumulative. If for any reason the Board of Directors of SMC does not declare a cash dividend on the Series "2" Preferred Shares for a Dividend Period, SMC will not pay a cash dividend on the Dividend Payment Date for that Dividend Period. However, on any future Dividend Payment Date on which cash dividends are declared, holders of the Series "2" Preferred Shares must receive the accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends to the holders of the Series "2" Preferred Shares prior to such Dividend Payment Date. Holders of the Series "2" Preferred Shares shall not be entitled to participate in any other or further dividends, cash, property or stock beyond the dividends specifically payable on the Series "2" Preferred Shares. SMC will covenant that, in the event (a) any cash dividends due with respect to any Series "2" Preferred Shares then outstanding for any period are not declared and paid in full when due; (b) where there remains outstanding Arrears of Dividends; or (c) any other amounts payable under the terms and conditions described in this Prospectus are not paid in full when due for any reason, then it will not declare or pay any dividends or other distributions in respect of, or repurchase or redeem, securities ranking *pari passu* with, or junior to, the Series "2" Preferred Shares (or contribute any moneys to a sinking fund for the redemption of any securities ranking *pari passu* with, or junior to, the Series "2" Preferred Shares) until any and all Arrears of Dividends and accrued but unpaid cash dividends have been paid to the holders of the Series "2" Preferred Shares.
Optional Redemption and Purchase	As and if declared by the Board of Directors, SMC may redeem the Series "2" Preferred Shares on the following dates, or on the last day of any Dividend Period thereafter (each an "Optional Redemption Date") in whole or in part, at a redemption price equal to the relevant Issue Price of the Series "2" Preferred Shares plus any accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends outstanding (the "Redemption Price"): (i) For Subseries "2-A", the third anniversary from Final Issue Date thereof; (ii) For Subseries "2-B", the fifth anniversary from Final Issue Date thereof; and (iii) For Subseries "2-C", the seventh anniversary from Final Issue Date thereof. If at any time, SMC is allowed to redeem more than one Subseries, SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries; provided that in case of partial redemption of a Subseries, such redemption shall apply pro rata among the holders thereof. SMC may also redeem the Series "2" Preferred Shares, in whole or in part, at any time prior to any Optional Redemption Date if an Accounting Event, Tax Event or a Special Event (each as defined below) has occurred and is continuing, in each case at the Redemption Price.

	The Company has filed an application for the listing of the Offer Shares on the PSE and expects to receive the approval of said application after the Increase shall have been approved by the SEC. Once the Offer Shares are listed on the PSE, SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Offer Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares.
No Sinking Fund	SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Series "2" Preferred Shares.
Accounting Event	An accounting event ("Accounting Event") shall occur if an opinion of any recognized person authorized to perform auditing services in the Republic of the Philippines has stated that there is more than an insubstantial risk that the funds raised through the issuance of the Series "2" Preferred Shares may no longer be recorded as "equity" pursuant to the PFRS, or such other accounting standards which succeed PFRS, as adopted by the Republic of the Philippines, applied by SMC for drawing up its consolidated financial statements for the relevant financial year.
Tax Event	A tax event ("Tax Event") shall occur if dividend payments become subject to higher withholding tax or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to SMC.
Special Event	SMC shall exercise its option to redeem in whole (but not in part only) the Series "2" Preferred Shares at any time after Final Issue Date until October 31, 2012 at the Redemption Price upon a Special Event (as defined below). A "Special Event" will be deemed to have occurred if: (i) SMC receives notice from a court, tribunal, or government authority with relevant competence that SMC is restrained or otherwise prohibited from redeeming the Series "1" Preferred Shares in accordance with their terms, or (ii) SMC receives advice from legal counsel to SMC in the Republic of Philippines with relevant experience and competence in such matter that it should not redeem the Series "1" Preferred Shares in order to comply with any relevant ruling, determination, or other similar order from a court, tribunal or governmental authority with relevant competence for making such orders, or (iii) the Underwriting Agreement is terminated in accordance with the terms thereof. (Please refer to "Plan of Distribution" on page 78 for the grounds for termination of the Underwriting Agreement.)
Taxation	Subject to the proviso set forth below, all payments in respect of the Series "2" Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any future taxes or duties imposed by or on behalf of Republic of the Philippines, including but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, SMC will pay additional amounts so that holders of the Series "2" Preferred Shares will receive the full amount of the

	relevant payment which otherwise would have been due and payable. Provided, however, that SMC shall not be liable for, and the foregoing payment undertaking of SMC shall not apply to: (a) the applicable final withholding tax applicable on dividends earned on the Series "2" Preferred Shares prescribed under the Tax Code (as may amended from time to time), (b) any expanded value added tax which may be payable by any holder of the Series "2" Preferred Shares on any amount to be received from SMC under the Offer and (c) any withholding tax on any amount payable to any holder of Series "2" Preferred Shares or any entity which is a non-resident foreign corporation. Documentary stamp tax for the primary issue of the Series "2" Preferred Shares and the documentation, if any, shall be for the account of SMC. The applicable taxes to any subsequent sale of the Series "2" Preferred Shares by any holder of the Series "2" Preferred Shares shall be for the account of the said holder.
Liquidation Rights	In the event of a return of capital in respect of the liquidation, dissolution or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Series "2" Preferred Shares at the time outstanding will be entitled to receive, in Pesos out of the assets of SMC available for distribution to shareholders, together with the holders of any other of the shares of SMC ranking, as regards repayment of capital, *pari passu* with the Series "2" Preferred Shares and before any distribution of assets is made to holders of any class of the shares of SMC ranking after the Series "2" Preferred Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price as of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Series "2" Preferred Shares and any other of shares of SMC ranking as to any such distribution *pari passu* with the Series "2" Preferred Shares are not paid in full, the holders of the Series "2" Preferred Shares and of such other shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Series "2" Preferred Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.
Form, Title and Registration of the Series "2" Preferred Shares	The Series "2" Preferred Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as registrar for the Offer, and lodged with PDTC as depository agent on listing date through PSE trading participant nominated by the applicants. In anticipation of the eventual listing of the Series "2" Preferred Shares on the PSE, applicants shall indicate in the proper space provided for in the Application Form (as defined below) under "Offer Period" the name of a PSE trading participant under whose name their Shares will be registered. After listing date, shareholders may request the registrar, through their nominated PSE trading participant, to (a) open a scripless

	registry account and have their holdings of the Series "2" Preferred Shares registered under their name ("name-on-registry account"), or (b) issue stock certificates evidencing their investment in the Series "2" Preferred Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting shareholder. Legal title to the Series "2" Preferred Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the registrar. The registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Series "2" Preferred Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The registrar shall send (at the cost of SMC) at least once every year a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of the given date thereof. Any request by shareholders for certifications, reports or other documents from the registrar, except as provided herein, shall be for the account of the requesting shareholder. For scripless shares, the maintenance and custody fee payable to the PDTC shall be for the account of the shareholder.
Selling and Transfer Restrictions	After listing, the subsequent transfers of interests in the Series "2" Preferred Shares shall be subject to normal selling restrictions for listed securities as may prevail in the Philippines from time to time.
Governing Law	The Series "2" Preferred Shares will be issued pursuant to the laws of the Republic of the Philippines.

Other Terms of the Offer	
Offer Period	The offer period shall commence at 9:00 a.m., Manila Time on August 13, 2012 and end at 12:00 noon, Manila Time on September 14, 2012 (the "Offer Period"). SMC and the Joint Bookrunners reserve the right to extend or terminate the offer period with the approval of the SEC. Applications shall be considered irrevocable upon submission to any Joint Bookrunner or selling agent, and shall be subject to the terms and conditions of the Offer as stated in this Prospectus and in the application form to subscribe to the Offer Shares (the "Application Form"). Applications to subscribe to the Series "2" Preferred Shares (each an "Application") must be received by the Joint Bookrunners not later than 12:00 noon Manila time on September 14, 2012. Applications received thereafter or without the required documents and/or full payments will be rejected. The Issuer reserves the right to waive any requirement for the acceptance of the Applications.
Minimum Subscription to the Series "2" Preferred Shares	Each Application shall be for a minimum of 500 Series "2" Preferred Shares, and thereafter, in multiples of 100 Series "2" Preferred Shares. No Application for multiples of any other number of Series "2" Preferred Shares will be considered.

Eligible Investors	The Series "2" Preferred Shares may be owned or subscribed to by any person, partnership, association or corporation regardless of nationality, subject to limits under Philippine law. However, under certain circumstances, SMC may reject an Application or reduce the number of Series "2" Preferred Shares applied for subscription. Subscription to the Series "2" Preferred Shares may be restricted in certain jurisdictions. Foreign investors interested in subscribing or purchasing the Series "2" Preferred Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Series "2" Preferred Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Series "2" Preferred Shares.
Procedure for Application	Application Forms may be obtained from any of the Joint Bookrunners and any selling agents that may be appointed by the Joint Bookrunners. All Applications shall be evidenced by the Application Form, duly executed in each case by an authorized signatory of the applicant and accompanied by two (2) completed signature cards, the corresponding payment for the Series "2" Preferred Shares covered by the Application and all other required documents including documents required for registry with the registrar and depository agent. The duly executed Application Form and required documents should be submitted to the Joint Bookrunners or selling agents at or prior to 12:00 noon, Manila time of the last day of the Offer Period. If the applicant is a corporation, partnership, or trust account, the Application must be accompanied by the following documents: a. a certified true copy of the applicant's latest articles of incorporation and by-laws and other constitutive documents, each as amended to date, duly certified by the corporate secretary; b. a certified true copy of the applicant's SEC certificate of registration, duly certified by the corporate secretary; and c. a duly notarized corporate secretary's certificate setting forth the resolution of the applicant's board of directors or equivalent body authorizing (i) the purchase of the Series "2" Preferred Shares indicated in the application and (ii) the designated signatories for the purpose, including their respective specimen signatures.
Payment for the Series "2" Preferred Shares	The Issue Price of the Series "2" Preferred Shares must be paid in full upon submission of the Application. Payment shall be in the form of either: (i) a Metro Manila clearing cashier's/manager's or corporate check or personal check drawn against a bank account with a BSP-authorized agent bank located in Metro Manila and dated as of the date of submission of the Application Form covering the entire number of Series "2" Preferred Shares covered by the same Application. Checks should be made payable to "SMC Preferred Shares Offer"; or

	(ii) for applicants submitting their Application Form to any of the Joint Bookrunners or selling agents, (a) through the Real Time Gross Settlement facility of the BSP to the Joint Bookrunner or selling agent to whom such Application was submitted or (b) via direct debit from their deposit account maintained with the Joint Bookrunner or selling agent.
Acceptance/Rejection of Applications	The actual number of Series "2" Preferred Shares that an Applicant will be allowed to subscribe to is subject to the confirmation of the Joint Bookrunners. SMC reserves the right to accept or reject, in whole or in part, or to reduce any application due to any grounds specified in the underwriting agreement to be entered into by SMC. Applications which were unpaid or where payments were insufficient and those that do not comply with the terms of the Offer shall be rejected. Moreover, any payment received pursuant to the Application does not constitute as approval or acceptance by SMC of the Application. An Application, when accepted, shall constitute an agreement between the applicant and SMC for the subscription to the Series "2" Preferred Shares at the time, in the manner and subject to terms and conditions set forth in the Application Form and those described in this Prospectus for the Offer. Notwithstanding the acceptance of an Application by SMC, all application payments will be returned by SMC to the applicants with interest if the approval of the Increase is not obtained by October 5, 2012.
Refunds of Application Payments	In the event that the number of Series "2" Preferred Shares to be allotted to an applicant, as confirmed by a Joint Bookrunner or selling agent, is less than the number covered by its Application, or if an Application is wholly or partially rejected by SMC, then SMC shall refund, without interest, within five Banking Days from the end of the Offer Period, all, or a portion of the payment corresponding to the number of Series "2" Preferred Shares wholly or partially rejected. All refunds shall be made through the Joint Bookrunner or selling agent with whom the applicant has filed the Application at the applicant's risk.
Tentative Dates for the Approval of the Listing Application and Trading	Immediately upon the SEC approval of the Increase, all other requirements for the application for listing of the Series "2" Preferred Shares will be submitted to the PSE, for purposes of securing the approval of the PSE Board of Directors for approval no later than October 10, 2012. Upon approval of the PSE Board of Directors of the listing of the Series "2" Preferred Shares, trading of these shares is expected to commence not later than October 12, 2012. Shareholders may trade their Series "2" Preferred Shares by giving appropriate written instructions to any PSE trading participant.
Receiving Agent and Registrar	SMC Stock Transfer Service Corporation
Refund	In the unlikely event that the Increase is not approved by the SEC by October 5, 2012 or a Special Event occurs prior to the Final Issue Date but after Subscription Payment Date, all payments made by the applicant for the Series "2" Preferred Shares shall be returned in full and with interest (the amount of which considers that the proceeds of the Offer will be placed in a Special Deposit Account of the BSP if the approval by the SEC of the Increase is not obtained by Subsciption Payment Date) to such applicants within five Banking Days from October 5, 2012 (if the refund is

	being made due to non-approval by the SEC of the Increase) or within five Banking Days from the occurrence of a Special Event (if the refund is being made due to a Special Event), in accordance with the procedure for refund set out in the Application Form for the Offer. In the event that a Special Event occurs before Subscription Payment Date, all payments made by the applicant for the Series "2" Preferred Shares (other than those used to support the application for the Increase) shall be returned in full and without interest to such applicants within five Banking Days from occurrence of a Special Event, in accordance with the procedure for refund set out in the Application Form for the Offer.

Description of the Series "2" Preferred Shares

Set forth below is information relating to the Series "2" Preferred Shares. This description is only a summary and is qualified by reference to Philippine law and Amended Articles of Incorporation and Amended By-laws of SMC,as may be amended from time to time.

Share Capital of SMC

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

As of July 10, 2012, SMC has an authorized capital stock of ₱22,500,000,000.00, divided into 3,390,000,000 common shares and 1,110,000,000 Series "1" Preferred Shares, both with par value of ₱5.00. The Company had a total of 3,279,953,935 common shares issued, of which 3,340,541,357 are outstanding shares and 909,918,931 are treasury shares, and 970,506,353 Series "1" Preferred Shares.

The Offer Shares

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

Current Authorized Capital Stock	*Amendment*
₱22.50 Billion, divided into • 3,390,000,000 Common Shares and • 1,110,000,000 Series "1" Preferred Shares all with par value of ₱5.00 per share.	₱30 Billion, divided into • 3,790,000,000 Common Shares • 1,110,000,000 Series "1" Preferred Shares and • 1,100,000,000 Series "2" Preferred Shares all with par value of ₱5.00 per share.

On June 14, 2012, the stockholders of SMC approved the increase in the authorized capital stock as stated above and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares. On July 24, 2012, the Board of Directors authorized the issuance and offer to the general public of up to a total of 1,067,000,000 Series "2" Preferred Shares pursuant to the increase in authorized capital stock of SMC under such terms and conditions as the management of SMC may deem advantageous to it.

Issuance of Series "2" Preferred Shares

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

SMC can issue the Offer Shares only upon the approval by the SEC of the Increase.

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

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

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

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

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

For the dividend rights on the Offer Shares, please see "Terms of the Offer" on page 28.

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

The resolutions of the Board of Directors dated April 18, 2012 state that the Series "2" Preferred Shares will have the same features as the Series "1" Preferred Shares, except with respect to dividend rate, redemption period and divided adjustment rate. The Series "1" Preferred Shares are not convertible into common shares.

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

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

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

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

The Company has filed an application for the listing of the Offer Shares on the PSE and expects to receive the approval of said application after the Increase shall have been approved by the SEC. Once the Offer Shares are listed on the PSE, SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Offer Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares.

For a more detailed discussion, please see "Terms of the Offer" on page 28.

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

In the event of a return of capital in respect of liquidation, dissolution or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Offer

Shares at the time outstanding will be entitled to receive, in Pesos out of the assets of SMC available for distribution to shareholders, together with the holders of any other of the shares of SMC ranking, as regards repayment of capital, *pari passu* with the Offer Shares and before any distribution of assets is made to holders of any class of shares ranking after the Offer Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Offer Shares and any other of the shares of SMC ranking as to any such distribution *pari passu* with the Offer Shares are not paid in full, the holders of the Offer Shares and of such other shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Offer Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.

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

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

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

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

It is envisioned that the Series "2" Preferred Shares will be listed on the PSE not later than October 12, 2012, subject to the approval of the SEC of the increase in the authorized capital stock of SMC and compliance with the requirements of the PSE.

General Effect on Rights of Existing Shareholders

Other than the dividend rate (including adjustments thereto) and the redemption date, it is envisioned that the Series "2 Preferred Shares will have the same features as the Series "1" Preferred Shares. The Series "1" Preferred Shares and Series "2" Preferred Shares both enjoy certain preferences over

common shares in terms of dividends and in the event of liquidation, dissolution, bankruptcy or winding up of SMC.

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

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

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

	COMMON SHARES	**SERIES "1" PREFERRED SHARES**	**SERIES "2" PREFERRED SHARES**
Entitlement to Dividends	**Declaration of Dividends at the Option of the Board** The holders of common shares may be entitled to receive dividends upon declaration made at the sole option of the Board of Directors. **No Fixed Dividend Rate** There is no fixed dividend rate for common shares. Historically, SMC declares a cash dividend of ₱0.35 on a quarterly basis.	**Declaration of Dividends at the Option of the Board** The holders of Series "1" Preferred Shares shall be entitled to receive cash dividends upon declaration made at the sole option of the Board of Directors. **Fixed Dividend Rate** The annual dividends for Series "1" Preferred Shares shall be based on the 5-year PDST-F rate plus a spread which the Board of Directors has authorized Management to determine ("Dividend Rate") calculated in respect of each share by reference to the issue price thereof (the "Issue Price"). On this basis and pursuant to such authority granted to Management, the Dividend Rate has been determined to be eight percent (8%) per annum. **Dividend Rate Adjustment**	**Declaration of Dividends at the Option of the Board** The holders of Series "2" Preferred Shares shall be entitled to receive cash dividends upon declaration made at the sole option of the Board of Directors. **Fixed Dividend Rate** The dividend rate shall be determined by the Board of Directors prior to the Issue Date. **Dividend Rate Adjustment**

	COMMON SHARES	SERIES "1" PREFERRED SHARES	SERIES "2" PREFERRED SHARES
		Unless the Series "1" Preferred Shares are redeemed at the end of the fifth year of the issue date thereof (the "Issue Date"), the Dividend Rate shall be adjusted to the higher of: (i) the Dividend Rate; and (ii) the prevailing 10-year PDST-F Rate (or such successor benchmark rate) as displayed under the heading "Bid Yield" as published on the PDEx page (or successor page) of Bloomberg (or successor electronic service provider) at approximately 11:30 a.m., Manila time on the date corresponding to the end of the fifth year from the Issue Date (or if not available, the PDST-F Rate on the banking day prior to such date, or if still not available, the nearest preceding date on which the PDST-F Rate is available, but if such nearest preceding date is more than five days prior to the date corresponding to the end of the fifth year from the Issue Date, the Board of Directors at its reasonable discretion shall determine the appropriate substitute rate), plus a spread of up to 300 basis points, in either case calculated in respect of each share by reference to the Issue Price.	Dividend rate adjustment, if any, shall be determined by the Board of Directors prior to the Issue Date
	Subordinate to Series "1" and Series "2" Preferred Shares No dividend shall be declared and paid to	**When Payable** The dividends declared shall be payable quarterly, beginning on the third month after the	**When Payable** It is envisioned that the dividends declared shall be payable quarterly, beginning on the third

	COMMON SHARES	SERIES "1" PREFERRED SHARES	SERIES "2" PREFERRED SHARES
	holders of common shares unless cash dividends shall have been declared and paid to all holders of the Series "1" and Series "2" Preferred Shares.	Issue Date of the Series "1" Preferred Shares and every three months thereafter (each, a "Dividend Payment Date").	month after the Issue Date of the Series "2" Preferred Shares and every three months thereafter (each, a "Dividend Payment Date").
	Non-cumulative The dividends on the common shares are non-cumulative.	**Cumulative** The dividends on the Series "1" Preferred Shares are cumulative. (This means that if the profits in any year are not enough to pay the preferred dividends, the deficiency is made up from the profits of the subsequent year.)	**Cumulative** It is envisioned that the dividends on the Series "2" Preferred Shares shall be cumulative. (This means that if the profits in any year are not enough to pay the preferred dividends, the deficiency is made up from the profits of the subsequent year.)
		Non-Participating The holders of the Series "1" Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on said Series "1" Preferred Shares.	**Non-Participating** The holders of the Series "2" Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on said Series "2" Preferred Shares. The holders of the Series "2" Preferred Shares shall not be entitled to participate or share in any other distribution or payment of dividends other than corresponding to the dividend rate prescribed in the Enabling Resolutions.
Redeemability	**Non-redeemable** Common Shares are not redeemable.	**Redeemable** The Series "1" Preferred Shares are redeemable in whole or in part, at the sole option of the Company, at the end of three years from the Issue Date or on any Dividend Payment Date	**Redeemable** It is envisioned that the Series "2" Preferred Shares shall be redeemable in whole or in part, at the sole option of the Company.

	COMMON SHARES	SERIES "1" PREFERRED SHARES	SERIES "2" PREFERRED SHARES
		thereafter, at the price equal to the Issue Price plus any accumulated unpaid cash dividends. The Series "1" Preferred Shares, when redeemed, shall not be considered retired and may be re-issued by the Company at a price to be determined by the Board of Directors. Series "1" Preferred Shares are also perpetual or have no stated maturity.	The Series "2" Preferred Shares, when redeemed, shall not be considered retired and may be re-issued by the Company at a price to be determined by the Board of Directors. Series "2" Preferred Shares are also perpetual or have no stated maturity.
Rights Upon Liquidation/ Dissolution/ Bankruptcy/ Winding Up	**Subordinate to Series "1" and Series "2" Preferred Shares** The right of the holders of Common Shares to receive any asset of the Company in case of liquidation, dissolution, bankruptcy or winding up of the Company is subordinate to the holders of the Series "1" and Series "2" Preferred Shares.	**Preference over Common Shares upon Liquidation** In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Series "1" Preferred Shares shall enjoy preference in the payment, in full, or if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of outstanding Series "1" and Series "2" Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of Common Shares.	**Preference over Common Shares upon Liquidation** In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Series "1" Preferred Shares and the Series "2" Preferred Shares shall enjoy preference in the payment, in full, or if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of outstanding Series "1" and Series "2" Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of Common Shares.

	COMMON SHARES	SERIES "1" PREFERRED SHARES	SERIES "2" PREFERRED SHARES
Voting Rights	**With Voting Rights** Common stockholders have the right to vote on all matters requiring stockholders' approval. Under the Corporation Code, the following corporate actions require the approval of the stockholders of a corporation: 1. Amendment of articles of incorporation; 2. Adoption and amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or consolidation with another corporation or other corporations; 7. Investment of corporate funds in another corporation or business; 8. Dissolution; 9. Removal of directors; 10. Ratification of the contract of a self-dealing director or officer/ratification of act of a disloyal director who obtains profits to the prejudice of the corporation; 11. Extension or shortening of the corporate term; 12. Declaration of stock dividends; 13. Approval of	**No Voting Rights** The holders of the Series "1" Preferred Shares shall not be entitled to vote except in the following instances: 1. Amendment of articles of incorporation; 2. Adoption and amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or consolidation with another corporation or other corporations; 7. Investment of corporate funds in another corporation or business; and 8. Dissolution.	**No Voting Rights** The holders of the Series "2" Preferred Shares shall not be entitled to vote except in the following instances: 1. Amendment of articles of incorporation; 2. Adoption and amendment of by-laws; 3. Sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; 4. Incurring, creating or increasing bonded indebtedness; 5. Increase or decrease of capital stock; 6. Merger or consolidation with another corporation or other corporations; 7. Investment of corporate funds in another corporation or business; and 8. Dissolution.

	management contracts; and 14. Delegation of the power to amend or repeal by-laws or adopt new by-laws to the board of directors or trustees.		
Pre-Emptive Right	**No Pre-Emptive Right** There shall be no pre-emptive right to any issuance of common shares.	**No Pre-Emptive Right** The holders of the Series "1" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Company.	**No Pre-Emptive Right** The holders of the Series "2" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Company.
PSE Listing	**Listed with the PSE** The common shares of the Company are listed with and traded on the PSE.	**Listed with the PSE** The Series "1" Preferred Shares are listed with the PSE.	**Not Listed with the PSE** The Series "2" Preferred Shares will be listed with the Philippine Stock Exchange (PSE) within one (1) month from Issue Date, subject to the requirements of the PSE.

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

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

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

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

Derivative Suit

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation

itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

Appraisal Rights

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

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

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

Shareholders' Meetings

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

Quorum

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

Voting

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

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

Fixing Record Dates

The Board of Directors has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their votes voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. The Board of Directors may, by resolution, direct the stock transfer books of the Company be closed for a period not exceeding 20

days preceding the date of any meeting of shareholders. The record date shall in no case be more than 60 days or less than 35 days preceding such meeting of shareholders.

Accounting and Auditing Requirements/Rights of Inspection

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

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

Changes in Control

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

Risk Factors

General Risk Warning

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

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

Prudence Required

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

Professional Advice

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

Risk Factors

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

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

Risks Related to the Company and the SMC Group

Risks associated with diversification of businesses and acquisition of new businesses

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

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

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

Top Frontier Investment Holdings Inc. ("Top Frontier") is the single largest shareholder of SMC and holds approximately 61.76% of the common shares of SMC. Top Frontier is able to influence the business of SMC through its ability to vote on corporate actions that require Board and shareholders' approval. The interests of Top Frontier may differ from the interests of the other shareholders of SMC.

Possible disagreements among partners of joint ventures of SMC

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

Dependence on trademarks and proprietary rights

The SMC Group uses various brand names and trademarks, including "San Miguel", "Ginebra San Miguel", "Purefoods", "Magnolia", "Star", "Dari Creme", "Petron", "Gasul", and other intellectual property rights to prepare, package, advertise, distribute and sell its products. Protection of those brands and intellectual property rights is important in maintaining the distinctive corporate and market identities of the SMC Group. If third parties sell products which use counterfeit versions of SMC brands or otherwise look like SMC brands, consumers may confuse SMC products with products that they consider to be inferior. This could negatively impact the brand image and sales of the SMC Group, particularly the beverage and food businesses. In addition, the SMC Group has been granted numerous trademark registrations covering its brands and products, and has filed, and expects to continue to file, trademark applications seeking to protect newly developed brands and products.

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

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

Manpower complement

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

Labor disruptions

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

Changes in the legal and regulatory environment

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

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

The energy business of SMC, which is conducted through its wholly owned subsidiary SMC Global Power, is also subject to extensive regulation in the Philippines, including the EPIRA. As of the date of this Prospectus, several bills relevant to the energy sector have been filed with both houses of the Congress of the Philippines. Some of the proposed bills, if enacted, would impose additional costs on SMC Global Power, including by requiring direct remittances to local government units of financial benefits set aside for host communities and by redefining the term “host communities” to include all areas that protect and maintain the watersheds that supply a particular dam or hydroelectric power generation facility. Several bills proposing amendments to the EPIRA have also been filed, some of

which would include changes to the ability of power generators and distributors to pass on costs or allowable system losses to end-users. The enactment and implementation of any such bills or amendments to EPIRA, or other changes to the energy regulation, could have a material adverse effect on the business, financial condition and results of operations or rules and regulations governing the power industry which could materially reduce revenues and profitability for SMC Global Power.

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

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

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

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

Exposure to safety, health and environmental costs and liabilities

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

Furthermore, if the measures implemented by the SMC Group to comply with these new laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates. If the SMC Group fails to meet safety, health and environmental requirements, it may be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the SMC Group, as well as orders that could limit or halt its operations. There is no assurance that the SMC Group will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings

relating to safety, health and environmental matters in the future, the costs of which could be material. Environmental compliance and remediation costs at sites on which its facilities are located and related litigation and proceedings could materially and adversely affect the cash flow of SMC, its results of operations and financial condition.

Outbreaks of disease

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

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

Availability of raw materials

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

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

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

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

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

The SMC Group may also face increased costs or shortages in the supply of raw materials due to the imposition of new laws, regulations or policies. For example, in Mindanao in the southern part of the Philippines, a significant portion of the population is Muslim, and consequently all of its poultry

processing plants in that region are halal-certified. Legislation has been proposed to require additional halal certification for feedmills that supply poultry farms from which halal products are sourced. If this proposed legislation is enacted and implemented, certain raw materials may have to be eliminated from the poultry feeds of the SMC Group used in this region. This could increase the cost of poultry feeds and the cost of poultry production in the region, which could materially reduce net income and profitability.

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

Changes in consumer preference or purchasing power

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

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

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

Foreign exchange risk

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

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

The value of the Peso against the U.S. Dollar has fluctuated throughout the years. Since January 1, 2007, the Peso reached a low of ₱49.984 per U.S. Dollar on November 20, 2008 and as of June 29, 2012, the Peso trades at ₱42.276 per U.S. Dollar.

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

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

Availability of financing

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

Uninsured losses

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

Outsourcing

SMC outsources most of its beverage, food and packaging manufacturing, production and distribution operations to third party contractors. To ensure the timely production and distribution of its products, the SMC Group continuously monitors the efficiency and manufacturing capabilities of the relevant production facilities. However, from time to time, any of them could experience operational issues that

could cause production shortages and distribution delays. If one or more of the contract manufacturers of the SMC Group or distributors fails to or is unable to manufacture, produce or distribute products timely, in sufficient quantities or at satisfactory quality levels, its ability to bring products to the market and its reputation could suffer, which could have a material adverse effect on the business and financial performance of SMC, as well as prospects. In addition, there is no assurance that it will continue to find new contract manufacturers or distributors in line with increased customer demand in the future, which could materially and adversely affect the business and prospects of SMC.

Disruption of operations

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

Product liability claims

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

Risks Relating to the Beverages Business

Price elasticity of SMB products

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

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

Challenge of increasing beer sales

SMB has a strategy to increase its sales by increasing its market share, in terms of both the beer market and the overall market for alcoholic beverages, and by increasing the total size of the beer

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

Competition in the business

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

Seasonality of business

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

Demand for products

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

Relationship with dealers

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

Risks Relating to Food Business

Outbreaks of animal disease

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

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

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

Competition in the food industry

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

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

Some of the products of SMPFC are regarded as commodity products, including certain products from its feeds, flour, fresh meat & poultry businesses, and regional businesses which represented 50.40% of sales in 2011.

Importation of lower priced products

SMPFC may face increased competition from less expensive imports to the Philippines as import duties on those products are decreased or eliminated. The Philippines is a signatory to several free trade agreements, including the ASEAN Free Trade Agreement, the ASEAN-China Free Trade Agreement, the ASEAN-Korea Free Trade Area Agreement, the Japan-Philippines Economic Partnership Agreement, the ASEAN-Japan Comprehensive Economic Partnership and the ASEAN-Australia-New Zealand Free Trade Area Agreement and the ASEAN-India Free Trade Area Agreement. SMPFC is subject to increasing competition from lower-priced imported products, resulting from decreases in trade barriers under the terms of such trade agreements. For example, as of January 1, 2010, import duties on certain value-added products, such as instant coffee, was reduced from 5% to zero on imports from other ASEAN countries (although the 40% tariff on luncheon

meats from China remains in place). SMPFC has already experienced the effects of increased competition as a result of the elimination of these import duties and expects that competition from imported products will continue to increase. If SMPFC is unable to compete effectively with lower-priced imports, its market share and sales will decrease, and its business, financial condition, results of operations and prospects may be materially and adversely affected.

Growth of supermarkets and consolidation of wholesale buyers

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

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

Exposure to credit risks of customers

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

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

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

Short-term contracts

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

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

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

Risks Relating to Packaging Business

Handling of products

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

Competition and challenges in product development and production processes

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

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

Risks Relating to Fuel and Oil Business

Volatility of price of crude oil

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

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

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

Competition in the oil industry

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

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

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

Intensive capital requirements

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

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

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

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

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

Product substitution or government-mandated product formulations

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

Compliance with laws and regulations

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

Petron has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, Petron has made and expects to continue to make capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations. For example, Petron built a light virgin naphtha isomerization unit and gas oil hydrotreater in 2006 to ensure the Refinery complied with the standards mandated by the Philippine Clean Air Act of 1999 (the "Clean Air Act").

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

For example in November 2001, the City of Manila, citing concerns of safety, security and health, issued an ordinance reclassifying the area occupied by the main storage facility of Petron in Pandacan, Manila, from industrial to commercial, effectively rendering its continued operation in Pandacan illegal and necessitating a relocation of the storage facility. While Petron has concrete plans to relocate the main storage facility out of Pandacan, there is no assurance that there will be no material effect on the timely delivery of products to the customers of Petron.

Sales to government-managed power plants

The largest customers of Petron as of March 2012 are the government-managed power plants which are due for privatization, which collectively comprised approximately 2.81% of the total sales of Petron for the three months ended March 31, 2012.

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

Insurance claims

Petron uses a combination of insurance and reinsurance to cover its properties and certain potential liabilities. The insurance coverage of Petron includes property, marine cargo and third party liability. The business interruption insurance of Petron has a US$94.4 million limit that covers losses at the Refinery. All of the insurance policies of Petron are provided by its wholly-owned subsidiary, Petrogen Insurance Corporation ("Petrogen"), and a very large portion of the risks of Petron are reinsured with leading local and S&P "A" rated foreign reinsurers through its wholly-owned captive insurance subsidiary, Overseas Ventures Insurance Corporation Ltd. ("Ovincor"). Petron estimates the liabilities associated with the risks retained by it, in part, by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. Among the causes of this uncertainty and variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations and actual claim settlement

patterns. If the number or severity of claims for which Petron is insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its original assessments, the financial condition, results of operations and cash flows of Petron may be materially and adversely affected.

Risks Relating to the Energy Business

Participation in the power industry

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

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

Price fluctuations

Since the wholesale electricity spot market ("WESM") for Luzon began operating in June 2006, WESM prices have fluctuated substantially. Unlike most other commodities, electric power can only be stored on a very limited basis and generally must be produced concurrently with its use. As a result, power prices are subject to significant volatility from supply and demand imbalances. Since June 2006, WESM clearing prices have fluctuated significantly from a high of ₱62.00 per KWh to a low of less than ₱0 per KWh when there is excess capacity. Prices for power may also fluctuate substantially due to other factors outside of the control of SMC Global Power, including:

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

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

Significant sales to Meralco

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

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

Operating Capacities of IPPA power plants

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

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in equipment design or in power plant construction;
- issues with the quality of or interruptions in the supply of key inputs, including water, fuel or other key inputs;
- material changes in legal, regulatory or licensing requirements;
- the inability to obtain or the cancellation of required regulatory permits and approvals;
- operator error;
- performance below expected levels of output or efficiency;
- industrial actions by workers affecting the IPPA power plants, the generation capacity of which is managed by SMC Global Power;
- pollution or environmental contamination affecting the operation of the power plants;
- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, personal injury, loss of life, severe damage and destruction of the power plant; and
- planned and unplanned power outages due to maintenance, expansion and refurbishment such as, for example, the planned outage of the Sual Power Plant for scheduled maintenance between August 11, 2012 to September 9, 2012 (for unit 2 of the plant) and between September 7 to October 6, 2012 (for unit 1 of the plant).

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

Unavailability of insurance product for the IPPA business model

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

No direct contractual relationship with IPPs

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

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

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

Challenges in implementing growth strategy

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

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

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

Development of greenfield power projects

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

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

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

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

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

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

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

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

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

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

Limitations on the expansion of portfolio

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

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

Significant finance lease obligations

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

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

The level of finance lease obligations and debt could:

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

Increased competition in the Philippine power industry

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

Loss of tax exemptions and incentives

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

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

Dependence on transmission infrastructure

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

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

Market limitations under the EPIRA

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

Regulation by the ERC

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

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

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

Risks Relating to Infrastructure Business

Challenges in operating infrastructure business

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

- the need to procure materials, equipment and services at reasonable costs and on a timely basis;
- reliance on third party providers and consultants, in particular for those aspects of the business where SMC has limited expertise or experience;
- the possible need to raise additional financing to fund the projects, which SMC may be unable to obtain on satisfactory commercial terms or at all;
- errors or delays in the design, engineering, construction, installation, inspection, commissioning, management or operation of each project; and
- delays or denials of required approvals, including required environmental approvals.

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

Inability to secure tariff increases

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

Decrease in utilization

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

decrease utilization could have a material adverse effect on the business, financial condition, results of operations and prospects of SMC.

Risks Relating to Other Businesses of SMC

Rapid changes in technology

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

Competition in the telecommunications industry

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

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

Risks Relating to the Philippines

Concentration of operations and assets in the Philippines

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

In addition, demand for many of the products of SMC is tied closely to domestic consumer purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. For example, in 2008, the macroeconomic slowdown in the Philippines negatively affected sales volumes in the flour and dairy products, spreads and oils ("DSO") businesses of SMC, as consumers prioritized staple commodities such as rice over bread and bread spreads. Similarly, with respect to the beverages business of SMC, unfavorable economic

developments may induce consumers of the beverage products of SMC to purchase more private label or economy brands, sales of which produce lower profit margins. As the businesses expand their product and brand portfolios in higher-priced Premium market segments in their respective industries, their businesses and prospects will be increasingly affected by any deterioration in consumer purchasing power. Any decrease in consumer purchasing power and disposable income levels could have a material adverse effect on the financial and operating performance of SMC.

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

Acts of terrorism in the Philippines

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

Natural catastrophes

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

Philippine credit rating

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

Foreign exchange controls

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

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

Management of risks

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

Risks Related to the Offer Shares

Issuance, listing and trading after Subscription Payment Date

The Offer Shares will not be created and cannot be issued until the SEC approves the Increase, and will not be listed on the PSE until such SEC approval and the approval of PSE of the listing application of the Company are obtained. There is no assurance that the SEC will approve the Increase, and that the PSE will approve the listing application.

The sale of the Offer Shares or any rights thereto prior to the listing of the Offer Shares cannot be made through the PSE. The Company has filed an application for the listing of the Offer Shares on the PSE and expects to receive the approval of said application after the Increase shall have been approved by the SEC.

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

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

Volatility of market price

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

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

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

Payment of dividends

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

Preference of Offer Shares

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

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

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

Insufficient distributions upon liquidation

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

Contractual limitations of SMC

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

Redemption at sole right of the Issuer

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

Market for the Offer Shares

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

Limited liquidity

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

Effect of non-payment of dividends on trading

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

Inability to reinvest at a similar return on investment upon redemption

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

Limited voting rights

Holders of Offer Shares will not be entitled to elect the Board of Directors of the Company. Except as specifically set forth in the Amended Articles of Incorporation and as provided by Philippine law, holders of Offer Shares will have no voting rights (see ''Description of the Offer Shares'' on page 38).

Use of Proceeds

The gross proceeds of the Offer will amount to ₱80,025,000,000.00. The Company estimates that the net proceeds of the Offer shall amount to approximately ₱78,449,577,343.75, after underwriting fees, commissions and expenses. Estimated fees, commissions and expenses relating to the Issue are as follows:

Fees, Commissions and Expenses	**In ₱**
Gross Underwriting Fees for the Offer Shares being sold by the Company	645,362,903.23
Taxes to be paid by the Company	400,125,000.00
Philippine SEC filing and legal research fee for the registration of the Offer Shares	20,774,437.50
Philippine SEC filing and legal research fee for the increase in authorized capital stock	161,650,500.00
Estimated PSE listing and processing fee	152,459,815.52
Estimated legal and other professional fees	170,050,000.00
Estimated other expenses	25,000,000.00
TOTAL	**1,575,422,656.25**

Of the net proceeds of the Offer, SMC intends to use ₱72,787,976,475.00 to redeem all of the Series "1" Preferred Shares. The remaining net proceeds after the redemption shall be used by SMC for general corporate purposes which may include partial repayment of short-term debt. As of June 30, 2012, SMC has short term debt of ₱13,995,000,000.00.

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

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

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

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

Determination of Offer Price

The Offer Price of ₱75.00 is at a premium to the Series "2" Preferred Share's par value per share of ₱5.00. The Offer Price was arrived at by dividing the desired gross proceeds of ₱80,025,000,000.00 by the amount of Offer Shares allocated for the Offering.

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

Dilution

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

Plan of Distribution

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

Joint Bookrunners

The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), UnionBank of the Philippines, BDO Capital & Investment Corporation, China Banking Corporation, RCBC Capital Corporation, First Metro Investment Corporation, ING Bank N.V., Manila Branch, Philippine Commercial Capital, Inc., SB Capital and Investment Corporation, Standard Chartered Bank, and United Coconut Planters Bank (collectively, the "Joint Bookrunners") have agreed to distribute and sell the Offer Shares at the Issue Price, pursuant to an Underwriting Agreement with SMC dated August 10, 2012 (the "Underwriting Agreement"). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Bookrunners have committed to underwrite the following amounts on a firm basis:

Joint Bookrunners	Underwriting Commitment
The Hongkong and Shanghai Banking Corporation Limited	₱ 58,524,975,000.00
UnionBank of the Philippines	6,000,000,000.00
BDO Capital & Investment Corporation	4,999,995,000.00
China Banking Corporation	2,000,002,500.00
RCBC Capital Corporation	2,000,002,500.00
First Metro Investment Corporation	1,500,000,000.00
ING Bank N.V., Manila Branch	1,000,005,000.00
Philippine Commercial Capital, Inc.	1,000,005,000.00
SB Capital and Investment Corporation	1,000,005,000.00
Standard Chartered Bank	1,000,005,000.00
United Coconut Planters Bank	1,000,005,000.00
Total	**₱ 80,025,000,000.00**

Except with respect to the covenant under Section 7.4(d) of the Underwriting Agreement, a breach of which may be a ground for termination after the dates specified below, the Underwriting Agreement may be terminated prior to payment being made to SMC of the net proceeds of the Offer Shares prior to Final Issue Date or Subscription Payment Date, whichever is later upon the happening of any of the following events:

1. SMC fails to perform any of its material undertakings, covenants and obligations described in the Underwriting Agreement or in the Enabling Resolutions and duly filed with the SEC; provided that a failure to perform the covenant under Section 7.4 (d) of the Underwriting Agreement (regarding the listing of the Offer Shares) shall be a ground to terminate the Underwriting Agreement if the Offer Shares are not listed within 30 days from Subscription Payment Date;
2. Any of the representations and warranties by SMC under Section 7 of the Underwriting Agreement is or becomes untrue or misleading in a material respect;
3. An order canceling, suspending, or terminating the Offer is issued by a competent Philippine Government court or agency having jurisdiction on the matter;

4. There is a change in any Philippine law, rule, regulation, administrative practice or interpretation which, in the reasonable opinion of the Joint Bookrunners would materially and adversely affect: (a) any of the features, yield and marketability of the Offer Shares, taken as a whole; (b) the financial condition, operations or profitability of SMC; or (c) the ability of the Joint Bookrunners to perform any of their obligations hereunder, or which increase or may increase taxes on its fees or increase its costs in connection with the Underwriting Agreement;

5. Trading in either or both floors of the PSE is closed or suspended in such manner or for such length of time as will render impossible the listing and trading of the Offer Shares within a period of 30 calendar days counted from the Final Issue Date or such other date as may be mutually agreed upon by the parties;

6. A material change occurs in the securities or other financial or currency markets in the Philippines which in the reasonable determination of the Joint Bookrunners would adversely affect share prices in general, and the Offer in particular, or such changes or developments occur in other countries which, in the reasonable determination of the Joint Bookrunners, will have a material adverse effect on the Philippine economy or on the securities or other financial or currency markets of the Philippines;

7. Declaration of a war by a sovereign state against the Philippine Government or vice versa; occurrence of an invasion, sedition, revolution, military uprising, widespread civil disorder, national calamity or other adverse political or social developments which, in the reasonable determination of the Joint Bookrunners, would have a material adverse effect on the value or marketability of the Offer Shares;

8. A general banking moratorium is declared in the Philippines; and

9. SMC shall be adjudicated bankrupt or insolvent, or shall be proven to be unable to pay its debts as they mature, or shall make or threaten to make a general assignment for the benefit of, or a composition or arrangement with, its creditors or any class thereof, or shall declare or threaten to declare a moratorium on its indebtedness or any class thereof; or SMC shall apply for or consent to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property; or SMC shall institute (by petition, application or otherwise), or consent to the institution of, any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, suspension of payment, dissolution, liquidation, or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted against it without its consent and the same is not dismissed within 60 days from SMC's knowledge thereof; or any judgment, writ, warrant of attachment or execution of similar process shall be issued or levied against any material asset of SMC or any material part of SMC 's assets and such judgment, writ or similar process shall not be released, vacated or fully bonded; or any event occurs which under the laws of the Philippines or any applicable political subdivision thereof has an effect equivalent to any of the foregoing.

The Underwriting Agreement further provides that if any of the events described above occur, the Joint Bookrunners, prior to service of notice of termination, shall consult with SMC and agree on what actions can be taken to correct, if possible. Solely for the events described in items 1 and 2, the Joint Bookrunners shall grant SMC a period of 10 days from date of consultation, to effect such corrective measures. Should events described in said items 1 and 2 subsist after five days in spite of corrective measures being undertaken, or if no corrective measures are undertaken within the given period, notice of termination may then be served by the Joint Bookrunners. Notwithstanding the foregoing, in case of a breach of the covenant under Section 7.4 (d) of the Underwriting Agreement, the Underwriting Agreement may be terminated by October 31, 2012. Except for Section 7.4(d) of the Underwriting Agreement, if the Underwriting Agreement is terminated for any of the events described above, the Joint Bookrunners shall within seven Banking Days cause SMC, through the Receiving Agent, to return to the concerned parties the full subscription price of all applications procured from them, without interest, provided that full payment has already been remitted and received. A termination occurring after the Final Issue Date based on a breach of the covenant under Section 7.4(d) of the Underwriting Agreement will trigger a redemption due to a Special Event, and entitle the holders to the payment of the Redemption Price.

The Joint Bookrunners may appoint selling agents for the Offer. The Joint Bookrunners shall inform SMC, SEC, PSE, and the public of any appointment of authorized selling agents.

The underwriting and any selling fees to be paid by the Company in relation to the Offer shall be equivalent to ₱645,362,903.23. This shall be inclusive of fees to be paid to the Joint Bookrunners and any selling agents.

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

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

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

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

UnionBank of the Philippines ("UnionBank") is one of the leading universal banks in the Philippines with a license to act as underwriter of securities, providing expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking. It is backed by strong and reputable shareholder groups: the Aboitiz Group, Insular Life and Social Security System. The bank utilizes multiple channels for transaction and information access through its branch and ATM networks strategically located in the country's major industrial and commercial regions, supplemented by a call center, and its internet bank, www.unionbankph.com. UnionBank is among the industry's best in key performance measures: absolute profit, cost-to-income ratio, return on equity, return on assets, market capitalization, and earnings per share. The bank has championed e-commerce in the Philippines and achieved success in creating electronic communities for multinational and domestic corporations and key government institutions.

BDO Capital & Investment Corporation ("BDO Capital") is the wholly-owned investment banking subsidiary of BDO Unibank, Inc. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999.

China Banking Corporation ("China Bank") has been in business over the last 90 years, and has extensive operations in lending, treasury, trust, investment services and insurance. It has significant presence across corporate, commercial, middle and retail markets, and has a strong niche in the Chinese-Filipino commercial sector. It currently has a distribution network that includes 300 branches. In addition, its wholly-owned subsidiary, Chinabank Savings, Inc. has 27 branches that expand and reinforce the depth and breadth of China Bank's distribution strength. China Bank has been a key participant in major capital market transactions across various industries in the Philippines, as well as in sovereign issues. Capitalizing on its strong placing capability in both the institutional and retail markets, the bank's the Investment Banking Group is also currently revitalizing and providing focus on the origination side of the capital markets business.

RCBC Capital Corporation ("RCBC Capital"), a wholly-owned subsidiary of the Rizal Commercial Banking Corporation, is a full service investment house providing a complete range of investment banking and financial consultancy services which include (i) underwriting of equity, quasi-equity, and debt via public offering or private placement; (ii) syndication of foreign currency and peso loan; and (iii) financial advisory service with respect to mergers and acquisitions, restructuring, company valuation and spin-offs; (iv) dealership of commercial papers and other securities; and (v) venture capital finance. With over 38 years of strong presence in the Philippine investment banking scene, RCBC Capital has established and marked its name in the industry, making it one of the top and preferred investment houses in the country.

First Metro Investment Corporation ("FMIC"), incorporated in the Philippines in 1972, is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the Philippines. FMIC provides investment banking services through its four strategic business units: investment banking, treasury, investment advisory and strategic finance. FMIC also has a quasi-bank license and is a government securities eligible dealer ("GSED") licensed by the Bureau of the Treasury. On September 13, 2011, FMIC received a Certificate of Authority issued by the BSP to engage in trust and other fiduciary business. FMIC is a member of the Investment House Association of the Philippines ("IHAP").

ING Bank N.V., Manila Branch ("ING") is a banking corporation duly organized and existing by virtue of the laws of The Kingdom of The Netherlands and authorized to operate as a universal bank by the BSP. ING provides various products and financial services including corporate finance, corporate and financial institution lending, foreign exchange, money markets and foreign exchange / interest rate derivatives, structured finance, debt capital markets, bond trading, structured products and credit derivatives to international and local clients. ING maintains a strong local team of professionals in the Philippines to manage core relationships and identify market opportunities. Over its 20-year presence in the Philippines, ING has arranged many landmark local capital market issues and provided advice on the largest and most prominent mergers and acquisitions transactions out of the Philippines.

The Philippine Commercial Capital, Inc. ("PCCI") is one of the oldest independent investment houses in the Philippines. PCCI has been in the business for over 37 years, involved in various fixed-income and equity ventures. PCCI provides investment banking, dealership, trust services, financial advisory, account management and other corporate services to a wide array of clients, covering all manner of capital market solutions. Also, PCCI engages in stock brokering via its wholly owned subsidiary.

SB Capital Investment Corporation ("SB Capital") is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc.

Standard Chartered Bank is a leading international banking group that has operated for over 150 years in some of the world's most dynamic markets. The group conducts business through 1,700 offices in 70 countries and employs over 87,000 individuals. Standard Chartered Bank has maintained a presence in the Philippines for 140 years, beginning with Chartered Bank of India, Australia and China in 1873. The authority to operate as a universal bank was granted by the BSP on June 20, 2001. The principal banking products include deposits, lending and related services, treasury and capital market operations, trade services, payments and cash management, credit cards, and custodial services.

United Coconut Planters Bank ("UCPB") is a leading provider of financial products and services in the Philippines. Established in 1963, UCPB was the first Philippine private bank to become a universal bank in 1981. Today, the bank has over 3,400 employees and operate nationwide delivering a full range of expanded commercial banking services including corporate and investment banking to a highly diversified clientele.

Sale and Distribution

The distribution and sale of the Offer Shares shall be undertaken by the Joint Bookrunners who shall sell and distribute the Offer Shares to third party buyers/investors. The Joint Bookrunners may appoint selling agents for the purpose of the Offer. The Offer Shares are being offered through the Joint Bookrunners for subscription and sale to Qualified Institutional Buyers and the general public.

All Offer Shares not taken up after the Offer Period shall be purchased by the Joint Bookrunners pursuant to the terms and conditions of the Underwriting Agreement.

Term of Appointment

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

Manner of Distribution

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

No shares are designated to be sold to specific persons.

Offer Period

The Offer Period shall commence at 9:00 a.m., Manila time on August 13, 2012 and end at 12:00 noon, Manila time on September 14, 2012, or such other date as may be mutually agreed between the Company and the Joint Bookrunners.

Application to Purchase

The requirements to purchase the Offer Shares are discussed under the "Terms of the Offer" on page 28.

An applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Bookrunners or any selling agent (together with their applications) who shall then forward the same to the Registrar, subject to acceptance by the Company as being sufficient in form and substance: (i) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the Applicant as certified by its duly authorized officer; (ii) with respect to tax treaty relief, proofs to support applicability of reduced treaty rates, consularized proof of tax domicile issued by the relevant tax authority of the holder of the Offer Shares, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines; (iii) an original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Company and the Registrar of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Company and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

Minimum Purchase

A minimum purchase of 500 shares shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of 100 shares.

Refunds

In the event an Application is rejected or the amount of Offer Shares applied for is scaled down, the Joint Bookrunners or the selling agents, upon receipt of such rejected or scaled down Applications, shall notify the applicant concerned that his Application has been rejected or the amount of Offer Shares applied for is scaled down, and refund the amount paid by the applicant with no interest thereon. With respect to an applicant whose Application was rejected, refund shall be made by the Joint Bookrunners or the selling agent by making the check payment of the applicant concerned available for his retrieval. With respect to an applicant whose Application has been scaled down, refund shall be made by the issuance by the concerned Joint Bookrunner or selling agent of its own check payable to the order of the applicant and crossed "Payees' Account Only" corresponding to the amount in excess of the accepted Application. All checks shall be made available for pick up by the applicants concerned at the office of the Joint Bookrunner or selling agent to whom the rejected or scaled down Application was submitted within five Banking Days after the last day of the Offer Period.

The Company shall not be liable in any manner to the applicant for any check payment corresponding to any rejected or scaled-down Application which is not returned by the relevant Joint Bookrunner; in which case, the relevant Joint Bookrunner or selling agent shall be responsible directly to the applicant for the return of the check or otherwise the refund of the payment.

Secondary Market

The Company has filed an application for the listing of the Offer Shares on the PSE on June 26, 2012 and expects to receive the approval of said application after the Increase shall have been approved by the SEC. Once the Offer Shares are listed on the PSE, SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Offer Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares.

Registry of Shareholders

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

Legal title to the Offer Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a Registry confirmation advice confirming every receipt or transfer of the Offer Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The Registrar shall send (at the cost of the Company) at least once every quarter a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of Offer Shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of a given date thereof. Any request by the holders of Offer Shares for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting shareholder (please see "The Philippine Stock Market -- Amended Rule on Lodgment of Securities" on page 246).

Expenses

All out-of-pocket expenses, including but not limited to, registration with the SEC, printing, publication, communication and signing expenses incurred by the Joint Bookrunners in the negotiation and execution of the transaction will be for the account of SMC irrespective of whether the Offer is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account. See "Use of Proceeds" on page 75 for details of expenses.

The Company

OVERVIEW

SMC is the Philippines' largest and most diversified conglomerate by market capitalization and total assets, with revenues accounting for approximately 5% of the Philippine GDP in 2011. Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverages, food and packaging business with a globally recognized beer brand, into a large and diversified conglomerate with additional market-leading businesses and investments in the Philippines' fuel and oil, energy, infrastructure, telecommunications, mining and airline industries. As of the date of this Prospectus, SMC has a portfolio of companies that is interwoven into the economic fabric of the Philippines, benefiting from, as well as contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on the PSE on November 5, 1948, and as of March 31, 2012, SMC had a market capitalization of ₱269,389 million, with a common share price of ₱113.70. The consolidated sales of SMC and recurring EBITDA in 2011 were ₱535,775 million and ₱77,150 million, respectively.

Corporate Transformation of SMC

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

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

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

- ***Fuel and Oil:*** SMC completed on December 15, 2010 to exercise its option to acquire equity in Sea Refinery Corporation, which has interest in Petron which made SMC owning approximately 68.26% of the outstanding and issued shares of Petron. On March 30 2012, an affiliate of SMC, Petron Oil & Gas International Sdn Bhd, completed the acquisition of 65% of Esso Malaysia Berhad, a publicly listed company in Malaysia, 100% of ExxonMobil Malaysia Sdn Bhd, and 100% of ExxonMobil Borneo Sdn Bhd.

- ***Energy:*** SMC acquired a 27% interest in power distributor Meralco on October 27, 2008, and is now at 32.39%. In addition, SMC has administration rights for three power plants in Sual, Ilijan and San Roque under IPPA agreements which commenced on November 6, 2009, January 26, 2010 and June 26, 2010, respectively, and which will expire on October 24, 2024, June 4, 2022 and May 26, 2028, respectively.

- ***Infrastructure:*** SMC acquired a 35% interest in PIDC, which is developing the 88.6-kilometer Tarlac-Pangasian-La Union expressway, on September 11, 2009. SMC also acquired a 93% interest in TADHC (formerly known as Caticlan International Airport Development Corporation) on April 29, 2010, and a 51% interest in Universal LRT, the concession holder for the MRT-7 Rail and Road Project, on November 8, 2010. SMHC has acquired 46.53% stake in AAI, a company which has an 80% stake in SLTC, which holds a 30-year concession (valid until 2035) to operate the 36 km SLEX, one of the three major expressways that links

Metro Manila to key southern provinces; and a 52.50% stake in Citra Metro Manila Tollways Corporation, concession holder of the Skyway.

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

- ***Mining:*** SMC acquired a 100% interest in the concession holders of the DAMI, BERI and Sultan coal deposits; on January 29, 2010, January 29, 2010 and May 13, 2010, respectively. SMC also has a 3.99% interest in Indophil Resources NL ("Indophil"), which indirectly holds a 15% interest in an entity with rights to explore, develop, and operate the Tampakan gold and copper project, on October 15, 2010.

- ***Telecommunications:*** SMC through Vega Telecom, Inc. ("Vega") acquired 41.48% of Liberty in partnership with Qatar Telecom 32.65% and White Dawn Solutions Holdings, Inc. 18.36%, with the remaining shares owned by the public. SMC acquired 100% of BellTel, a full-service telecommunications company which is licensed to provide a range of services throughout the Philippines. In 2011, SMC, through Vega, acquired 100% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40% of ETPI, inclusive of the existing businesses, investments and telecommunications service facilities of ETPI. On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, acquired 37.70% of the outstanding and issued shares of stock of ETPI.

- ***Banking:*** SMC through SMPI acquired an interest in Bank of Commerce . However, SMPI, together with the other stockholders of Bank of Commerce, executed a share purchase agreement dated May 8, 2012 with CIMB Bank Berhad for the sale of a 58% equity interest in Bank of Commerce.

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

The Businesses of SMC

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

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

Food — The food business holds numerous market leading positions in the Philippine food industry, offering a broad range of high-quality food products and services to both household and food service

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

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

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

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

Energy — The energy business is a leader in the Philippine power generation industry in terms of installed capacity. SMC administers three power plants, located in Sual (coal), Ilijan (natural gas) and San Roque (hydroelectric), with a combined capacity of 2,545 MWs, pursuant to IPPA agreements with PSALM and NPC. As of December 31, 2011, SMC was one of the largest IPPAs in the Philippines and held a 23% market share of the total installed power generation capacity for the Luzon power grid and a 17% market share of the national grid. As of March 31, 2012, SMC and its subsidiaries also owns a 32.39% stake in Meralco, the biggest power distributor and private sector utility in the Philippines, which accounted for almost half of all electricity sales in the Philippines in 2010. SMC also has interests and investments in coal, copper and gold mining,

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

SMC, through SMHC, invested 46.53% in AAI. AAI has indirect equity interests in Citra Metro Manila Tollways Corporation and SLTC, which holds the concessions to construct, operate and maintain the Skyway and SLEX, respectively.

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

Other Operations and Investments

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

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

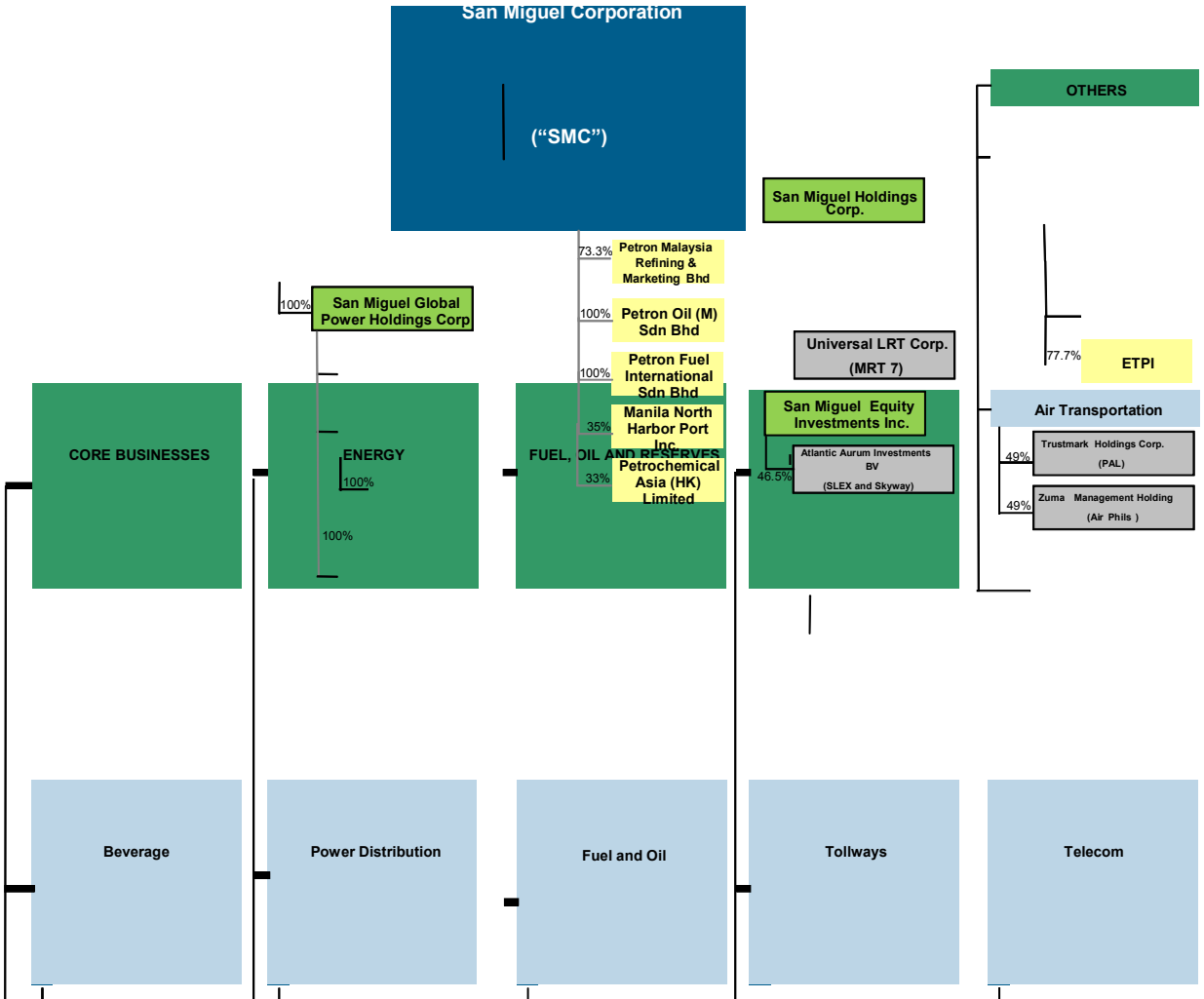
	2009		2010		2011		2012 First Quarter	
	Revenues	%	Revenues	%	Revenues	%	Revenues	%
	(in millions)		(in millions)		(in millions)		(in millions)	
Beverages	₱82,735	47.55	₱ 90,407	36.73	₱ 87,076	16.25	₱ 21,994	15.48
Food	77,220	44.33	80,415	32.67	89,549	16.71	22,398	15.77
Energy	–	–	45,636	18.54	70,737	13.20	19,144	13.48
Packaging	14,258	8.18	19,268	7.83	18,943	3.54	4,761	3.35
Fuel and Oil	–	–	10,383	4.22	269,116	50.23	73,431	51.70
Infrastructure	–	–	–	–	116	0.02	21	0.01
Other Operations and Investments	–	–	–	–	238	0.04	299	0.21
Total	₱ 174,213	100%	₱ 246,109	100%	₱ 535,775	100%	₱ 142,039	100%

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

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

Corporate Organization

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



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

Strengths

SMC believes that its principal strengths include the following:

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

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

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

- **Beverages:** The domestic beer business of SMC has consistently dominated the Philippine beer market. Based on the Canadean data, the products of SMB captured a high market share of more than 90% in 2010. SMC also is the world's largest gin producer by volume. It also has a growing non-alcoholic beverages business which produces non-carboanated ready to drink tea, fruit juices and water.

- **Food:** The food business is the dominant domestic food producer in the segments in which it operates, with numerous market leading positions. SMC controls the leading brands in the poultry, feeds, meats, flour and bread spreads markets, including Magnolia, Purefoods, Monterey, B-Meg, Star, Dari Crème and JellyAce.

- **Packaging:** The packaging business is the market leader in the domestic packaging industry and the main supplier to the substantial packaging requirements of the beverages and food businesses.

- **Fuel and oil:** Petron is the largest oil refining and marketing company in the Philippines, supplying almost 40% of the country's refined oil requirements and is the largest LPG distributor with a 39.5% market share as of December 2011 (based on data from the DOE). Petron possesses the most extensive petroleum product distribution infrastructure in the Philippines, with more than 30 depots and terminals and over 1,900 service stations.

- **Energy:** SMC is one of the largest IPPAs in the Philippines, holding a 23% market share of the total installed capacity of the Luzon power grid and a 17% market share of the national grid. SMC and its subsidiaries also holds a 32.39% stake in Meralco, the Philippines' biggest power distributor and private sector utility, accounting for almost half of all net electricity sales in the Philippines. The energy trading team comprises ex-PSALM traders who were pioneers in wholesale electricity spot market trading.

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

management team has recently successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies, such as Petron, energy and infrastructure businesses, in order to maintain their expertise and leverage their industry experience.

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

In 2009, SMC generated ₱30,013 million of recurring EBITDA and ₱57,799 million of net income attributable to Parent Company, with ₱6,249 million of capital expenditure. In 2010, they generated ₱52,536 million of recurring EBITDA and ₱ 20,091 million of net income attributable to Parent Company with ₱8,518 million of capital expenditure. In 2011, they generated ₱77,150 million of recurring EBITDA and ₱17,518 million of net income attributable to Parent Company with ₱26,426 million of capital expenditure. As of March 31, 2012, they generated ₱21,637 million of recurring EBITDA and ₱8,477 million of net income attributable to Parent Company with ₱8,012 million of capital expenditure.

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

- **Beverages:** The beverages business of SMC is well-positioned to benefit from increasing affluence and population growth in the Philippines. SMC believes there are significant opportunities in the Premium beer market as the Philippine population becomes more affluent. Additionally, the international beer business of SMC is experiencing increased sales through increasing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore and Hong Kong. SMC intends to expand its liquor business in the southern Philippines and internationally. SMC plans to create rapid deployment task forces, particularly in southern Philippines, where market penetration is low and where there is no existing dealership system. SMC also plans to increase margins by improving the profitability of its non-alcoholic business by rationalizing sales and distribution network to reduce costs, searching for alternative raw materials and optimizing bottle cost and usage. The beverage business of SMC plans to introduce new products and new package formats which strategy can increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.

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

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

- **Fuel and oil:** The Philippines is a net importer of refined petroleum products and is expected to remain dependent on imports. SMC believes that the less urbanized areas in the Philippines are underserved and that there are significant growth opportunities in a growing domestic economy. The focus of Petron on the Philippine market and its leading position as the largest refinery operator by sales volume with the largest number of service stations, present good growth opportunities. SMC plans to continue its service station network expansion and seek growth in complementary non-fuel businesses. SMC also plans to increase the production of higher margin products. Petron is currently embarking on RMP-2,

which includes further enhancements to the refinery's operational efficiencies, increase in conversion capability and minimize production of lower value fuel oils.

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

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

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

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

- **Ancillary business opportunities:** SMC believes it has opportunities within its existing businesses to secure new growth opportunities in its new businesses by using the relevant areas to conduct business and activities. Potential initiatives of this type include installing SMC Group advertisements and building service stations, retail outlets, rest stops and kiosks along toll roads.

- **Immediate distribution channel:** The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of more than 1,900 service stations of Petron provides an immediate distribution channel for retail sales for SMC beverage and food products.

- **Economies of scale:** SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.

- **Integration:** SMC plans to continue pursuing vertical integration across the established and strategic businesses, such as supplying the fuel and oil and power requirements of its businesses internally and leveraging its power distribution capability through Meralco.

Business Strategies

The principal strategies of SMC include the following:

- **Enhance value of established businesses.** SMC aims to enhance the value of its established businesses through the pursuit of operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

- **Continue to diversify into industries that underpin the development and growth of the Philippine economy.** In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

- **Identify and pursue synergies across businesses through vertical integration, platform matching and channel management.** SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.

- **Invest in and develop businesses with dominant market positions.** SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include constructing new power plants and expanding power generation portfolio, building additional service and micro-filling stations and expanding food distribution networks. SMC believes its strong domestic market position provides a brand and effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses it believes have the potential to gain dominant positions in their respective markets.

- **Adopt world-leading practices and joint development of businesses.** SMC intends to develop strategic partnerships with global industry leaders, including, for example, Kirin and NYG in the beverages and packaging businesses. These partnerships provide marketing and expansion opportunities, and they also potentially provide liquidity and opportunities for SMC to divest minority stakes in its businesses creating value for its shareholders.

COMPLIANCE WITH ENVIRONMENTAL LAWS

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

EMPLOYEES

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

Number of Employees	
Beverages	6,060
Food and Agribusiness	3,765
Power Generation	60
Packaging	3,200
Fuel and Oil (Petron)	1,504
Other Operations and Investment	2,562
Total	17,151

As of December 31, 2011, approximately 24% of the employees are parties to various collective bargaining agreements. Employees of SMC are not members of any labor unions. On the other hand, a total of 39 labor unions represent the employees of the the subsidiaries of SMC. Since 1995, the SMC Group has not experienced any strikes or work stoppages. The SMC Group considers its relationship with its employees to be good.

In addition to the statutory benefits, SMC initiates benefits to provide for the increased security of its employees in the following areas: health care, leaves, miscellaneous benefits, loans and financial

assistance applicable to a variety of uses, retirement benefits, and survivor security and death benefits.

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

BEVERAGES BUSINESS

The beverages business of SMC had sales of ₱87,255 million in 2011. The beverages business can be divided into beer, liquor and non-alcoholic operations. The beer operations are conducted principally through its 51% owned subsidiary SMB which includes the brewery operations in the Philippines, and in Hong Kong, China, Vietnam, Thailand and Indonesia. The liquor and non-alcoholic operations are conducted through its 77.63% owned subsidiary GSMI. GSMI has two distilleries located in the Philippines and Thailand. The following table sets forth certain information with respect to SMC's beer and liquor sales in 2011:

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

Beer Business

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

Philippine Beer Industry

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

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

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

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

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

Competitive Strengths

SMB believes that its principal strengths include the following:

- **Highly recognizable beer brand domestically as well as in Southeast Asia**. SMB had a total Philippine market share of more than 90% in 2010, producing all the top four beer brands in the country, namely San Miguel Pale Pilsen, Red Horse, San Mig Light and Gold Eagle according to Canadean.

- **Highly efficient distribution system.** SMB has the largest and most efficient distribution system for beer in the Philippines with almost half a million on-premise and off-premise outlets nationwide.

- **Strong cost leadership.** SMB also maintains a strong cost leadership position through high productivity and efficiency, as well as cost control measures, which facilitate pricing flexibility and greater profit growth by maintaining margins.

Business Strategies

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

Domestic Operations

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

- **Assert market leadership.** Although SMB already has a very strong position in the Philippine beer market, it intends to increase its market share by intensifying defense programs via targeted sales and marketing efforts in the regions and localities in which it believes its market share is lower than national average. SMB intends to accomplish this by selecting specific products and adapting their value propositions to the needs of consumers. SMB also intends to increase its product visibility through tactical and creative consumer promotions and improve outlet penetration through persuasive selling and trade incentives. Similarly, SMB intends to increase its share of the overall market for alcoholic beverages. This effort will focus on those specific regions and localities in which hard liquor sales are higher, and, similar to the efforts to increase market share in the beer segment, will include brand- and package-specific marketing campaigns, persuasive selling and incentives for dealers and retailers.

- **Further grow the overall market for beer**. SMB also plans to increase its sales volume by increasing the total market for beer sales. The primary strategies of SMB to achieve this include:

    - **Segmented pricing strategy.** SMB intends to keep its products affordable for the middle and lower socio-economic sectors by maintaining a moderate pricing strategy for its products in the Popular and Economy markets, where sales are highly price elastic. For the more upscale, or Upper Popular market, where sales are less price elastic, SMB plans to sustain the higher price positioning of its specialty brands, supported by image-

building activities to strengthen their premium positioning and improve their profitability. Amid the global economic slowdown, SMB intends to manage and align the timing and magnitude of price increases for all its products to sustain volume growth as well as cover increases in tax rates on beer and higher material costs. With the forecasted moderate Philippine economic growth in 2012, SMB intends to pursue this segmented pricing strategy to protect its gains and to sustain the general uptrend for the industry as evidenced by the high market share of SMB and increased level of sales in 2011.

- **Enhancing the value proposition of its products.** SMB intends to enhance its products' value proposition by adapting product qualities to the different needs of consumers. This allows SMB to take advantage of segment-specific growth opportunities, increasing sophistication and changing lifestyles of Philippine consumers and to maintain its market leadership position. SMB plans to maintain the iconic status of its flagship San Miguel Pale Pilsen brand and strengthen its value through an integrated approach of national brand-building campaigns and retail promotional and marketing efforts. Examples of brand-building activities include advertising campaigns for the brand using famous endorsers such as Manny Pacquiao, Kris Aquino and Vic Sotto under the "Walang Katulad" ("Beer like no other") and "Ito ang Beer" campaigns.

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

- **Increase size of the Upper Premium and Premium segment and tap emerging consumer segments and channels.** The Upper Premium and Premium markets for beer in the Philippines are relatively small segments, but they play important roles in brand-building and overall market development. The segments offer promising prospects, underpinned by rising consumer incomes, increasing consumer sophistication, rapidly changing drinker habits and preferences, as well as increasing urbanization. SMB intends to further develop the higher-priced segments of the beer industry by offering higher-priced and higher-margin products catering to these segments. For example, in August 2008, SMB launched San Miguel Premium All-Malt and Oktoberfest Brew, a seasonal beer, which are marketed to the Upper Premium and Upper Popular segments, respectively. With this strategy, SMB aims to take advantage of opportunities in segmenting the market as well as preempting the incursion of foreign brands. Relative to other Asian countries, the Philippine beer market offers greater potential with regard to premium pricing of brands given the current relatively narrow price gap between the Premium and Upper Popular brands. In addition to the upscale segment, SMB intends to continuously tap new growth segments such as the business process outsourcing sector, overseas Filipino workers, and tourism sector through initiatives tailor-fit for these segments and utilization of channels which cater to these markets. SMB also recognizes the importance of fast-growing modern trade channels such as large supermarket chains, hypermarkets and modern convenience stores in marketing and carrying its products to consumers, especially in urban areas. Accordingly, SMB is focusing on sales and marketing programs for identified products to these fast growing segments of the market.

- **Intensify trade execution and innovation.** SMB intends to further expand its trade reach and increase the visibility and availability of its products in retail outlets by accelerating point-of-sale promotions and merchandising programs for both on- and off-premise outlets to increase sales and outlet yield. In pursuing this strategy, SMB will focus on improving the efficiency of its trade operations, including trade penetration

levels and adherence to suggested retail prices in all distribution channels by strengthening per-outlet management, intensifying route assisting activity and alternative distribution mode management such as pedicabs (bicycle-driven cabs) and tricycles, which help to deliver the products of SMB to remote areas. SMB also intends to raise its frequency of calls to retail outlets. Management of the dealers' territories will be strengthened through intensified retail-based servicing and territorial reconfiguration.

- **Increase sales through special events and promotions.** SMB intends to pursue volume-generating trade initiatives such as occasion-creation programs as well as innovative consumer promotions and campaigns. Examples of these activities include the dominance of SMB in town fiestas and conduct of trademark events, such as San Miguel Beer Oktoberfest, Red Horse Muziklaban and Summer "Sarap MagBabad" that aim to make the beer drinking experience more relevant and closer to the consumers.

- **Develop new products and packaging innovations.** SMB plans to introduce new products and new package formats. SMB believes this strategy can increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments. For example, to increase consumer interest, in May 2007, SMB introduced San Miguel Pale Pilsen in paper label bottles. In 2008, SMB launched new products San Miguel Premium All-Malt in the Upper Premium segment and the Oktoberfest Brew (seasonal brew) in the Upper Popular segment as well as introduced secondary packaging, i.e. Christmas-themed shrinkwrap (6-pack) for San Miguel Premium All-Malt and clear shrinkwrap (6-pack) for San Miguel Pale Pilsen, San Mig Light, San Miguel Super Dry and San Mig Strong Ice. To entice more entry-point drinkers, SMB introduced San Miguel Alcoholic Malt Beverage in lemon and apple flavors in late 2010, its first flavored alcoholic malt beverage. In addition, San Miguel Pale Pilsen in 330ml long neck bottle with paper label packaging was released in selected upscale outlets in 2011 to further boost awareness and consumption of the brand. SMB intends to pursue packaging innovations and capitalize on the market trends toward convenience packaging and premium products as well as increasing sophistication of consumers. SMB is developing packaging improvements for existing brands as well as convenience pack formats consistent with faster-paced lifestyles and addressing the various activities and interest of consumers.

- **Improve resource allocation and value creation in the supply chain.** SMB aims to improve resource allocation and cost management towards programs that would create more value for SMB as well as ensure appropriate mix of advertising and promotions that would generate higher sales for SMB. In support of value creation in the supply chain, SMB intends to broaden its base for suppliers and materials to drive down costs without sacrificing quality. Third party service providers will also be managed more effectively, anchored on stronger partnership and shared objectives. Process and productivity improvements will be vigorously pursued in the different stages and areas of production, distribution and promotions to deliver products of superior quality while protecting profitability.

International Operations

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

- **Strengthening the portfolio of local and international brands.** SMBIL intends to further push the appropriate combination of local and international brands in its operating units to capitalize on the varied preferences of consumers in the international markets and pursue healthy, profitable brand mix. For example, in North China, SMBIL aims to protect the market dominance of Blue Star through market-based and visibility programs while promoting San Miguel beer brands in the Premium segment via brand-building activities, participation in festivals and outlet promotions.

- **Accelerating the expansion of San Miguel brand**. SMBIL aims to accelerate growth of San Miguel beer brands mainly San Miguel Pale Pilsen and San Mig Light, consistent with the thrust of SMB to promote San Miguel as the lead brand in the portfolio of the SMC Group in the international markets. This will be done primarily through consumer and trade promotions, events as well as development of new advertising campaigns and creative merchandising materials.

- **Improving sales and distribution management**. Supporting the volume expansion and portfolio thrust is the objective of improving the efficiency of sales and distribution. This involves strengthening the management of dealers/wholesalers, outlet and channel-specific programs such as bar games, sports-viewing parties and promotions aligned with the respective brands' positioning. Outlet coverage will likewise be expanded to cover unserved territories and grab market share from competition.

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

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

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

Domestic Beer Sales

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

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

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

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

International Beer Sales

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

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

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

Production and Raw Materials

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

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

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

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

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

SMB procures key raw materials for its beer operations through a procurement group that uses standardized procurement procedures. Malted barley and hops are generally sourced from the United States, Canada, Australia and Europe, while new sources in China and South America are being developed. Adjuncts are generally sourced within the Philippines. SMB enters into supply contracts with key raw material suppliers with terms ranging from approximately one month to five years. Each of these contracts typically provide for a pre-determined fixed and formula price for the duration of the contract. In addition, depending on considerations such as price trends and the quality of raw materials, SMB also makes spot purchases on the open market. To ensure the quality of its products, SMB closely monitors the quality of its raw materials.

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

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

SMB mostly sells its products in returnable glass bottles of varying sizes and shapes, as well as in aluminum cans and kegs. As of December 31, 2011, approximately 95% of the glass bottles used by SMB were returned bottles. The returnable glass bottle is by far the most important and popular package for beer in the Philippines, accounting for 99% of the sales of SMB as of December 31,

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

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

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

Major Raw Materials and Packaging Supplies

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

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

Research and Development

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

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

Domestic Marketing, Sales and Distribution

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

As of March 31, 2012, SMB had 50 sales offices and 501 dealers throughout the Philippines. Generally, it takes five days or less for a bottle of beer to travel from production in the brewery to a sales outlet anywhere in the country. Beer is transported from the breweries by a variety of methods, mainly through third-party haulers and, in certain circumstances, by a fleet of boats contracted by SMB.

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

Marketing Activities

SMB actively pursues marketing initiatives to promote new and existing products, as well as to maintain and enhance brand awareness of its existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, conducting various consumer and trade promotions and other merchandising activities. SMB also uses television, radio and print advertisements, outdoor billboards and posters that can be placed on the walls of retail outlets and restaurants, bars and other on-premise outlets. SMB operates a beer delivery business, "632-BEER," which provides free beer delivery service for parts of Metro Manila. Advertising and promotion expenses of the domestic beer operations were ₱2,883 million in 2011.

SMB holds major events and sponsors numerous music events. San Miguel Beer Oktoberfest has been the brand's flagship event for over three decades. This seasonal festival of beer and activities takes place from September to December at numerous locations simultaneously across the Philippines. Popular bands and celebrities, including San Miguel beer endorsers, are on hand to entertain the crowds. SMB also holds San Miguel Pale Pilsen's nationwide SMB Summerfest, which is an annual get-together of games, concerts and parties at the country's popular beaches. In addition to

San Miguel Pale Pilsen, Red Horse is also often a major sponsor of concerts, with the brand affiliated with Muziklaban, the country's biggest annual rock challenge, a band competition. For San Mig Light, SMB conducts music party initiatives such as "Party All Night" events. SMB offers Beer Tasting bar tours to upscale outlets for San Miguel Premium All-Malt, San Miguel Super Dry and Cerveza Negra.

Competition

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

Competition from imported beers is minimal.

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

Liquor Business

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

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

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

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

Philippine Liquor Industry

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

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

Competitive Strengths

GSMI believes that its principal strengths include the following:

- **Market leading brands.** GSMI has market leading brands in GSMI San Miguel Gin, GSM Blue Gin and Gran Matador Brandy.

- **Streamlined distribution network.** GSMI has a streamlined distribution network with direct shipments to a diversified base of large dealers assigned to specific geographic areas.

- **Strong Cost Leadership.** GSMI has established and has led the establishment of a diversified raw material base.

Business Strategies

The principal strategies of GSMI include the following:

- **Expand distribution.** GSMI is installing distributors and setting up Direct Selling Operations particularly in Southern Philippines, where market penetration is low and only a few dealers covering the area. Ginebra San Miguel is introducing new product offerings to serve the dynamic consumer market in key areas in Northern Philippines.

- **Secure Raw Material.** GSMI had embarked on initiatives to search for alternative raw materials to complement molasses which is under threat from increasing prices and decreasing availability as it is used as a raw material for the Philippine government's clean fuel program. Cassava has proven to be a reliable substitute for molasses and its supply sustainability is currently being developed. GSMI will also import more crude alcohol as an alternative if proven to be more cost efficient at certain points in time.

- **Grow Non-Alcoholic Business.** GSMI is broadening its distribution of non-alcoholic beverages to the "at-work" and school markets. It has also recently embarked on the distribution of energy drinks, one of the fastest growing segments in the Non-Alcoholic Beverage business market.

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

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

GSMI Sales

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

GSMI offers a range of liquor in the Premium, Popular and Economy market segments, including gin, brandy, Chinese wine, rum, vodka, tequila and whisky. GSMI also produces and sells non-carbonated

ready-to-drink tea and fruit juices primarily under the Magnolia brand. The following table sets forth the sales of the principal product categories for the periods indicated:

	2009		2010		2011	
	Sales	%	Sales	%	Sales	%
	(in millions)		(in millions)		(in millions)	
Gin	11,582	59.25%	14,506	63.94%	11,346	75.07%
Brandy	5,467	27.97%	4,653	20.51%	1,186	7.85%
Chinese wine	626	3.20%	827	3.65%	774	5.12%
Others (including Magnolia branded beverages)	1,824	9.33%	2,601	11.46%	1,751	11.59%
Exports	49	1.25%	102	0.45%	56	0.37%
Total	19,548	100%	22,688	100%	15,113	100%

The following table sets forth the principal products and brands:

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

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

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

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

Exports and Overseas Operations

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

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

Raw Materials and Production

Alcohol is the main raw material used in the production of liquor. GSMI produces most of its alcohol at its distillery plant in Bago City, Negros Occidental. Alcohol is produced primarily from molasses, which

is purchased from a variety of third-party suppliers pursuant to supply contracts as well as on the open market. Recently, as the price for molasses has increased, GSMI has been considering alternative raw materials from which it can distill alcohol, such as cassava starch milk. In particular, GSMI recently constructed a cassava starch milk plant in the Philippines to enable it to use this alternative raw material for the production of alcohol.

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

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

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

Distribution

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

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

Marketing and Competition

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

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

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

Regulation and Taxation of Beverages

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

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

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

FOOD BUSINESS

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

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

	Sales (in ₱ millions)	***% of Sales***
Agro-Industrial (poultry, feeds and fresh meats)	56,982	63
Value-Added Meats (refrigerated processed meats)	12,103	14
Milling (flour)	8,354	9
Dairy, Spreads and Oils (including food services, retail and others)	12,152	14
Total	₱89,591	100

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

BUSINESS	**MAJOR PRODUCTS**
Agro–Industrial	
Poultry	Branded products are sold under the Magnolia Fresh Chicken label and include fresh-chilled whole chickens a variety of chicken cut-ups, cooked-easy line and ready to eat

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

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

Philippine Food and Agriculture Industry

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

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

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

Competitive Strengths

SMPFC believes that its principal strengths include the following:

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

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

- **Broad and diverse portfolio.** SMPFC offers one of the widest arrays of food products in the Philippines, with products ranging from feeds and flour to meats, milk, coffee and hotdogs. SMPFC believes this diversity allows for a more resilient business model and provides significant growth potential both within and across various product categories. Currently, SMPFC is present in only 35% (weighted by value) of the product categories in the packaged food industry, presenting significant opportunities for SMPFC to expand into other packaged food categories.

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

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

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

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

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

Market presence

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

Product innovation and distribution

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

- **Health and Wellness:** Magnolia Gold Lite Butter, Magnolia No Sugar Added Ice Cream and the San Mig Coffee Pro-Health line.

- **Flavor:** An Asian line of marinated meats, fruit flavored chocolate milk drinks and flavored refrigerated margarine.

- **Convenience:** Ulam King products and chicken nuggets.

- **Packaging:** Cooking oil in tubes and in-mould labeled packaging for bulk ice cream.

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

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

Experienced management and technical teams

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

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

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

The "San Miguel" brand reputation and ownership

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

Business Strategies

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

Accelerate growth of the branded consumer business.

- SMPFC intends to continue building brand equity through advertising and promotional activities. SMPFC intends to launch new products that will complement its existing brands. As part of this strategy, SMPFC has launched a formal company-wide innovation program to drive the introduction of breakthrough products and services.

- SMPFC intends to continue to strengthen and expand its distribution capabilities in both the traditional and modern trade channels. To reduce volatility in its commodities businesses, SMPFC will continue to grow its meat shops and chicken stations and provide value-adding activities.

- SMPFC intends to aggressively grow the food service business by marketing customized products and services through food solution packages, including menu analysis and planning, food safety training and recipe and product development.

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

- SMPFC has a program to encourage farmers to plant cassava and other crops that can be used as feeds ingredients. SMPFC, through assemblers, provides farmers a stable market, technical assistance and access to financing. SMPFC, in turn, benefits from an expanded raw material supply base, lower costs and less price volatility.

- The strong research and development team of SMPFC is responsible for identifying cost improvements, while still maintaining product quality. This is achieved by exploring the use of alternative raw materials, from grains and by-products used in the feeds products of SMPFC to alternative protein sources and flavors in processed meats.

- Adopt technologies designed to attain best in class efficiencies.

- In its poultry and livestock operations, SMPFC has adopted climate-controlled housing to minimize temperature variability, thereby improving animal productivity. By the end of 2009, more than half of the poultry business' growing capacity had already been moved into climate-controlled housing. SMPFC also maintains state-of-the-art facilities for its flour business.

- Maximize synergies through shared services and organizational integration.

- To achieve synergies, SMPFC has organized its businesses into clusters. SMPFC has integrated its poultry and livestock businesses to maximize synergies across functions, as well as to realize certain tax benefits.

- SMPFC will continue to simplify its organizational structure and standardize its business processes in preparation for future growth. SMPFC is establishing a finance shared service center, intended to serve all of the businesses and perform transaction processing activities to improve efficiencies and reduce administrative expenses.

Outsourcing of labor intensive and process-oriented operations

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

- SMPFC intends to outsource these lower value-added activities of its value chain, while maintaining control over its more specialized, higher value-added operations.

- SMPFC believes outsourcing its labor intensive and process-oriented operations will allow its personnel to focus more on the core competencies of SMPFC, such as marketing and product development, which are key to the future growth of the businesses of SMPFC.

- SMPFC intends to use outsourcing arrangements as its primary tool to achieve future capacity expansion or replacement. SMPFC expects that only projects of high strategic importance, or that cannot otherwise be outsourced, will be considered for inclusion in the capital expenditure budget of SMPFC.

- SMPFC has been, and intends to remain, actively involved in certain key aspects of the outsourced activities. SMPFC provides ongoing training and technical support to all of its third-party contractors. In addition, SMPFC representatives are assigned to oversee the results of outsourced operations and work closely with third-party management to improve operational efficiencies, while ensuring the food safety requirements and quality standards of SMPFC.

Explore new growth opportunities

- **New product categories**

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

- **Further vertical integration**

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

- **Geographical diversification**

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

- **Co-investments with SMC**

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

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

Operating Metrics (Food)	**For the year ended December 31**		
	2009	**2010**	**2011**
Poultry - Volume (mm kdw)	255.2	288.5	305.8
Poultry - Average sales price (P/kdw[(1)])	101.08	97.08	100.5
Feeds - Volume (mm bags)	21.64	18.94	19.45
Feeds - Average sales price (P/bag)	940.98	959.6	1013.74
Basic meats - Volume (MT)	55.4	49.1	57.6
Basic meats - Average sales price (P/kg)	131.87	127.55	126.04
Value added meats - Volume (MT)	82,765	85,117	90,708
Value added meats - Average sales price (P/kg)	132.86	135.54	135.39
Flour and others[(2)] - Volume ('000 bags)	10,981	11,053	11,101
Flour and others[(2)] - Average sales price (P/bag)	709.38	688.63	804.48
Pancakes – Volume ('000 cases)	45	43	57
Pancakes – Average sales price (P/case)	1,065.13	1,114.50	1,121.12
Dairy, spreads and Oil[(3)] (P)	7,491.06	8,449.87	12,307.23
Eliminations	(1,437.84)	(934.56)	(1,674.65)
Gross profit margin	18.12%	20.16%	18.05%
EBITDA margin	8.30%	9.99%	9.05%
Net income before tax margin	5.12%	7.21%	6.65%

(1) kdw – kilo dressed weight
(2) Others include pollard, pancakes, and trading products
(3) Includes ice cream, coffee, food service, retail business, Indonesia and Vietnam

Agro-Industrial Cluster

Poultry

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

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

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

Feeds

The Philippine feeds industry comprises three segments: (a) the homemix segment which comprises small to medium-scale farms producing their own feeds; (b) the intra segment which includes large, integrated livestock and poultry farms producing their own feeds; and (c) the commercial segment which produces branded feeds for third parties. The Philippines had an estimated ₱160,000 million feeds market in 2011, in which the commercial feeds segment accounted for ₱51,870 million. Much like the poultry industry, the Philippine feeds industry has been transformed from a fragmented, backyard industry into a more concentrated and efficient industry with a small number of dominant feedmillers.

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

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

To protect against unexpected price increases, SMPFC participates in both physical and financial hedging for certain imported raw materials such as soybean meal and maintains strategic buying programs for corn. SMPFC also uses by-products from SMB (including brewer's spent grain and yeast) and the poultry dressing plants (including offal and feathers) as raw materials for feeds production. SMPFC contracts with two tolled rendering facilities and expect to add rendering plants in

the future. Compound feeds are manufactured at six SMPFC-owned facilities; third party-operated and 35 third-party owned and operated feeds plants, strategically located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds, and three plants have extrusion capabilities to produce aquatic floating feeds.

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

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

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

Fresh Meats

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

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

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

Based on the sow levels in 2011, the market share of SMPFC in the Philippine pork industry was estimated to be 3%. Revenues in the fresh meats business of SMPFC were ₱7,254 million in 2011 and sales volume increased by 17%.

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

SMPFC breeds most of its hogs on owned farms and the balance are purchased from hog breeding companies. SMPFC imports 32% of its feeder cattle from Australia and most of its boxed beef from Australia, New Zealand and Brazil. All of the feeds required by the fresh meats business are supplied by the feeds business of SMPFC.

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

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

Value-Added Meats Cluster

The value-added meats business of SMPFC is a key player in three segments of the Philippine processed meats industry: (a) a 16% share of the ₱11,344 million corned meats segment; and (b) a 9% share of the ₱7,568 million luncheon meats segment based on 2011 statistics from AC Nielsen RTA Report. The value-added meats business of SMPFC produces both refrigerated meats and canned meats. Its refrigerated meat products include hotdogs, bacon, hams, nuggets and a line of local Philippine products, which are sold under the Purefoods, Tender Juicy, Purefoods Star, Vida, Beefies, Magnolia, Tender Cuts, and Monterey brands. Canned products, such as corned beef, luncheon meats, sausages, and ready-to-eat viands, are sold under the Purefoods, Star, and Ulam King brands.

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

The value-added meats business operates its own processing plant in Cavite. The plant manufactures hotdogs, hams, burgers, bacon, dry sausages, meat toppings, cold cuts and nuggets. The company has embarked on a capacity expansion project that is expected to be completed and operational by the 3rd quarter of this year. The Marikina plant of SMPFC was severely damaged by Typhoon Ondoy and is not intended to be reopened since it ceased operations in October 2009. SMPFC has received a substantial portion of the insurance claims for the typhoon damages at the Marikina plant. SMPFC has instead contracted additional toll packers to replace its capacity to pre-storm levels. To augment its production capacity and meet volume demands, the value-added meats business maintains toll-manufacturing agreements with various suppliers, one of which operates a halal-accredited manufacturing facility allowing SMPFC to sell halal corned beef products to the Middle East and predominantly Muslim countries.

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

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

Milling Cluster

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

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

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

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

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

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

Dairy, Spreads and Oils Cluster

The DSO business manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks and cooking oils generating revenues of ₱6,709 million in 2011, with bread spreads make up the largest portion of this business accounting for 72%. The bread spreads includes butter, refrigerated and non-refrigerated margarines and cheeses sold primarily under its Magnolia Gold, Dari

Creme, Star and Cheezee brands. The dairy products of SMPFC include flavored and unflavored milks under the Magnolia and Chocolait brands, ice cream under the Magnolia brand and jelly snacks and fruit jams under the JellyAce, Sugarland and Magnolia brands. The cooking oil products of SMPFC are sold under the Magnolia brand.

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

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

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

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

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

Emerging Businesses Cluster

Coffee

The coffee business of SMPFC in the Philippines is a joint venture with a Singaporean partner, SCCPL, and is 70% owned by SMPFC. The joint venture commenced operations in 2005 and sells coffee products under the San Mig Coffee brand. In 2011, the coffee business of SMPFC had revenues of ₱731million and an estimated market share of 4% by volume in the Philippine coffee mix market. All of the coffee business' raw materials procurement, manufacturing and pre-packing are handled by the Singaporean partner of SMPFC, with certain subsidiaries of SMC managing re-packing and distribution in the Philippines.

Food Services

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

Indonesia Regional Business

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

Vietnam Regional Business

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

PACKAGING BUSINESS

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

The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, metal, plastic, paper, flexible, PET and other packaging products. The Packaging Group is a major source of packaging products for the other business segments of SMC. The Packaging Group also supplies packaging products to customers in the Asia-Pacific region, the United States, Africa, Australia and the Middle East, as well as to major multinational corporations in the Philippines, including Coca Cola Bottling Company, Nestle Philippines and Pepsi Cola Products Philippines. In 2011, the packaging business had sales of ₱24,113 million, of which approximately 78% were external sales.

Philippine Packaging Industry

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

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

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

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

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

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

Competitive Strengths

The Packaging Group believes that its strengths include the following:

- **Market leader.** The Packaging Group is a market leader in all its product formats in the domestic packaging industry, producing glass, plastics, metal, metal caps, aluminum cans, composites and woven products.

- **State-of-the-art manufacturing facilities.** The Packaging Group maintains state-of-the-art manufacturing facilities including the only food grade PET recycling facility in Asia and best practices in manufacturing and quality procedures.

- **Synergies from partnerships with key global packaging companies.** The Packaging Group gains synergies from its partnerships with global packaging players such as NYG, Fuso, Kaito and United Resource Recovery Corporation.

Business Strategies

The strategies of the Packaging Group include the following: `

- **Total Packaging Solutions.** The Packaging Group intends to increase adoption of the total packaging solutions approach by proactively offering solutions that range from traditional packaging products to associated graphics design, conceptualization, consultancy, toll filling and logistical requirements.

- **Network and Client Optimization.** The Packaging Group intends to optimize and leverage on its significant regional network of facilities and alliances as a gateway to enter into new markets. It is also evaluating opportunities with its international clientele on potentially providing packaging services to them in markets where these customers have a presence and are new to the Packaging Group. There is also a focus on entering into longer term contracts with key customers to enhance earnings visibility.

- **Product Diversification.** The Packaging Group plans to enter new markets and market segments with new products such as personal care (plastic tubes), pharmaceuticals (child resistant caps, plastic pharma bottles, blister packs), semi-conductors and electronics (anti-static bags), paint (pails), food tubs, thermo cup, lug caps, deep draw caps and various converted can ends.

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

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

Operating Metrics (Packaging Group)	**For the year ended December 31**		
	2009	**2010**	**2011**
Glass – Revenue (in '000)			
Domestic	₽ 6,786,835	₽ 6,708,833	₽ 7,579,240
International	1,051,950	1,225,115	1,116,087
Total	7,838,785	7,933,948	8,695,327
Glass Volume (Mton)			
Domestic	217,775	239,252	238,398
International	49,466	60,774	50,002
Total	267,241	300,026	288,400
Glass – Average sales price (₽/Mton)			
Domestic	31.13	27.62	31.52
International	18.43	18.73	20.52
Total	29.33	26.44	30.15
Metal – Revenue			
Domestic	3,815,338	3,882,924	3.676.562
International	401,932	490,377	458.698
Total	4,217,270	4,373,301	4.135.260
Metal – Volume (M pcs)			
Domestic	7,136,696	7,277,314	6.153.110
International	1,572,692	1,889,858	1.876.431
Total	8,709,388	9,167,172	8.029.541
Metal – Average sales price (₽ /Pc)			
Domestic	0.535	0.534	0.598
International	0.256	0.259	0.244
Total	0.484	0.477	0.515
Revenue – Other Businesses			
Plastics	1,399,623	1,605,082	1.710.752
PET	1,747,498	1,960,262	1.264.404
Composite	538,001	647,073	723.131
Paper	1,596,115	1,440,320	1.641,750
Trading	312,026	371,563	371,773
Malaysia	2,825,718	3,075,614	3,317,563
Cospak		3,712,616	4,025,720
Elimination (within the group sales)	(245,623)	(855,161)	(899,777)
Total	8,173,358	11,957,369	12,165,316
Gross Contribution	8,535,800	9,881,351	9,669,972
EBITDA margin	3,230,036	3,989,715	4,218,129
Net income before tax margin	1,746,763	1,834,911	2,100,066

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

- **Glass:** This business is the largest supplier in the glass packaging industry segment and serves many of the country's leading beverage, food and healthcare companies.

- **Metal:** The metal business is the second largest business in the Packaging Group. It manufactures metal caps, crowns, resealable caps and two piece aluminum beverage cans for a wide spectrum of industries that include beer, soft drinks and food.

- **Composites/Flexible Packaging:** The composites/flexible packaging business manufactures flexible packaging such as anti-static/ESD bags, plastic films, industrial laminates, trademarked Envirotuff radiant barrier and woven bags. Its customers include companies in the food, beverages, personal care, chemical and healthcare industries.

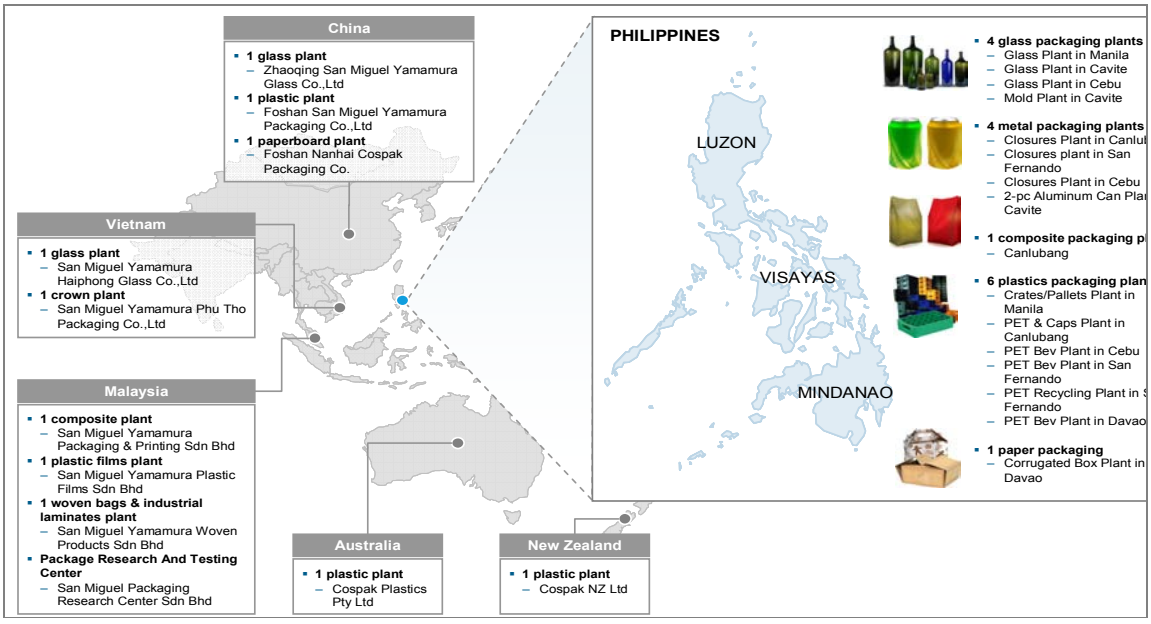
- **PET:** The PET business produces PET preforms and bottles, plastic caps and handles, and offers filling services, serving the beer, liquor, non-alcoholic beverages, food, pharmaceutical, personal care and industrial applications industries.

- **Paper:** The paper packaging business produces corrugated cartons and partition boxes. In addition, SMC also manufactures corrugated cartons and other paper-based packaging products through its wholly owned subsidiary, Mindanao Corrugated Fibreboard Inc. The paper packaging business serves a broad range of beverage, food and agricultural industries.

- **Plastics:** The plastics business produces bread and food trays, industrial containers, crates, pallets, poultry flooring, pails and tubs to companies in the beer and beverages industries as well as chicken and agricultural industries.

Production

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



PROPERTY DEVELOPMENT

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

FUEL AND OIL

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

Philippine Petroleum Industry

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

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

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

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

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

Competitive Strengths

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

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

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

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

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

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

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

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

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

Refinery to all points of the Philippine archipelago in an efficient manner. Petron believes that its extensive distribution infrastructure creates a barrier against entry for new market participants and allows it to maintain a leading position in the Philippine oil industry.

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

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

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

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

Business Strategies

Focus on the domestic market

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

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

Over the years, Petron has invested in upgrades to the Refinery that have enhanced the value of production. These include upgrades to the mixed xylene plant, which recovers mixed xylene from

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

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

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

Optimize power, steam and production costs efficiencies

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

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

Selective synergistic acquisitions

In addition to organic growth, Petron will continue to consider selective opportunities to expand domestically through strategic acquisitions consistent with its focuses on the domestic market, increased production of higher margin products and creation of operational synergies. Petron will consider any acquisition opportunity carefully, and any potential acquisition would undergo extensive review and evaluation procedures to ensure that such transaction would be beneficial to the business of Petron as a whole. For example, in March 2010, Petron acquired a 40% stake in Petrochemical Asia (Hong Kong) Ltd ("PAHL"). PAHL owns PPI, which owns a polypropylene plant located approximately five kilometers from the Refinery. The polypropylene plant's primary feedstock, propylene, will be supplied by the Refinery. Through its investment in PAHL, Petron expects to have a share of the incremental value derived from converting propylene into polypropylene resin.

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

Operating Metrics (Fuel and Oil)	For the year ended December 31		
	2009	2010	2011
Sales volume ('000 barrels) - by product			
LPG	4,357	4,319	5,014
Gasolines	8,611	9,205	8.846
Kerosene / Jet	5,828	5,413	5,809
Diesels	13,519	15,239	14,257
Fuel Oils	9,529	10,394	9,143
Lubes and Greases	296	299	314
Petrochem	1,890	3,263	3,151
Others	184	157	162
Total Sales Volume	44,215	48,289	46,697
Gross refining margins (in ₱ /bbl)	338.07	410.31	495.32
Gross refining margins (in US$/bbl)	6.78	8.81	10.87
Capacity utilization (%)	50%	63%	63%
Caital Expenditure (excl. capitalized interest)	1,788	3,659	19,070
Gross profit margin	14,948	19,814	23,130
EBITDA	13,187	15,969	18,491
Net income before tax	5,751	10,299	11,121

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

	Volume (thousands of barrels)	% of total Volume
Diesel	15.202.796	31.53%
Fuel Oil	10.393.850	21.56%
Gasoline	9.170.686	19.02%
Kerosene/ Jet	5.418.007	11.24%
LPG	4.314.134	8.95%
Petrochemicals	3.262.75	6.77%
Others	157.019	0.33%
Total	48.218.799	100.0%

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

	Volume (thousands of barrels)	% of total Volume
Industrial	21,152.189	43.87%
Reseller (retail service stations)	16,898.112	35.04%
Exports	4,312.558	8.94%
LPG	5,613.095	11.65%
Lubes & Greases	242.844	0.50%
Total	48,218.798	100.0%

Production and Facilities

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

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

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

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

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

Refining Process Quality Improvements

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

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

Operating Sites

Petron leases 122 parcels of lands for service stations and depots from New Ventures Realty Corporation ("NVRC"). NVRC is 40% owned by Petron and 60% owned by the Petron Corporation Retirement Plan. NVRC purchases and sells properties suitable for use as service stations, bulk plants or sales offices. Expenses relating to the NVRC leases totaled ₱306 million in 2011. Petron also leases lands for its service stations from other parties. Payments under these leases totaled ₱507 million in 2011. As of 2011, there were 759 Petron related service station leases covering Luzon (564), Visayas (105) and Mindanao (90).

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

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

Raw Materials and Utilities

The main raw material used in the production process of Petron is crude oil. Petron acquires crude oil from foreign sources, through a combination of short-term purchase contracts and spot market purchases. In 2010, Petron purchased approximately 74% of its total crude oil supply requirements from Saudi Aramco. Under the term contract that Petron entered into with Saudi Aramco, Petron may purchase up to 140,000 barrels per calendar day of various Saudi Aramco crudes. Pricing is determined through a formula that is linked to international industry benchmarks. Payment for Saudi Aramco crude shipments is on open account basis secured by an irrevocable standby letter of credit consistent with the standard practice of Saudi Aramco for its customers in Asia. The contract is automatically renewed annually unless either Petron or Saudi Aramco decides to terminate the contract upon at least 60-days notice prior to its expiration date. As of the date of this Prospectus, neither Petron nor Saudi Aramco has given notice of non-renewal.

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

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

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

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

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

Sales, Marketing and Distribution

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

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

Petron is one of the biggest market participants in the LPG market. Petron has set up more than 700 branch stores through its Gasul dealers as of December 31, 2011. It has also gained headway in the field of alternative fuels through its auto-LPG program, Petron Xtend, of which auto-LPG facilities are already installed in 21 service stations nationwide.

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

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

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

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

Capital Expenditures

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

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

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

In addition, to support growth in domestic sales, Petron intends to establish approximately 3,000 additional service stations and micro-filling stations across the Philippines, bringing total service station count to 5,000 by 2016.

Competition

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

The Philippine oil industry is dominated by three major oil companies: Petron, Shell and Chevron (formerly Caltex Philippines), which, based on industry data for 2010 from the data exchange of DOE, together constitute 78% of the domestic market based on sales volume. Petron is the leader in the Philippine oil industry, with an overall market share of approximately 37.70% of the domestic oil market, ahead of the other two major Philippine oil companies, which have market shares of approximately 25.70% and approximately 9.90%, respectively, in each case in terms of sales volume based on industry data for 2011 from the data exchange of DOE. Deregulation has seen the entry of more than 90 other industry market participants, rendering the petroleum business more competitive. Petron and Shell operate the only refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase from other market participants in the local market. In the Philippines, Petron competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value. Petron participates in the reseller (service station), LPG, industrial and lube sectors, through its network of service stations, terminals and bulk plants, dealers and distributors nationwide.

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

Health, Safety and Environmental Matters

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

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

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

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

ENERGY BUSINESS

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

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

As of December 31, 2011, SMC Global Power had total assets of ₱273,834 million and revenues in 2011 of ₱70,591 million.

Philippine Power Generation Industry

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

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

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

preceding December 26, 2011, as certified by the ERC, will have the right to choose their own electricity suppliers. However, to date, the "open access" has not yet been implemented.

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

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

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

Notes:

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

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

IPPA Framework

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

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

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

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

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

Competitive Strengths

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

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

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

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

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

Flexible and diversified power portfolio

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

The existing power portfolio of SMC Global Power consists of natural gas-fired (Ilijan power plant), which represents 47.15% of the contracted capacity of SMC Global Power, coal-fired (Sual power plant), which represents 39.29% of the contracted capacity of SMC Global Power, and hydro-powered (San Roque power plant), which represents 13.56% of the contracted capacity of SMC Global Power. Power generated by the Sual and Ilijan power plants is primarily sold to customers pursuant to offtake agreements, while power generated by the San Roque power plant is sold through the WESM.

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

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

Established relationships with world class partners

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

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

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

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

Strong parent company support

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

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

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

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

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

Business Strategies

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

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

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

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

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

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

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

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

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

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

Pursue vertical integration

SMC Global Power intends to continue to expand into businesses along the power sector value chain that complement its current power generation business. As part of this strategic growth and expansion, SMC Global Power has acquired coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao. If SMC Global Power is able to develop these assets and commence mining operations successfully, SMC Global Power expects these assets will provide a source of coal fuel supply for its planned and contemplated Greenfield power projects. SMC Global Power intends to develop these coal mines in Mindanao in parallel with its planned greenfield power projects and is targeting coal production around the same time as when the greenfield power projects become operational. In addition, SMC Global Power has a 6.13% equity stake in Meralco, the largest distribution utility in the Philippines, and one of the most significant customers of SMC Global Power, and through this investment (together with the 21.46% equity interests of SMC and the 4.80% equity interests of SMPFC in Meralco), SMC Global Power has developed an understanding of the electricity distribution market in the Philippines, particularly in the Luzon region. Moreover, with the expected implementation of open access, SMC Global Power believes it is in a strong position to capitalize on the retail electricity selling opportunity due to its current strong industry position in both Luzon and the Philippines as a whole. SMC Global Power has obtained a retail electricity supplier license to expand its customer base and diversify its revenues. Once open access and retail competition is fully implemented, the electricity supplier license will allow SMC Global Power to enter into offtake agreements with customers with power requirements of at least 1 MW, which may include other SMC subsidiaries. SMC Global Power believes that such vertical integration will provide it with a competitive advantage in the Philippine power market.

SMC Global Power receives income from the sale of electricity by its administered and owned power generation facilities to a variety of customers, including Meralco, electric cooperatives, industrial customers and the WESM. In 2011, the three power plants for which SMC Global Power has IPPA agreements generated 14,407 giga-watt hours ("GWh") of electricity. As of December 31, 2011, the attributable installed capacity of SMC Global Power was powered 39.29% by coal, 47.15% by gas and 13.56% by hydro power.

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

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

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

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

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

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

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

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

Power Plant	Customer	% of Total Volume Sold in 2011	Expiration of PPA
Sual			
	Meralco[1]	14.58	December 25, 2012
	Central Pangasinan Electric Cooperative	5.01	June 25, 2012
	Angeles Electric Corporation	8.03	December 25, 2012
	Clark Electric Distribution Corporation	5.38	March 25, 2013
	Hanjin – Subic Enerzone	3.81	March 25, 2013
	Pampanga II Electric Cooperative Inc.	6.36	April 25, 2013
	Subic Enerzone Corporatoin	3.92	March 25, 2013
	Tarlac Electric, Inc.	4.57	December 25, 2012
	Ilocos Norte Electric Cooperative	3.46	December 25, 2016
	Ilocos Sur Electric Cooperative	3.44	August 25, 2012
	Mountain Province Electric Cooperative	0.24	June 25, 2012
	Pangasinan III Electric Cooperative	5.17	December 25, 2012
	Nueva Vizcaya Electric Cooperative	1.56	June 25, 2012
	Consort Land Inc.	0.31	December 25, 2016
	Peninsula Electric Cooperative	5.14	December 25, 2012
	The Authority of the Freeport Area of Bataan	1.58	December 25, 2012
	Pampanga III Electric Cooperative, Inc.	3.12	December 25, 2012
	Tarlac II Electric Cooperative (TARELCO II)	2.52	December 25, 2012
	IBB(VOA)- TARELCO II	0.28	December 25, 2012
	Kalinga Apayao Electric Cooperative	0.25	July 25, 2012
	Isabela I Electric Cooperative	4.23	January 25, 2012
	Tarlac I Electric Cooperative	2.20	December 25, 2012
	Nueva Ecija II Electric Cooperative	2.27	August 25, 2013
	Sorsogon 2 Electric Corporation	1.17	November 25, 2012

Power Plant	Customer	% of Total Volume Sold in 2011	Expiration of PPA
	First Laguna Electric Cooperative Inc.	1.31	December 25, 2012
	Northern Cement Corporation	2.28	December 25, 2016
	Formosa Ceramic Tiles Mfg. Corp	0.17	March 25, 2013
	Philippine Polypropylene Inc.	0.44	December 25, 2016
	Petron Corporation	2.21	December 25, 2012
	RJS Commodities	0.04	December 25, 2012
	Oliver Enterprises	0.15	December 25, 2012
	North Luzon Triton Mall, Inc.	0.02	December 25, 2014
	Lepanto Consolidated Mining Corporation	0.82	January 25, 2016
	NPC Alliance Corporation	1.24	April 25, 2012
	Grand Planters International, Inc.	0.01	December 25, 2016
	Orica Philippines, Inc.	0.04	August 25, 2012
	PNPP – Housing (NAPOT) NAPOCOR	0.01	December 25, 2012
	PNPP – Plant (NAPOT) NAPOCOR	0.02	December 25, 2012
	BASA Air Base	0.07	December 25, 2016
	Central Azucarera de Tarlac	0.16	December 25, 2014
	Currimao Aluminum Corporation	0.06	June 25, 2012
	Stronghold Steel Corporation	1.48	May 25, 2012
Ilijan			
	Meralco (SPPC)	94.22%	December 25, 2012
	Meralco (Cavite Economic Zone)	2.57%	December 25, 2012
	Meralco — Sunpower Laguna	0.43%	December 25, 2012
	Meralco — Sunpower Batangas	2.71%	December 25, 2012
	Alindeco	0.05%	December 25, 2012

(1) Under a Transition Supply Contract with NPC

Extent of Power Generation Facilities

Sual Power Plant

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

SMC Global Power, through its subsidiary SMEC, assumed administration of the Sual Power Plant on November 6, 2009 in accordance with an IPPA agreement (the "Sual IPPA agreement") entered into with PSALM. PSALM remains responsible under an ECA to remunerate the IPP of the Sual Power Plant for the electricity it produces.

Sual IPPA

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

The Sual IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US$58.0 million, and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the Sual Power Plant is unable to supply the contracted power.

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

Power Offtakers

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

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

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

For power offtake agreements entered into by SMEC directly with new offtakers on a bilateral basis (or with those offtakers under previously assigned offtake agreements which have expired), pricing is based on a reasonable return over the cost structure of SMEC and benchmarked to the basic rates of NPC. The components for pricing comprise a Basic Energy Rate ("BER"), also on a time-of-use basis, and a monthly Basic Energy Rate Adjustment ("BERA") charge similar to the ACA charge of NPC. The components for the BERA include adjustments for fuel, foreign exchange and inflation costs. Any changes to the level of the BER and/or the BERA are not affected by movements in the charges of NPC.

Fuel Supply

SMC Global Power has entered into a coal supply agreement with Bumi Resources, through Top Coal Trading Corporation, for the supply and delivery of coal to SMC Global Power, which SMC Global Power in turn supplies to the Sual Power Plant. The agreement is effective until December 2014, subject to renewal for a further five years as may be mutually agreed between the parties.

Under the coal supply agreement, Bumi Resources is required to supply a total of 33 shipments, each comprising 65,000 metric tons during 2010. However, for the years 2011 to 2014, the amount of coal to be supplied by Bumi Resources will depend on the election of SMC Global Power in accordance with the provisions of the coal supply agreement.

Pricing under the coal supply agreement is subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by Bumi Resources. For the years 2011 to 2014, Bumi Resources and SMC Global Power are required to negotiate on an annual basis and mutually agree upon the price for the coal supplied by Bumi Resources for the following year, failing

which, the price to be used will be equivalent to the Global Coal Newcastle Monthly Index of the month prior to the date of the shipment multiplied by 1.04 until such time as the coal price for the relevant contract year is settled between the parties.

Operations and Maintenance

Under the Sual ECA, TeaM Energy is required, at its own cost, to be responsible for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant until the date of transfer (to NPC or to SMC Global Power, as the case may be), and shall use its best endeavors to ensure that during such period the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMC Global Power under the Sual IPPA Agreement, into electricity in a safe and reliable manner.

Ilijan Power Plant

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEPCO Ilijan Corporation pursuant to a 20-year ECA with NPC under a BOT scheme that expires on June 4, 2022. NPC supplies natural gas to the Ilijan Power Plant from the Malampaya field in Palawan. The Ilijan Power Plant consists of two blocks with a rated capacity of 600 MW each. The power plant can also run on diesel oil stored on site.

On April 16, 2010, SMC successfully bid for the appointment to be the IPPA for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, SMC and SPPC, a wholly-owned subsidiary of SMC Global Power, entered into an assignment agreement with assumption of obligations whereby SMC assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC, which assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with an IPPA agreement with PSALM ("Ilijan IPPA agreement").

Ilijan IPPA

PSALM, NPC and SMC Global Power (through SPPC) entered into the Ilijan IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the Ilijan Power Plant. SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. In addition, SMC Global Power must pay monthly generation payments comprising a "must pay" amount for electricity sold up to a given volume (the "Must Pay Volume") and a variable amount for electricity sold in excess of the Must Pay Volume. The "must pay" amount in a given month is the sum of: 80% of the statutory rate SMC Global Power charges Meralco for supplying electrical power under the offtake agreement between SMC Global Power and Meralco for the given month multiplied by a factor equal to the volume sold (the "T1 Volume"), where the T1 Volume cannot exceed the Must Pay Volume; and 80% of the price for the electrical power sold to WESM during the month, multiplied by a factor equal to the Must Pay Volume less the T1 Volume, where such factor may not be less than zero.

The variable amount of the monthly generation payment is payable for electricity sold in excess of the Must Pay Volume for that month and is calculated as a base rate plus an index based on the cost of natural gas, the U.S. Dollar/Peso exchange rate and the efficiency of the Ilijan Power Plant.

The Ilijan IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US$60 million, and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the Ilijan Power Plant is unable to supply the contracted power.

Under the Ilijan IPPA agreement, SMC Global Power has the right to acquire the Ilijan Power Plant in June 2022, which is the end of the cooperation period between NPC and KEPCO Ilijan Corporation under the ECA with KEPCO Ilijan Corporation, or on some earlier date due to certain events such as changes in law or non-performance by KEPCO Ilijan Corporation under the ECA.

Power Offtakers

The Ilijan Power Plant PSCs generally require its offtakers to take or pay for, within a contract year, a mutually agreed MEQ, and such offtakers would be allowed to exceed up to 20% of its MEQ. Any power taken in excess 20% of the MEQ is subject to a premium on the base tariff rate imposed by SMC Global Power.

For PSCs assigned by NPC to SMC Global Power in respect of the Ilijan Power Plant, the pricing structure is similar to that provided under the PSCs assigned by NPC to SMC Global Power in respect of the Sual Power Plant. Likewise, pricing for PSCs entered into by SMC Global Power with new offtakers on a bilateral basis for the Ilijan Power Plant (or with those offtakers under previously assigned PSCs which have expired), is based on the BER and the BERA structure.

Fuel Supply

NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Under a fuel supply and management agreement with Shell Exploration B.V. and Occidental Philippines, Inc., NPC supplies natural gas to the Ilijan Power Plant through a 480 km undersea pipeline from the Camago-Malampaya field in Palawan to the Shell Refinery in Tabangao. From there, the natural gas is transported through a 16-in-diameter onshore pipeline running 15 km to the power plant.

Operations and Maintenance

KEPCO Ilijan Corporation currently owns and is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years effective from June 5, 2002. KEPCO Ilijan Corporation is majority owned by the Korea Electric Power Corporation ("KEPCO"), with its partners, Mitsubishi Corporation and TeaM Energy. KEPCO Ilijan Corporation is a stock corporation incorporated in the Philippines, in accordance with the Corporation Code and the Foreign Investment Act of 1991 (the "FIA").

Under the ECA for the Ilijan Power Plant, KEPCO Ilijan Corporation shall operate the Ilijan Power Plant in accordance with the operating criteria and guidelines provided therein, including output of 1,200 MW guaranteed net contracted capacity, base load operation, spinning reserve capability, a minimum stable load of not more than 30% of the unit rated generating capacity, and a ramp rate of not less than 5% of the rate unit generator capacity per minute.

San Roque Power Plant

The 345 MW San Roque multi-purpose hydroelectric power plant in San Manuel, Pangasinan commenced operations on May 1, 2003 and is a peaking plant that was constructed by a consortium composed of Marubeni Corporation, Sithe Philippines Holdings, Ltd., and Italian-Thai Development Public Company Limited pursuant to a PPA with NPC under a BOT scheme.

The San Roque Power Plant utilizes the Agno River for power generation and irrigation and contributes to flood control and water quality improvement for the surrounding region, and comprises three power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 GWh from the 345 MW hydroelectric power plant, the irrigation of approximately 34,450 hectares of agricultural land, storage of water that would otherwise flood the Pangasinan plains, and improvement of water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, SPDC, a wholly-owned subsidiary of SMC Global Power, successfully bid for the appointment to be the IPPA for the San Roque Power Plant and received a notice of award on December 28, 2009. SPDC assumed administration of the San Roque Power Plant on January 26, 2010 in accordance with an IPPA agreement with PSALM (the "San Roque IPPA agreement"). PSALM remains responsible under a PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

PSALM, NPC and SMC Global Power (through SPDC) entered into the San Roque IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in

the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, may be requested to obtain and maintain water rights necessary for the testing and operation of the power plant. SMC Global Power is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the PPA (the "San Roque PPA") of NPC with San Roque Power Corporation ("SRPC"). In addition, SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. These fixed monthly payments are reduced when there is a Non-Delivering Day for reasons not attributable to SMC Global Power. In addition, SMC Global Power has a Must Pay Volume of ₱1.30 per kWh.

The San Roque IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US$20 million and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the San Roque Power Plant is unable to supply the contracted power.

Under the San Roque IPPA agreement, SMC Global Power has the right to acquire the San Roque Power Plant in May 2028, which is the end of the cooperation period between NPC and SRPC under the San Roque PPA, or on some earlier date due to certain events such as changes in law or non-performance by SRPC under the San Roque PPA.

Power Offtakers

Since the San Roque Power Plant is a peaking plant, all of its output is traded on the WESM and SPDC has no PSC with any party. Under the terms of the San Roque PPA, power and energy are delivered to SMC Global Power at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the San Roque Power Plant site. SMC Global Power is responsible for contracting with the NGCP to wheel power from the delivery point.

Water Rights

The generated output energy of the San Roque Power Plant is limited by the Irrigation Diversion Requirements set by the National Irrigation Administration. Water allocation is usually dictated by rule curve that is derived from historical data of river flows and water demands. A rule curve shows the minimum water level requirement in the reservoir at a specific time to meet the particular needs for which the reservoir is designed. The rule curve must generally be followed except during periods of extreme drought and when public interest requires. In general, the rule curve dictates the following:

- **Water Level Above The Upper Rule Curve —** All demands for water supply and irrigation are met and electricity can be generated at the full capacity of the turbine units. Excess inflow is discharged through the spillway. Water released through the spillway is controlled and regulated by the NPC Dam Office personnel.

- **Between Upper And Lower Rule Curves —** All demands for water supply and irrigation are satisfied. Generation of electricity is limited to the released water for water supply and irrigation. Further water releases for power generation are allowed provided that the auxiliary units are utilized first before main units.

- **Water Level Below Lower Rule Curve —** The remaining water in the reservoir is reserved for water supply and irrigation. Generation of electricity is limited to these water releases. No further water release for power generation is allowed.

In 2010, the water level in the San Roque Power Plant dam has consistently been below the rule curve. However, the National Irrigation Administration permitted the San Roque Power Plant to continue operations during this time due to downstream irrigation requirements caused by drought during the same period.

Generally, the output energy of San Roque Power Plant is high during planting seasons which covers the months of December through April (dry planting season) and July through September (wet planting season). The water releases from the dam, and thus, energy generation, during the dry

planting season is much higher due to the absence of rain. The water rights of NPC are used by the San Roque Power Plant and NPC, until the date of transfer of the San Roque Power Plant to NPC (or SMC Global Power, as the case may be), must obtain such renewals or extensions as may be required to maintain the water rights in full force and effect at all times. NPC derives its water rights from a permit granted by the National Water Resources Board.

Operations and Maintenance

SRPC is responsible for the operations and maintenance of the San Roque Power Plant for 25 years effective May 1, 2003. SRPC is owned by Marubeni and Kansai-Electric and is a stock corporation incorporated in the Philippines, in accordance with the Corporation Code and the FIA.

Under the San Roque PPA, SRPC is responsible for the management, operation, maintenance and repair of the San Roque Power Plant at its own cost until transfer to NPC or SMC Global Power, as the case may be. As operator, SRPC is entitled to conduct the normal inspection, regular maintenance, repair and overhaul for a period of 15 days for each unit comprising the San Roque Power Plant. In addition, SRPC has the right to enter into contracts for the supply of materials and services, including contracts with NPC; appoint and remove consultants and professional advisers; purchase replacement equipment; appoint, organize and direct staff; manage and supervise the power plant; establish and maintain regular inspection, maintenance and overhaul procedures; and otherwise run the power plant within the operating parameters set out in the PPA. The operating fee is the product of the contracted capacity for the contract year in kW, which is nominated annually, multiplied by ₱250 per kW per month. This fee is in addition to the capital recovery fee and covers the fixed operating and maintenance costs of the power structures and equipment.

Meralco

SMC directly and indirectly holds approximately 365,100,454 shares of Meralco, representing an approximately 32.39% interest in the issued and outstanding common shares of Meralco. Meralco is the Philippines' largest distributor of electrical power and is the only distributor of electric power for Metro Manila. Meralco holds the power distribution franchise for approximately 22 cities and 89 municipalities in the Philippines. The common shares of Meralco are listed on the PSE. .

The value of the Meralco investment based on the closing market price for Meralco common stock as of March 31, 2012 is approximately ₱95,656 million.

Related Coal Investments

SMC Global Power has invested in certain coal mining assets in the Philippines. Such assets are in a preliminary stage of exploration and no results as to their actual viabilities are available as of the date of this Prospectus. The mines of SMC Global Power are not expected to provide fuel for any of its power plants since the Sual Power Plant runs on high-performance coal, and high-performance coal is not found naturally in the Philippines.

Competition

SMC Global Power is the largest independent power producer administrator in the country, with a 17% share of the power supply of the national grid, and a 23% market share of the Luzon grid. Its main competitors are the Lopez Group and the Aboitiz Group. The Lopez Group holds significant interests in First Gen Corporation and Energy Development Corporation, while the Aboitiz Group holds interests in Aboitiz Power Corporation and Hedcor, Inc, among others.

With the Philippine government committed to privatizing the majority of PSALM-owned power generation facilities and the establishment of WESM, the generation facilities of SMC Global Power will face competition from other power generation plants that supply the grid during the privatization phase. Multi-nationals that currently operate in the Philippines and could potentially compete against SMC Global Power in the privatization process include Korea Electric Power Corporation, Marubeni, Tokyo Electric Power Corporation, AES Corporation and Sumitomo, among others. Several of these competitors have greater financial resources, and have more extensive operational experience and other capabilities than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. SMC Global

Power will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

Safety, Health and Environmental Regulation and Initiatives

Power generation operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the Philippine Clean Air Act, The Philippine Clean Water Act of 2004 (the "Clean Water Act"), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990, and Occupational Safety and Health Standard of 1989 of the Department of Labor and Employment, as amended. Such legislation addresses, among other things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste. It also regulates workplace conditions within power plants and employee exposure to hazardous substances. The Occupational Safety and Health Standard, meanwhile, was formulated to safeguard the workers' social and economic well-being as well as their physical safety and health.

The management of SMC Global Power believes that the IPPs for each of the IPPA power plants comply in all material respects with all applicable safety, health and environmental laws and regulations.

Insurance

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the IPPA power plants are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for the power plants of SMC Global Power, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC retains responsibility for insuring.

INFRASTRUCTURE BUSINESS

SMC has made investments in the Philippines' infrastructure sector through SMHC consisting of investments in concessions for toll roads, an airport and a light rail system, certain details of which are set forth in the table below:

	% SMC Ownership Interest	Expected Project Cost		Concession Length
		(in millions)		
Concession				
TPLEX Tollway	35%[1]	₱21,600	US$502.33[5]	35 years
Boracay Airport	93%[2]	₱ 5,600	US$130.23[5]	25 years
MRT-7 Light Rail Project	51%[3]	₱ 68,100	US$1,583.72[5]	25 years
SLEX, Skyway	46.53%	None[4]	-	25 years

Notes:
(1) Ownership through Private Infra Dev Corporation, through Rapid Thoroughfares, Inc.
(2) Ownership through Trans Air Development Holdings Corp., through SMHC equity interest; to be diluted to 88% by April 2013
(3) Ownership through ULC BVI through SMHC equity interest
(4) All major capex have been completed prior to equity acquisition
(5) Conversion rate used ₱43.00

Philippine Infrastructure Industry

Under the current administration, the Philippine government has accelerated the implementation of a number of key infrastructure projects. It has created the Public-Private Partnership ("PPP") Center as

it recognizes the essential role of the private sector as the main engine for national growth and development. In accordance with this, pertinent incentives will be provided to stimulate private resources for the purpose of financing the construction, operation and maintenance of infrastructure and development projects normally undertaken by the Philippine government.

Private sector investors will be selected through open competition under fair and transparent terms. All interested investors will be given a level playing field with reasonable returns and appropriate sharing of risks without compromising the protection of public interests. Through this program, end-users will be provided with adequate, safe, efficient, reliable, and reasonably-priced infrastructure services.

Currently, the list of infrastructure projects under the PPP include: Light Rail Transit Line 1 Cavite Extension, NAIA Expressway Phase II, NLEX-SLEX Connector Road, Laguindingan Airport, Mactan-Cebu International Airport Passenger Terminal Building and New Bohol (Panglao) Airport.

The government has increased infrastructure spending to boost domestic growth and has allocated ₱22.1 billion for PPP projects under the proposed national budget for 2012.

Competitive Strengths

- **Synergies with the established businesses of SMC.** The strengths of SMC in its established businesses could be leveraged to ensure successful execution of infrastructure projects.

- **Brand strength and size.** SMC is among the largest and most widely recognized companies in the Philippines with a continuing commitment in the involvement for the development of the country.

- **Ability to finance acquisitions. Infrastructure projects require long-term financing.** SMC has an advantage in financing its PPP projects due to its long operating history as a publicly listed company and the trust built up with investors, its size and balance sheet strength and its recognition in the international capital markets.

Business Strategies

- **Focusing on the improvement of infrastructure projects in the Philippines.** SMC believes there are significant opportunities in building and participating in infrastructure projects in a growing economy that has historically under-invested in infrastructure. SMC believes its long-term operating licenses will provide it with strong and stable income streams.

- **Potential to extract synergies across businesses.** Areas and projects being developed by the infrastructure business of SMC present opportunities for its other businesses. For example, the TPLEX, the Boracay Airport and the MRT-7 rail and the road projects are expected to complement and present opportunities for fuel and oil, energy, and telecommunications businesses of SMC, as well as improve the distribution network for food and beverages business of SMC.

Operations

TPLEX Tollway

The Philippine government, through the National Economic Development Authority, which administers the National Economic Plan, has proposed and is implementing a 20-year plan to significantly expand the expressway/tollway system from and around Metro Manila. A significant part of that plan is the construction of an 88.58 km two-lane toll expressway from Tarlac, through Pangasinan to La Union, north of Manila ("TPLEX"). The TPLEX expressway is expected to be integrated with other major expressways (including the North Luzon Expressway and Subic-Clark-Tarlac Expressway) to expand the road/expressway network in and around Metro Manila by 325 kilometers. Construction

commenced on the expressway in October 2010. The initial Tarlac to Carmen section (48.7 kilometers) is projected to be completed by 2012, with revenue collection projected to commence, while the remainder of the expressway is projected to be completed by August 2014.

In August 2009, SMC made its first infrastructure investment by acquiring a 35% stake in PIDC. PIDC holds the 35-year build-transfer-operate concession for TPLEX. PIDC is a joint venture among D.M. Consunji, Inc. (32.21%), D.M. Wenceslao & Associates, Inc (11.67%) and eight other contractor shareholders. D.M. Consunji, Inc. has constructed large projects in the Philippines for over 50 years, including hotels, malls, convention centers and the MRT-3 Metro Rail Transit system. SMC has an option to increase its interest in PIDC to up to 51%.

The project cost for the development of TPLEX is estimated at ₱21,600 million, which will be funded by a combination of debt (45.80%), equity (40.80%) and Philippine government subsidy (13.40%) which is available at the start of construction of Section 3 of TPLEX. The current equity funding commitment of SMC is ₱2,686 million, with ₱806 million having already been provided.

On September 12, 2011, Rapid Thoroughfares Inc. advanced ₱1,111 million as deposit for future stock subscription to 1,111,228 common shares of PIDC. One of the conditions for the issuance of the subscribed shares of Rapid Thoroughfares Inc. is the approval of the SEC of the increase in the authorized capital stock of PIDC. As of March 31, 2012, the approval by the SEC has not yet been obtained.

Boracay Airport

In April 2010, SMC acquired a 93% stake in Caticlan International Airport Development Corp. (subsequently renamed Trans Aire Development Holdings Corporation). TADHC holds a 25-year build-rehabilitate-operate-transfer concession granted by the Republic of the Philippines, through the Department of Transportation and Communications ("DOTC"), to develop and operate Boracay Airport. The remaining 7% interest is held by Akean Resorts Corporation, a non-affiliated entity.

Boracay airport is the principal gateway to Boracay Island, a popular resort for passengers traveling from Manila. Due to a short runway, the airport currently is able to accommodate only turbo propeller airplanes. The airport has experienced rapid growth in passenger volumes in the last decade, growing on average 23.3% a year from 1991. In 2011, approximately 700,000 tourists passed through Boracay Airport.

The planned expansion of the airport is expected to be completed in a number of stages and involves:

- upgrading and extending the runway, which is currently 950 meters long and 30 meters wide, to 2,600 meters long and 60 meters wide to accommodate larger international and domestic aircraft;
- upgrading of the Boracay Airport and its facilities to comply with International Civil Aviation Organization standards and the Manual of Standards for Aerodromes of the Civil Aviation Authority of the Philippines ("CAAP");
- conducting extensive landscape remediation to lower hills at oneend of the runway;
- replacing the current 550 square meter terminal with a new world class passenger and cargo terminal;
- improving road networks around Borcacay Airport and its facilities; and
- upgrading air navigational systems.

The approval of the Director General of CAAP of the Master Development Plan for the Boracay Airport has already been obtained and the Detailed Design Engineering for the Project is already being prepared.

The concession agreement is valid for 25 years, ending in 2035. On 15 January 2012, the passenger terminal fee was increased to ₱20 to ₱200.

MRT-7 Light Rail and Road Project

In October 2010, SMC acquired a 51% stake in Universal LRT, which holds the BOT concession for MRT-7, a planned expansion Manila's metro rail system, home to over 10 million inhabitants. MRT-7 is one of several rail extension projects to the existing metro rail system which services Metro Manila. It is expected to take three and a half years from the second quarter of 2011 and includes a 22 km six-lane asphalt highway that will connect the North Luzon Expressway to the intermodal transport terminal in San Jose del Monte and a 22 km mostly elevated MRT with 14 stations that will start from San Jose del Monte and end at the integrated LRT-1 / MRT-3 / MRT-7 station at EDSA. Universal LRT will operate and manage the system on behalf of the Philippine government for 25 years while gradually transferring ownership of the system to the Philippine government in proportion to payments of semi-annual capacity fees. Under the Build-Gradual-Transfer-Operate-Maintain-and-Manage scheme, the Philippine government will pay US$2.69 billion over 20 years through amortized payments based on a parametric formula. The project is estimated to cost US$1,583 million, which is to be funded 25% by equity and 75% by debt.

OTHER OPERATIONS AND INVESTMENTS

Copper and Gold Mining

SMC through Coastal View Exploration Corporation ("Coastal View") acquired in October 2010 a 10.10% stake in Indophil which holds a 37.50% beneficial ownership in Sagittarius Mines Inc., which in turn holds a 40% controlling equity stake in a joint venture to explore, develop and operate the Tampakan mine in the Philippines. The mine is estimated to have 2.5 billion metric tonnes of 0.60% copper and 0.2 grams per ton gold. If proven, the mine would be one of the world's largest underdeveloped copper-gold deposits, potentially the Philippines' largest mine and the world's fifth largest copper mine by 2016. Currently, Coastal View has a 3.99% stake in Indophil pursuant to the latter's subsequent rights offerings.

Telecommunications

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

- **Liberty Telecom**

  SMC owns 41.48% of Liberty in partnership with Qatar Telecom 32.65% and White Dawn Solutions Holdings, Inc. 18.36%, with the remaining shares owned by the public. Liberty is a telecommunications carrier offering services including nationwide telephone service, data communications, inter-exchange carrier services and international voice and data connectivity services.

- **BellTel**

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

- **ETPI**

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

Airline

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

Description of Property

The general asset description and locations of the various plants and farms owned and leased by the SMC Group are included as Appendix “C” of this Prospectus.

The properties included in Appendix “C” of this Prospectus that are owned by the SMC Group are free of liens and encumbrances.

The properties in Appendix “C” of this Prospectus are in good condition, ordinary wear and tear excepted.

Within the ensuing twelve months, the SMC Group may acquire additional properties to support its business operations, the number of which cannot be determined as of the date of this Prospectus.

Legal Proceedings

The SMC Group is not a party to, and its properties are not the subject of, any material pending legal proceeding that could be expected to have a material adverse effect on the issuance of the Offer Shares and on the results of the financials and the operations of SMC. SMC has initiated the appropriate actions to contest an assessment imposed by the SEC-Corporation Finance Department of a fine in connection with the filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) under the SRC.

Ownership and Capitalization

Share Capital

As of July 10, 2012, the Company had a total of 3,279,953,935 common shares issued, of which 2,370,035,004 are outstanding common shares, 909,918,931 are treasury shares, and 970,506,353 Series "1" Preferred Shares. Following the Offer and the approval of the increase in authorized capital stock by the SEC, the Company will have (i) 3,279,953,935 common shares (excluding additional issuance arising from exercise of Long Term Incentive Plan options), (ii) 970,506,353 Series "1" Preferred Shares and (iii) 1,067,000,000 Series "2" Preferred Shares issued and outstanding.

Top 20 Shareholders

Listed below are the top 20 shareholders of SMC as of July 5, 2012.

Rank	Name	Common Shares	Preferred Shares	Total Shares	% of O/S
1	Top Frontier Investment Holdings Inc.	1,347,112,692	0	1,347,112,692	40.327612%
2	Master Year Limited	368,140,516	0	368,140,516	11.020777%
3	PCD Nominee Corporation (Filipino)	320,345,162	0	320,345,162	9.589959%
4	ASC Investors, Inc.	0	167,483,095	167,483,095	5.013829%
5	PCD Nominee Corporation	19,987,361	115,803,413	135,790,774	4.065078%
6	ARC Investors, Inc.	0	105,689,360	105,689,360	3.163952%
7	PCD Nominee Corporation (Non-Filipino)	97,962,410	30,330	97,992,740	2.933543%
8	San Miguel Corporation Retirement Plan	1	85,751,165	85,751,166	2.567075%
9	Toda Holdings, Inc.	0	74,880,174	74,880,174	2.241638%
10	Te Deum Resources, Inc.	0	58,487,823	58,487,823	1.750911%
11	Rock Steel Resources, Inc.	0	58,237,403	58,237,403	1.743414%
12	San Miguel Officers Corps, Inc.	0	53,863,035	53,863,035	1.612462%
13	Roxas Shares, Inc.	0	52,815,194	52,815,194	1.581093%
14	AP Holdings, Inc.	0	34,669,405	34,669,405	1.037875%
15	Valhalla Properties, Inc.	0	31,411,848	31,411,848	0.940355%
16	Soriano Shares, Inc.	0	30,123,850	30,123,850	0.901798%
17	PCGG in trust for the Comprehensive Agrarian Reform Program	27,571,409	0	27,571,409	0.825387%
18	Randy Allied Ventures, Inc.	0	24,115,227	24,115,227	0.721921%
19	First Meridian Development Inc.	0	21,865,254	21,865,254	0.654565%
19	Anglo Ventures Corporation	0	21,865,254	21,865,254	0.654565%
20	Fernandez Holdings, Inc.	0	18,341,390	18,341,390	0.549074%
	TOTAL	**2,181,119,551**	**955,433,220**	**3,136,552,771**	**93.896884%**

Market Price of and Dividends on the Common Equity of SMC and Related Shareholder Matters

Market Information

The common equity of SMC is listed on the PSE. The high and low sales prices for each period are indicated in the table below.

The common and Series "1" preferred equity of SMC are traded on the PSE. The high and low closing prices for each quarter of the last two (2) fiscal years and for the first quarter of 2012 are as follows.

	2012				2011				2010					
	Common		Series "1"		Common		Series "1"		Class A*		Class B		Series "1"	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
1st	112.50	110.20	80.00	76.60	189.00	150.00	100.00	65.00	74.50	66.50	74.50	67.00	N/A	N/A
2nd	117.00	112.00	79.00	74.50	175.00	105.70	76.50	74.50	75.00	69.50	76.00	70.00	N/A	N/A
3rd	-	-	-	-	132.60	110.90	80.00	75.00	76.00	66.55	76.00	66.00	N/A	N/A
4th	-	-	-	-	129.20	110.50	79.95	75.00	169.70	73.50	N/A	N/A	120.00	86.05

* The common A and B shares of SMC were declassified on August 26, 2010.

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

Common ₱114.00
Series "1" Preferred ₱74.50

The approximate number of shareholders as of June 30, 2012 is 40,152.

Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC to common shareholders amounted to ₱1.05 per share in 2011.

Cash dividends declared by the Board of Directors of SMC to preferred shareholders amounted to ₱6.00 per share both in 2011 and 2010.

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

The table below sets forth the amount of dividends declared and paid since 2007.

Common Shares					
Year	**Type**	**Per Share Amount (₱)**	**Date Declared**	**Record Date**	**Payment Date**
2007	Cash	0.35	March 1	March 16	April 16
	Cash	0.35	May 8	June 8	July 2
	Cash	0.35	July 24	August 17	September 10
	Cash	0.35	December 6	December 21	January 21
Total:		**1.40**			

2008	Cash	0.35	March 6	March 28	April 24
	Cash	0.35	June 26	August 1	August 25
	Cash	0.35	September 25	November 3	November 17
	Cash	0.35	December 8	January 16	February 10
Total:		**1.40**			
2009	Cash	0.35	March 26	April 17	May 11
	Cash	0.35	June 25	July 24	August 17
Total:		**0.70**			
2010	Cash	0.35	January 6	January 22	February 15
	Cash	0.35	February 2	February 19	March 8
	Cash	0.35	March 15	March 29	April 12
	Cash	0.35	July 27	August 10	August 25
	Special Cash 5.0		July 27	August 10	August 25
	Cash	0.35	October 8	November 2	November 22
Total:		**6.75**			
2011	Cash	0.35	March 14	March 28	April 11
	Cash	0.35	June 7	July 8	July 22
	Cash	0.35	September 12	November 2	November 8
		1.05			
2012	Cash	0.35	January 20	February 6	February 20
	Cash	0.35	April 18	May 4	May 28
Total:		**0.75**			

Preferred Shares — Series 1					
Year	**Type**	**Per Share Amount (₱)**	Date Declared	Record Date	Payment Date
2010	Cash	1.50	January 6	January 22	February 15
	Cash	1.50	April 14	April 28	April 28
	Cash	1.50	June 17	July 9	August 2
	Cash	1.50	October 8	October 22	November 15
Total:		**6.00**			
2011	Cash	1.50	February 10	February 4	February 18
	Cash	1.50	May 12	May 26	June 14
	Cash	1.50	September 22	October 14	November 2
	Cash	1.50	December 15	December 29	January 20
Total:		**6.00**			
2012	Cash	1.50	March 28	April 17	May 11
	Cash	1.50	June 14	June 29	July 23
Total:		**3.00**			

Sale of Unregistered or Exempt Including Securities Constituting an Exempt Transaction

There were no securities sold by SMC within the past three (3) years which were not registered under the Securities Regulation Code ("SRC"), except for the following:

Name of Security Sold	Underwriters	Date of Sale	Amount of Securities	Basis for Exemption
Series "1" Preferred Shares	N/A	October 5, 2009	₱4,365,866,765 at par value ₱65,488,001,475, at issue price of ₱75.00	Section 10.1(j) of the SRC
Series "1" Preferred Shares	BDO Capital & Investments Corporation and Standard Chartered Bank	December 22, 2009	₱486,665,000 at par value; ₱7,299,975,000 at issue price of ₱75.00	Section 10 (k) and (l) of the SRC

Other securities issued by SMC within the same period are floating rate corporate notes issued in February 2009 and common shares under the Long-Term Incentive Plan for Stock Options ("LTIP") and employee stock purchase plan pursuant to Section 10.2 of the SRC.

SMC has filed a notice with the SEC and has not obtained a written confirmation for the foregoing exempt transactions.

Effect on Common Equity Holders

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

Foreign Equity Holders

As of June 30, 2012, the percentage of the total outstanding capital stock of SMC held by foreigners is 3.24%.

Directors and Executive Officers

Board of Directors

The table below sets forth each member of the Board of Directors of SMC as of the date of this Prospectus.

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr.	77	Filipino	Chairman and Chief Executive Officer
Ramon S. Ang	58	Filipino	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza	82	Filipino	Director
Leo S. Alvez	69	Filipino	Director
Joselito F. Campos, Jr.	61	Filipino	Director
Ferdinand K. Constantino	60	Filipino	Director
Menardo R. Jimenez	79	Filipino	Director
Roberto V. Ongpin	75	Filipino	Director
Alexander J. Poblador	58	Filipino	Director
Eric O. Recto	47	Filipino	Director
Thomas A. Tan	58	Filipino	Director
Iñigo Zobel	55	Filipino	Director
Winston F. Garcia	54	Filipino	Independent Director
Reynato S. Puno	72	Filipino	Independent Director
Margarito B. Teves	68	Filipino	Independent Director

Eduardo M. Cojuangco, Jr., Filipino, 77, is the Chairman and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He is also the Chairman of the Executive Committee of the Company. He also holds the following positions: Chairman and Chief Executive Officer of Ginebra San Miguel, Inc. and Chairman of San Miguel Pure Foods Company, Inc. He is also the Chairman of ECJ & Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc., and a Director of Caiñaman Farms, Inc. and Petron Corporation. He is a former Director of Manila Electric Company (February 2009-May 2009).

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

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

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

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

Ferdinand K. Constantino, Filipino, 60, has been a Director of the Company since May 31, 2010. He is a member of the Executive Committee, Audit Committee, Executive Compensation Committee and Nomination and Hearing Committee. He is Senior Vice President, Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions: President of Anchor Insurance Brokerage Corporation; and a Director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, SMC Global Power Holdings Corp., Top Frontier Investment Holdings Inc., Petron Corporation, Ginebra San Miguel Inc. and San Miguel Foods Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009); Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of SMC during the last five years. He was recently elected as Director of PAL Holdings, Inc., and Philippine Airlines, Inc.

Menardo R. Jimenez, Filipino, 79, has been a Director of the Company since February 27, 2002 and the Chairman of the Executive Compensation Committee of the Company and a Member of the Executive Committee. He is also a Director of San Miguel Pure Foods Company, Inc., and Magnolia, Inc. His other positions include: Chairman of the United Coconut Planters Bank; President and Chief Executive Officer of Albay-Agro Industrial Corporation; Director of Majent Agro Industrial Corporation, M. A. Jimenez Enterprises, Inc., Television International Corporation; Chairman of Fibers Trading, Inc., CBTL Holdings, Inc., and Meedson Properties Corporation; and a Director of Cunickel Mining and Industrial Corporation, Mabuhay Philippines Satellite Corporation, CCC Insurance Corporation and Pan-Phil Aqua Culture Corporation.

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

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

Eric O. Recto, Filipino, 47, has been a Director since May 31, 2010. He is a member of the Executive Compensation Committee of the Company. He is the President and Director of Petron Corporation and Top Frontier Investment Holdings Inc; the Chairman of Philippine Bank of Communications; a

Director of Manila Electric Company; Vice Chairman of Philweb Corporation, Atok-Big Wedge Corporation 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 from 2002 to 2005.

Thomas A. Tan, Filipino, 58, was elected as a Director of the Company on June 14, 2012. He is the President and General Manager of SMC Shipping and Lighterage Corporation and President of Saturn Cement Corporation. He obtained a degree in Bachelor of Science, major in Physics in 1974 from the Ateneo de Manila University and a Master in Business Management from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

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

Winston F. Garcia, Filipino, 54, has been a Director of the Company since February 1, 2001, currently an Independent Director of the Company, and a Member of the Audit Committee and Executive Compensation Committee of the Company. Atty. Garcia was President and General Manager of the Government Service Insurance System and was Vice Chairman of its Board of Trustees. He also held the following positions: Chairman of the National Reinsurance Corporation of the Philippines, GSIS Mutual Fund, Inc., Asean Forum, Incorporated and Philippine Social Security Association; Director of Philippine National Construction Corporation, and Philippine Health Insurance Corporation; Board Member of Asean Social Security Association; and a Member of the International Insurance Society, Inc., International Social Security Association, and Federation of Afro Insurers and Reinsurers. Atty. Garcia has been a practicing lawyer since 1983.

Reynato S. Puno, Filipino, 72, was elected to the Board as an independent director of the Company on January 20, 2011. Former Chief Justice Reynato S. Puno served as the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Court as an Associate Justice on June 1993 and was previously Associate Justice of the Court of Appeals (1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He has 177 also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

Margarito B. Teves, Filipino, 68, was elected as an Independent Director of the Company on June 14, 2012. He was Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Senior Management

The table below sets forth the executive officers of SMC as of the date of this Prospectus.

Name	Age	Citizenship	Position
Virgilio S. Jacinto	55	Filipino	Senior Vice President – General Counsel, Compliance Officer and Corporate Secretary
Aurora T. Calderon	58	Filipino	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer
Joseph N. Pineda	49	Filipino	Senior Vice President – Deputy Chief Finance Officer
Francisco S. Alejo III	63	Filipino	President, San Miguel Pure Foods Company, Inc.
Ferdinand A. Tumpalan	51	Filipino	President, San Miguel Yamamura Packaging Corp.
Roberto N. Huang	65	Filipino	President, San Miguel Brewery Inc.
Bernard D. Marquez	44	Filipino	President, Ginebra San Miguel Inc.
Carlos Antonio M. Berba	47	Filipino	Managing Director, San Miguel Brewery International Limited
Alan T. Ortiz	58	Filipino	President, SMC Global Power
Eric O. Recto	47	Filipino	President, Petron Corporation

Virgilio S. Jacinto, Filipino, 55, is the Corporate Secretary, Senior Vice- President and General Counsel and Compliance Officer of SMC (since October, 2010). He is a Director of San Miguel Brewery Inc. and Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as SMC General Counsel in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Mr. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines where he is the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard University. He holds various directorships in various local and offshore subsidiaries of SMC.

Aurora T. Calderon, Filipino, 58, is the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011. Previous to her appointment, she was a consultant of the Company reporting to the Chief Operating Officer since 1998. She is also a member of the board of directors of Petron Corporation, Petron Marketing Corporation, Petron Freeport Corporation, SMC Global Power Holdings Corp., Sea Refinery Corporation, Thai San Miguel Liquor Co., Ltd., NVRC, Las Lucas Construction and Development Corp., and Kankiyo Corporation. She is the President and the Director of Total Managers, Inc. and was a Director of Meralco (2008-2009). A certified public accountant, Ms. Calderon graduated from the University of the East with a degree in BS Business Administration, major in Accountancy, *magna cum laude.* In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries. She was recently elected as Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, and Air Philippines Corporation.

Joseph N. Pineda, Filipino, 49, is the Senior Vice President and Deputy Chief Finance Officer of SMC. He was formerly Vice President prior to his promotion on July 27, 2010 and has been the Deputy Chief Finance Officer since December 2005. He was previously Special Projects Head of SMC since January 2005. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Master in Business Administration degree from De La Salle University. In addition, Mr. Pineda holds directorships in various SMC domestic and international subsidiaries.

Francisco S. Alejo III, Filipino, 63, is the President (since 2005) and a Director (since 2001) of San Miguel Pure Foods Company Inc. He also holds the following positions: Vice Chairman of San Miguel Foods, Inc.; President of The Purefoods-Hormel Company, Inc., Magnolia, Inc. and San Miguel Super Coffeemix Co., Inc.; and Chairman and President of Sugarland Corporation and Star Dari, Inc.

Ferdinand A. Tumpalan, Filipino, 51, has been President of San Miguel Yamamura Packaging Corporation since 2005. He is also President of San Miguel Yamamura Asia Corporation, San Miguel Paper Packaging Corporation, Mindanao Corrugated Fibreboard Inc. and SMC Yamamura Fuso Molds Corporation. He is a former President of the Packaging Products Division of SMC in 2005.

Roberto N. Huang, Filipino, 65, is the President of San Miguel Brewery. He also served as General Manager of San Miguel Brewery Inc. (2007-2009); Director of Ginebra San Miguel Inc. (2004-2008), San Miguel Pure Foods Company, Inc. (2004-2008); President of San Miguel Beverages, Inc. (2007-2008); and President of Coca-Cola Bottlers Philippines, Inc., Cosmos Bottling Corporation and Philippine Beverage Partners, Inc. (2003-2007).

Bernard D. Marquez, Filipino, 44, is the President of Ginebra San Miguel Inc. since May 12, 2011 and is a member of the Executive Committee and Nomination and Hearing Committee of GSMI. He is currently a director of Thai San Miguel Liquor Co., Ltd ("TSML"). He previously held the following positions: General Manager of TSML (January 2010-April 2011); Business Manager of the non-alcoholic beverage business of Ginebra San Miguel Inc. (July – December 2009); Assistant Vice President and Business Manager of San Miguel Beverages, Inc. (March 2007 – June 2009) and Assistant Vice President and Business Planning and Development Manager of Coca-Cola Bottlers Philippines, Inc. (August 2004- February 2007).

Carlos Antonio M. Berba, Filipino, 47, has been Managing Director of San Miguel Brewery International Ltd. since 2008. He is also currently Director of San Miguel Brewery Hong Kong Limited (Hong Kong) and a Commissioner of PT Delta Djarkarta Tbk (Indonesia) ("PT Delta"). He previously served SMC as President of the San Miguel Beer Division (2006); and Vice President, CFO for International Beer Operations and Director for Business Planning and Information Management, San Miguel Beer Division (2002-2006).

Alan T. Ortiz, Filipino, 58, is the President and Chief Operating Officer of SMC Global Power Holdings Corp. since August 31, 2010 and a member of its Audit Committee and Nomination and Hearing Committee following his election on September 2, 2011. Previously, he was the President and Chief Executive Officer of National Transmission Corporation, a Member of the Board of Advisers of the Philippine National Oil Company – Energy Development Corporation, and a Director of the Manila Electric Company. He served the Philippine Government as a Consultant and Head of the Technical Working Group of the EPIRA to the Senate Committee on Energy, Vice Chairman and Chief Operating Officer of the Development Bank of the Philippines, Undersecretary and Executive Director of the Coordinating Council of the Philippine Assistance Program and Executive Director of the Build-Operate-Transfer ("BOT") Center both under the Office of the President, Assistant Director-General for Planning and Research of the National Security Council, and Policy Research and Planning Consultant of the Department of Foreign Affairs. He held executive positions in Economist Intelligence Unit ("EIU"), Philippines, Edison Mission Energy Philippines, Dharmala Philippines, Inc., Bank Dharmala, Dharmala Capital and Investment Trust Company, Dharmala Finance and Leasing Company, and the Professional Group. He is currently the Managing Partner of CEOs Inc., a Director and Treasurer of Global Resource for Outsourced Workers, Inc., and an Assistant Professor in the Department of Economics/Political Science of the Ateneo de Manila University.

Board Committees

Executive Committee

The Executive Committee is currently composed of six directors, which includes the Chairman of the Board of Directors and Chief Executive Officer, and the Vice-Chairman of the Board of Directors, President and Chief Operating Officer. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee.

The Committee acts within the power and authority granted upon it by the Board of Directors and is called upon when the Board of Directors is not in session to exercise the powers of the latter in the management of the Company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the Company has lawful interest, to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the company or entities in which it has interests and to perform

such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board of Directors or by law.

Audit Committee

The Audit Committee is currently composed of five members with two independent directors as members, Mr. Margarito B. Teves, who also sits as Committee Chairman, and Mr. Winston Garcia.

The Audit Committee reviews and monitors, among others, the integrity of all financial reports and ensures their compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements. It also performs oversight financial management functions and risk management, approves audit plans, directly interfaces with internal and external auditors, and elevates to international standards the accounting and auditing processes, practices, and methodologies of the Company.

The Company intends to comply with SEC Memorandum Circular No. 4 Series of 2012 on the adoption of an Audit Committee charter.

Nomination and Hearing Committee

The Nomination and Hearing Committee is currently composed of six voting directors— one of whom is independent, Mr. Reynato S. Puno—and one non-voting member in the person of the Corporate Human Resources Head of the Company. Atty. Estelito P. Mendoza is the Chairman of the Committee.

Among others, the Nomination and Hearing Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the Manual on Corporate Governance of the Company (the "Manual"), the Amended Articles of Incorporation and Amended By-laws of the Company and applicable laws, rules and regulations.

Executive Compensation Committee

The Executive Compensation Committee of the Company is composed of six directors, two of whom are independent in the persons of Mr. Winston F. Garcia and Mr. Reynato S. Puno. Mr. Menardo R. Jimenez is Chairman of the Committee.

The Executive Compensation Committee advises the Board of Directors in the establishment of formal and transparent policies and practices on directors and executive remuneration and provides oversight over remuneration of senior management and other key personnel—ensuring consistency with the culture, strategy and control environment of the Company.

It designates the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully.

Significant Employees

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

Corporate Governance

Manual on Corporate Governance

The Manual was approved by the Board of Directors on August 16, 2002 and amended on March 30, 2010. The monitoring of the implementation of the evaluation system of SMC to measure and determine the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer.

Compliance and Monitoring System

The Compliance Officer is appointed by the Board of Directors. He is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual and the rules and regulations of the relevant regulatory agencies, and ensures adherence to corporate principles and best practices. The Compliance Officer holds the position of a Vice President or its equivalent and has direct reporting responsibilities to the Chairman of the Board of Directors. The Compliance Officer has certified that the Company has substantially adopted all the provisions of the Manual on Corporate Governance.

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.

Shareholder and Investor Relations

The Company responds to information request from the investing community and keep shareholders informed through timely disclosures to the PSE and SEC, annual shareholders meeting, inventors briefing and conferences, the website of the Company and responses to email and telephone queries. The disclosures of the Company and other filings with the PSE and SEC are available for viewing and download from the website of the Company.

The Company through the Investor Relations Group under Corporate Finance holds regular briefings and meetings with investment and financial analysts.

Family Relationships

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

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Company have been involved in any legal proceeding, including without limitation being the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, or a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

Compensation of Directors and Executive Officers

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

Name	Year	Salary	Bonus	Others	Total

Name	Year	Salary	Bonus	Others	Total
Total Compensation of the Chief Executive Officer and Senior Executive Officers[1]	2012 (estimated) 2011 2010	₱160.9 Million ₱145.5 Million ₱145.8 Million	₱127.2 Million ₱184.6 Million ₱161.6 Million	₱26.8 Million ₱34.1 Million ₱23.2 Million	₱314.9 Million ₱364.2 Million ₱330.6 Million
All other officers and directors as a group unnamed	2012 (estimated) 2011 2010	₱113.7 Million ₱113.0 Million ₱91.7 Million	₱46.8 Million ₱66.1 Million ₱40.8 Million	₱28.2 Million ₱31.4 Million ₱31.8 Million	₱188.7 Million ₱210.5 Million ₱164.3 Million
Total	2012 (estimated) 2011 2010	₱274.6 Million ₱258.5 Million ₱237.5 Million	₱174.0 Million ₱250.7 Million ₱202.4 Million	₱55.0 Million ₱65.5 Million ₱55 Million	₱503.6 Million ₱574.7 Million ₱494.9 Million

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

The LTIP of the Company grants stock options to eligible senior and key management officers of the Company as determined by the Committee administering the said Plan. Its purpose is to further and promote the interests of the Company and its shareholders by enabling the Company to attract, retain and motivate senior and key management officers, and to align the interests of such officers and the shareholders of the Company.

As of May 31, 2012, the outstanding options under the LTIP held by the above-named Chief Executive Officer and Senior Executive Officers are 10,354,830 common shares, while those held by all officers and middle managers as a group total 9,783,230 common shares.

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

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

Other Arrangements

There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

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

Employment Contract

In lieu of an employment contract, the directors are elected at the annual meeting of stockholders for a one year term. Any director elected in the interim will serve for the remaining term until the next annual meeting.

Warrants or Options

There are no warrants or options on the Offer Shares held by Directors or Officers.

Security Ownership of Management and Certain Record and Beneficial Owners

Owners of more than 5% of the voting[2] securities of the Company as of July 5, 2012 were as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Series "1" Preferred Shares	Coconut Industry Investment Fund ("CIIF") Companies[3] c/o 16/F, UCPB Building, Makati City	CIIF Companies c/o 16/F, UCPB Building, Makati City	Filipino	753,848,312	22.57%
Common	Top Frontier Investment Holdings Inc.[4] 5th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Top Frontier Investment Holdings Inc.	Filipino	1,347,112,692	40.33%
Common	Master Year Limited Offshore Incoporations (Cayman) Limited, Scotia Centre, 4F P.O. Box 2804 George Town, Grand Cayman KY1-1112, Cayman Islands	Ramon S. Ang	Cayman Islands	368,140,516	11.02%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ Entities	Filipino	320,345,162	9.59%

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

[3] *ASC Investors, Inc., ARC Investors, Inc., Anglo Ventures Corporation, AP Holdings, Inc., Fernandez Holdings, Inc., First Meridian Development, Inc., Randy Allied Ventures, Inc., Rock Steel Resources, Inc., Roxas Shares, Inc., San Miguel Officers Corps., Inc., Soriano Shares, Inc., Te Deum Resources, Inc., Toda Holdings, Inc. and Valhalla Properties Limited, Inc. None of these companies owns more than 5% of the Company's total issued and outstanding Series "1" Preferred Shares as of May 31, 2012 except ASC Investors, Inc.; ARC Investors, Inc., Toda Holdings, Inc., Te Deum Resources, Inc., Rock Steel Resources, Inc., San Miguel Officers Corps., Inc. and Roxas Shares, Inc. (see Top 20 Series "1" Preferred Shareholders in this report.) The administrator of the CIIF Companies is the United Coconut Planters Bank and the Chairman of the Board or its President or the designate of the Chairman is authorized to vote in person or by proxy the shares registered in the name of the CIIF Companies.*

[4] *The shares owned by Top Frontier Investment Holdings Inc. are voted, in person or by proxy, by its authorized designate. Messrs. Roberto V. Ongpin and Eric. O. Recto hold nominal shares in Top Frontier Investment Holdings Inc. amounting to 1,999 shares and 1 share, respectively.*

The following are the number of shares comprising the capital stock of the Company (all of which are voting shares) owned of record by the directors, Chief Executive Officer, key officers of the Company, and nominees for election as director as of July 5, 2012:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Series "1" Preferred		
Eduardo M. Cojuangco, Jr.	776,038 (D)		Filipino	776,038 (0.02%)
Ramon S. Ang	376,653 (D) 368,140,516 (I)		Filipino	368,517,169 (11.03%)
Ferdinand K. Constantino	139,409 (D)	210,609 (D)	Filipino	350,018 (0.02%)
Estelito P. Mendoza	31,972 (D)		Filipino	31,972 (0.00%)
Iñigo Zobel	16,171 (D)		Filipino	16,171 (0.00%)
Leo S. Alvez	5,000 (D) 9,326 (I)		Filipino	14,326 (0.00%)
Joselito D. Campos, Jr.	9,149 (D)		Filipino	9,149 (0.00%)
Winston F. Garcia	10,000 (D)		Filipino	10,000 (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%)
Reynato S. Puno	5,000 (D)		Filipino	5,000 (0.00%)
Thomas A. Tan	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	62,600 (D)		Filipino	62,600 (0.00%)
Aurora T. Calderon	22,600 (D)		Filipino	22,600 (0.00%)

Voting Trust Holders of 5% or more

None of the directors and officers owns 5% or more of the outstanding capital stock of the Company. No person holds 5% or more of the outstanding shares of the Company under voting trust agreement.

Changes in Control

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

Certain Relationships and Related Transactions

Related Party Transactions

SMC, certain subsidiaries and their shareholders and associates in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates. The table below sets forth the related party transactions as of March 31, 2012.

	Relationship with Related Parties	Period	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
			In ₱ millions			
Petron Corporation Employee Retirement Plan (PCERP)	Retirement plan	**March 31, 2012**	**-**	**-**	**16,008**	**-**
		December 31, 2011	-	-	23,247	-
Meralco	Associate	**March 31, 2012**	**9,846**	**346**	**6,384**	**35**
		December 31, 2011	32,871	494	4,166	60
SMC Retirement Plan (SMCRP)	Retirement plan	**March 31, 2012**	**-**	**-**	**5,802**	**-**
		December 31, 2011	-	-	5,755	-
Top Frontier Investment Holdings, Inc.	Associate	**March 31, 2012**	**-**	**-**	**2,537**	**-**
		December 31, 2011	-	-	2,592	-
Petrochemical Asia (HK) Limited	Associate	**March 31, 2012**	**-**	**-**	**687**	**-**
		December 31, 2011	-	-	701	-
Atlantic Aurum Investments BV	Associate	**March 31, 2012**	**-**	**-**	**525**	**90**
		December 31, 2011	-	-	537	-
Liberty Telecommunications Holdings, Inc.	Associate	**March 31, 2012**	-	**-**	**433**	-
		December 31, 2011	47	-	433	-
Ginebra San Miguel, Inc. Retirement Plan	Retirement plan	**March 31, 2012**	**-**	**-**	**137**	**-**
		December 31, 2011	-	-	137	-
Thai San Miguel Liquor Co. Ltd.	JVC	**March 31, 2012**	**-**	**-**	**118**	**-**
		December 31, 2011	-	-	118	-
Hormel Netherlands, BV	Shareholder in a subsidiary	**March 31, 2012**	**-**	**-**	**35**	**-**
		December 31, 2011	-	-	19	-
Private Infra Dev Corporation	Associate	**March 31, 2012**	**60**	**-**	**23**	**-**
		December 31, 2011	95	-	13	-
Manila North Harbour Port Inc.	Associate	**March 31, 2012**	**-**	**14**	**11**	**-**
		December 31, 2011	-	-	6	-
Kirin Holdings Company, Limited and subsidiaries	Shareholder in a subsidiary	**March 31, 2012**	**2**	**1**	**4**	**-**
		December 31, 2011	19	18	4	-

Bank of Commerce	Associate	**March 31, 2012**	**4**	**-**	**3**	**-**
		December 31, 2011	31	-	13	-
Limay Energen Corp.	Associate	December 31, 2011	-	1,393	-	-
Super Coffee Corporation Pte. Ltd.	Shareholder in a subsidiary	**March 31, 2012**	**-**	**-**	**-**	**43**
		December 31, 2011	-	-	-	61
Others	Others	**March 31, 2012**	-	**76**	**4**	**195**
		December 31, 2011	1	76	4	205
		March 31, 2012	**P9,912**	**P437**	**P32,711**	**P363**
		December 31, 2011	P33,064	P1,981	P37,745	P326

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

b. Amounts owed to related parties consist of trade payables, professional fees and cash advances, and are unsecured and non-interest bearing.

c. SMC has advances to SMCRP amounting to ₱5,802 and ₱5,755 as of March 31, 2012 and December 31, 2011, respectively, included as part of "Trade and other receivables" account in the consolidated statements of financial position (see Note 10 Trade and Other Receivables of the Audited Consolidated Financial Statements of SMC for the year ended December 31, 2011, included as Appendix "B" of this Prospectus).

d. Petron has outstanding advances to PCERP for some investment opportunities (see Note 20 Other Noncurrent Assets of the Audited Consolidated Financial Statements of SMC for the year ended December 31, 2011, included as Appendix "B" of this Prospectus)..

e. Golden Food and Dairy Creamery Corporation has an outstanding loan with Bank of Commerce amounting to ₱198 million and ₱204 million as of March 31, 2012 and December 31, 2011, respectively.

f. San Miguel Brewery Hong Kong has an outstanding loan from Bank of Commerce amounting to US$30 million as of March 31, 2012.

Selected Financial Information and Other Data

Prospective investors should read the selected financial information presented below in conjunction with the consolidated financial statements of SMC and the notes to those consolidated financial statements included as Appendices "A" and "B" of this Prospectus. Prospective investors should also read "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2011	**2010**	**2009**	**2012**	**2011**
	(Audited)			**(Unaudited)**	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales	₱535,775	₱ 246,156	₱ 174,213	₱ 142,039	₱ 126,592
Cost of sales	432,321	173,929	124,295	115,345	99,300
Gross profit	103,454	72,227	49,918	26,694	27,292
Selling and administrative expenses	(47,500)	(37,619)	(30,249)	(11,853)	(10,157)
Interest expense and other financing charges	(27,443)	(16,578)	(7,926)	(7,169)	(6,757)
Interest income	4,618	3,023	5,989	1,102	1,451
Equity in net earnings of associates	2,824	6,817	2,816	1,350	630
Gain on sale of investments and property and equipment	1,046	529	50,630	538	50
Other income (charges) – Net	(12)	7,095	(6,843)	3,879	(59)
Income before income tax	36,987	35,494	64,335	14,541	12,450
Income tax expense	8,483	11,438	3,706	2,806	2,414
Net income	₱ 28,504	₱ 24,056	₱ 60,629	₱ 11,735	₱ 10,036
Attributable to:					
Equity holders of the Parent Company	₱ 17,518	₱ 20,091	₱ 57,799	₱ 8,477	₱ 7,138
Non-controlling interests	10,986	3,965	2,830	3,258	2,898
	₱ 28,504	₱ 24,056	₱ 60,629	₱ 11,735	₱ 10,036
Earnings per common share attributable to equity holders of the Parent Company basic	₱ 4.97	₱ 6.18	₱ 19.21	₱ 2.96	₱ 2.44
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 4.94	₱ 6.14	₱ 19.10	₱ 2.94	₱ 2.42
Consolidated Statements of Financial Position Data					
Assets					
Total current assets	₱ 308,179	₱ 279,538	₱ 298,113	₱ 368,230	
Total noncurrent assets	582,357	550,262	140,378	608,624	
Total assets	₱ 890,536	₱ 829,800	₱ 438,491	₱ 976,854	

Liabilities and Equity					
Current Liabilities					
Total current liabilities	₱ 190,830	₱ 178,224	₱ 94,029	₱ 234,802	
Total noncurrent liabilities	400,606	384,751	103,524	416,399	
Equity					
Equity attributable to equity holders of the Parent Company	229,414	216,031	213,817	235,670	
Non-controlling interests	69,686	50,794	27,121	89,983	
Total equity	299,100	266,825	240,938	325,653	
Total liabilities and equity	₱ 890,536	₱ 829,800	₱ 438,491	₱ 976,854	
Cash Flow Data					
Net cash provided by (used in):					
Operating activities	₱ 32,207	₱ 45,314	₱ 13,368	₱ 2,892	₱ 3,893
Investing activities	(70,488)	(126,931)	49,155	(17,890)	(18,228)
Financing activities	42,335	(2,226)	32,550	29,768	15,725
Effect of exchange rates changes in cash and cash equivalents	(181)	(380)	(2,601)	(235)	(175)
Net increase/(decrease) in cash and cash equivalents	3,873	(84,223)	92,472	14,535	1,215
Cash and cash equivalents at beginning of year	125,188	209,411	116,939	128,975	125,188
Cash and cash equivalents held for sale	(86)	-	-	-	-
Cash and cash equivalents at end of period	₱ 128,975	₱ 125,188	₱ 209,411	₱ 143,510	₱ 126,403

Management's Discussion and Analysis of Results of Operations and Financial Condition

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of the SMC Group for the three-year period ended December 31, 2011 and the reviewed unaudited consolidated financial statements as of for the three months ended March 31, 2012. The following discussion is lifted from the 2011 annual report (SEC Form 17-A) and the quarterly report as of March 31, 2012 (SEC Form 17-Q) filed with the SEC and should be read in conjunction with the attached audited consolidated statements of financial position of the SMC Group as of December 31, 2011 and 2010 and March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2011 and the three months ended March 31, 2012. All necessary adjustments to present fairly the consolidated financial position of the SMC Group as of December 31, 2011 and the financial performance and cash flows for the year ended December 31, 2011 and for all the other periods presented, have been made.

I. BASIS OF PREPARATION

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

Basis of Measurement

The consolidated financial statements of the SMC Group have been prepared on a historical cost basis of accounting, except for the following:

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

Functional and Presentation Currency

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

Significant Accounting Policies

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

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

Adopted Effective 2011

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

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

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

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

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

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

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

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

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

    - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to enable users to evaluate better an entity's exposure to risks arising

from the financial instruments. In addition, the International Accounting Standards Board amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

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

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

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

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

II. TRANSACTIONS FOR 2012

- On August 12, 2011, the Board of Directors of SMC approved the investment in the oil refining and marketing business in Malaysia through the acquisition of 65% equity interest in Esso Malaysia Berhad ("EMB") and 100% equity interest in its wholly-owned associate businesses ExxonMobil Malaysia Sdn Bhd ("EMMSB") and ExxonMobil Borneo Sdn Bhd ("EMBSB"). On August 17, 2011, the share purchase agreement was signed between the Parent Company and Exxon Mobil International Holdings Inc., wherein the Parent Company has the right to assign its interest in the investment to any of its subsidiaries.

  On January 11, 2012, the Executive Committee of Petron approved Petron's investment in the downstream oil business of ExxonMobil in Malaysia.

  On January 20, 2012, the Parent Company approved the assignment of the share purchase agreement to Petron Oil and Gas International Sdn Bhd (Petron International), an indirect wholly-owned subsidiary of Petron.

  On March 16, 2012, Petron International served to the Board of Directors of EMB a notice of mandatory take-over offer to acquire all the remaining 94,500,000 shares representing approximately 35% of the total voting shares of EMB. The cash offer price is Malaysian Ringgit 3.59 per share, subject to adjustments as specified in the notice of mandatory take-over offer and subsequently disclosed by EMB to the Malaysian Stock Exchange.

  The mandatory take-over offer was required under the laws of Malaysia governing listed corporations and resulted from the acquisition by Petron International of 175,500,000 EMB shares, representing approximately 65% of the voting shares of EMB.

  On March 30, 2012, Petron International completed the acquisition of 65% of EMB, 100% of EMMSB, and 100% of EMBSB for an aggregate purchase price of US$577.3 million.

- On January 27, 2012, GSMI acquired 100% of the outstanding capital stock of East Pacific Star Bottlers Phils Inc. ("EPSBPI") for ₱200 million.

- On March 16, 2012, the SEC approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company. These amendments pertain to the extension of the corporate term of the Parent Company for another fifty (50) years from August 21, 2013, and the change of the date of the annual regular meeting of the stockholders from second Tuesday of May to second Tuesday of June, as approved on the March 14, 2011 and June 7, 2011 meeting of the Board of Directors of the Parent Company and stockholders, respectively.

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

  The SMC Group recognized a net gain of ₱63 million from the sale.

- On February 23, 2012, the Parent Company through San Miguel (Vietnam) Co. Ltd. ("SMVCL") completed the sale of its building and land use rights located in the Amata Industrial Zone, Vietnam to PepsiCo International-Vietnam Company for US$12 million and recognized a gain amounting to ₱354 million.

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

  The SMC Group recognized a net gain of ₱26 million from the sale.

III. FINANCIAL PERFORMANCE FOR THE THREE MONTHS ENDED MARCH 31, 2012

2012 vs. 2011

The consolidated sales revenue of SMC for the first quarter of 2012 amounted to more than ₱ 142,039 million, 12% higher than last year. Most of the businesses posted revenue growth versus last year with increased volumes and selling prices. Correspondingly, March 2012 year-to-date consolidated operating income amounted to ₱14,841 million, 13% below last year as a result of lower margins for Petron and the food businesses resulting from higher fuel cost and higher cost of raw materials, respectively.

With the equity in net earnings of associates, particularly that of the Meralco, and foreign exchange gains, net of financing and other charges, March year-to-date 2012 resulting income before non-controlling interests amounted to ₱11,735 million, 17% above same period last year. Net income attributable to the equity holders of the Parent Company amounted to ₱8,477 million, 19% higher than last year.

2011 vs. 2010

The consolidated sales revenue of SMC for first quarter of 2011 amounted to ₱126,592 million, nearly three times higher than 2010's level. The consolidation of Petron and SMC Global Power brought in additional revenue of ₱78,893 million in the first quarter while most of the existing businesses showed revenue growth versus 2010. Correspondingly, first quarter 2011 consolidated operating income amounted to ₱17,135 million, almost three times higher than 2010 level.

Equity in net earnings of associates decreased in 2011 mainly due to consolidation of SMEC and SPDC, formerly associates of SMC in the first quarter of 2010, net share of SMC Global Power in net income of Meralco in the first quarter of 2011.

Net financing charges increased to ₱5,306 million from ₱1,081 million mainly due to higher debt balance in 2011 and the interest expense on finance lease liabilities of SMC Global Power.

With the equity in net earnings of associates, net of financing and other charges, the resulting consolidated net income attributable to equity holders of the Parent Company amounted to ₱ 7,138 million, more than twice that of 2010 net income.

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

1. BEVERAGES

2012 vs. 2011

a. SMB

The first quarter 2012 consolidated revenues of SMB reached more than ₱18,345 million, 5% higher than last year. This was achieved on sales volumes of about 55 million cases, 4% below year-ago level. March year-to-date 2012 selling prices were higher with the price increase in May 2011.

With controlled fixed costs of domestic beer and the significant improvement in beer international operating performance, consolidated operating income for the first quarter of 2012 ended at ₱5,299 million, 5% higher than last year.

b. GSMI

With soft demand for GSM Blue and Gran Matador, the hard liquor sales volume for the first quarter of 2012 reached only about 6 million cases, which volume is lower compared to last year. This resulted to a March year-to-date sales revenue of ₱3,659 million, 20% lower than 2011.

Although margin was better than last year due to the price increase implemented in April 2011, first three months consolidated operations resulted to an operating loss of ₱115 million.

2011 vs. 2010

a. SMB

The consolidated statement of income of SMB for the first quarter of 2011 reflects the financial performance of thedomestic and international businesses of SMB including Iconic Beverages Inc., Brewery Properties Inc. , SMBIL and the subsidiaries of Brewery Properties Inc. and SMBIL while the first quarter 2010 statement of income reflects the consolidated results of both domestic and international operations excluding Brewery Properties Inc. and its subsidiary.

SMB posted first quarter consolidated revenues at ₱17,530 million, 9% higher than 2010's level. This was due to volumes of about 56 million cases, surpassing 2010 level by 9%.

With increased volumes, consolidated operating income improved at ₱5,063 million, higher by 9% versus 2010.

b. GSMI

The 2011 first quarter consolidated sales revenue ended at ₱4,552 million, 18% below 2010 level. This is on hard liquor sales volume of about 8 million cases.
With lower domestic liquor volumes, first quarter consolidated operating income amounted to ₱85 million, significantly lower than 2010 level.

2. PACKAGING

2012 vs. 2011

March 2012 year-to-date sales revenue amounted to ₱5,850 million, 3% higher than last year. This is a result of higher domestic crates sales as well as increased metal can sales, particularly exports and continued higher sales volume of composites business. This translated to a consolidated operating income for the first quarter of 2012 of ₱511 million, 11% higher than last year.

2011 vs. 2010

March 2011 year-to-date sales revenue amounted to ₱5,678 million, 2% higher than in 2010. Increase in revenues was led by higher glass volume brought by new Australian and other export markets, new accounts for paper business and higher sales in the international operations.

However, due to higher cost of fuel, raw materials and competitive pricing in the export market, consolidated operating income amounted to ₱461 million, 8% lower than 2010.

3. FOOD

2012 vs. 2011

The consolidated revenues of SMPFC for the first quarter of 2012 was ₱22,399 million, 9% higher than last year. All domestic food clusters were able to grow their revenues from last year level with increased volumes led by the sustained strong volume performance of the value-added businesses and aided by better flour and feeds prices.

Consolidated operating income reached ₱659 million, significantly lower than 2011. This is on account of persistent high cost of raw materials, particularly wheat and corn, and lower supply of cassava – the lower cost corn-substitute.

2011 vs. 2010

For the first quarter, SMPFC posted consolidated revenues of ₱20,590 million, 10% higher than 2010. Significant volume growth was seen in poultry; basic meats; butter, milk and cheese; ice cream; coffee; and regional operations; while better prices were noted in the feeds and flour businesses.

Although higher cost of raw materials tempered margin growth, this did not prevent SMPFC from reaching consolidated operating income of ₱1,558 million, 15% greater than 2010. Largely driven by poultry, flour and value added meats businesses; the group continues to derive margin improvements from product innovations and higher operating efficiencies.

4. FUEL AND OIL

2012 vs. 2011

Petron delivered first quarter 2012 volumes of over 12 million barrels, 4% above last year as most products posted positive growth. Total domestic volumes rose to 8% resulting to an overall market share which increased to 38.5% - No. 1 in the local oil industry. At the same time, Dubai crude oil averaged US$116 per barrel in the first quarter of 2012 versus US$100

per barrel last year over the same period. With these, three months revenue reached ₱74,655 million, 17% higher than last year. However, with reduced petrochemical margins, and higher production costs, operating income for the first quarter of 2012 amounting to ₱4,618 million is significantly lower than last year.

2011 vs. 2010

Petron delivered first quarter revenues of ₱64,050 million, 15% higher than 2010. This was achieved with continued better selling prices on sales volume of 11.5 million barrels.

Correspondingly, year-to-date March 2011 operating income ended at ₱6,996 million, significantly higher than 2010.

5. ENERGY

2012 vs. 2011

The net generation from the power plants of SMC Global Power totaled almost 3.9 million megawatt hours (MWH) as of March 2012. This is 11% higher than the same period last year owing to the planned shutdown in 2011 for annual maintenance of the Ilijan Power Plant. Also, the San Roque Power Plant increased generation due to a 24-hour 95MW minimum load plant utilization, to comply with the requirement of the National Irrigation Administration.

With new bilateral contracts and improved average selling prices, consolidated revenues grew 19% over last year to reach ₱19,363 million. Aided by lower power purchase this year of the Ilijan Power Plant and higher spot market prices of the San Roque Power Plant, consolidated operating income increased by 46% to ₱4,958 million.

2011 vs. 2010

The four power plants – Sual Power Plant , Limay Power Plant, San Roque Power Plant and Ilijan Power Plant dispatched energy totaling 3.51 million megawatt hours as of March 2011. This is more than double of 2010 with the addition of the Ilijan Power Plant to the portfolio of SMC Global Power and increased generation of the Sual Power Plant. Consolidated revenue was 43% higher than 2010 at ₱16,329 million.

Despite lower WESM prices, consolidated operating income reached ₱3,399 million for the first quarter, 59% higher than 2010. This is mainly due to the increased generation of Sual plant given adequate coal inventory and better plant utilization coupled with the additional income contribution of the Ilijan Power Plant.

IV. FINANCIAL POSITION FOR THE THREE MONTHS ENDED MARCH 31, 2012

2012 vs. 2011

The consolidated total assets of SMC as of March 31, 2012 amounted to ₱976,854 million, 86,318 million higher than 2011, mainly due to the consolidation of ExxonMobil and proceeds from the net availments of long-term debt.

Cash and cash equivalents increased by ₱14,535 million in 2012 mainly due to the net availments of long-term debt and short-term loan, collection of noncurrent receivables from Petron Corporation Employee Retirement Plan , proceeds from sale of investments and property and equipment and net cash provided by operations, net of the acquisition of ExxonMobil and EPSBPI, major capital expenditures at the Petron refinery such as the RMP 2 and Refinery Solid Fuel Fired Power Plant, payment of dividends and finance lease liabilities and payment in full of liabilities related to the acquisition of Meralco shares of stock by SMC Global Power.

Trade and other receivables increased by ₱15,815 million in 2012 mainly due to the consolidation of ExxonMobil balance and dividend receivable from Meralco, net of the collection of December

2011 trade receivable balances and the return of the option deposit on the acquisition of the remaining 53.47% stake in AAI.

Inventories increased by ₱26,985 million in 2012 mainly due to the increase in volume and price of finished products and crude oil inventory of Petron and the consolidation of ExxonMobil balance.

Prepaid expenses and other current assets increased by ₱4,927 million in 2012 mainly due to the excess input tax over VAT payable of Petron and SMC Global Power and the consolidation of ExxonMobil balance.

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

Available-for-sale financial assets increased by ₱151 million in 2012 mainly due to the fair value adjustment of the investment in shares of stock of Indophil , net of the effect of translation adjustments for the period, net disposal of the available-for-sale financial assets of Petron for the period and fair value adjustments on other available-for-sale financial assets of the SMC Group.

Property, plant and equipment increased by ₱21,572 million in 2012 mainly due to the consolidation of ExxonMobil and EPSBPI balance and major capital projects at the refinery such as the RMP 2 and Refinery Solid Fuel Fired Power Plant of Petron, net of the depreciation for the period.

Goodwill increased by ₱10,709 million in 2012 mainly due to the recognition of goodwill upon the consolidation of ExxonMobil with Petron and EPSBPI with GSMI, net of translation adjustments during the period.

Deferred tax assets increased by ₱420 million mainly due to the recognition of deferred tax on Net Operating Loss Carry Over ("NOLCO") by the SMC and GSMI and the consolidation of ExxonMobil balance, net of the effect of recognition of deferred tax on foreign exchange gains of the Parent Company.

Other noncurrent assets decreased by ₱3,907 million in 2012 mainly due to the payment of noncurrent receivables made by PCERP, net of the consolidation of ExxonMobil balance.

Drafts and loans payable increased by ₱20,467 million in 2012 mainly due to the consolidation of ExxonMobil balance and the net availments made during the period to support the financial requirements of the operations of the SMC Group.

Accounts payable and accrued expenses increased by ₱22,578 million mainly due to the consolidation of ExxonMobil balance, net of the payment in full of the liability related to the acquisition of Meralco shares of stock by SMC Global Power.

The increase in income and other taxes payable of ₱1,799 million, represents the income tax due for the first quarter of 2011 of SMB, Petron and SMC Global Power and the consolidation of ExxonMobil balance.

Dividends payable decreased by ₱115 million mainly due to the payments made by SMYPC, SMYPIL and GSMI, which were outstanding as of December 31, 2011.

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

Long-term debt increased by ₱17,109 million in 2012 mainly due to the issuance of corporate notes by Petron and San Miguel Brewery Hong Kong and the consolidation of EPSBPI balance, net of payments made by Petron and SMYAC and translation adjustments for the period.

Deferred tax liabilities increased by ₱1,339 million in 2012 mainly due to the consolidation of ExxonMobil balance.

Finance lease liabilities decreased by ₱3,831 million mainly due to payments and foreign exchange gains, net of the recognition of effective interest for the period.

Other noncurrent liabilities increased by ₱997 million in 2012 mainly due to the consolidation of ExxonMobil balance.

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

Non-controlling interests increased by ₱20,297 million in 2012 mainly due to the recognition of non-controlling interests upon the consolidation of ExxonMobil, issuance of preferred shares by Petron Global Limited (BVI) and the share of non-controlling interests in the net income of mainly Petron, SMB and SMPFC, net of dividends declared.

2011 vs. 2010

The consolidated total assets of SMC Group as of March 31, 2011 amounted to ₱854,686 million, 24,886 million or 3% higher than 2010, mainly due to:

Inventories increased by ₱22,886 million in 2011 mainly due to increase in volume and price of crude oil inventory of Petron; early arrival of soybean meal shipment and increase in prices of feeds costs, wheat and meat materials of SMPFC; and increase in molasses and cassava chips inventory of GSMI.

Current biological assets increased by ₱326 million in 2011 due to the increase in volume of growing poultry livestock and hogs coupled with higher feed costs.

Prepaid expenses and other current assets increased by ₱1,869 million in 2011 mainly due to additional excess input tax of the Group.

AFS financial assets decreased by ₱875 million in 2011 mainly due to the fair value and translation adjustments of the investment in shares of stock of Indophil.

Drafts and loans payable decreased by ₱6,476 million in 2011 mainly due to payments made by Petron and the Parent Company.

Accounts payable and accrued expenses increased by ₱11,344 million in 2011 mainly due to increase in liabilities of Petron for: a) crude oil and petroleum product importation (due to higher cost and volume of crude importation in March 31, 2011) and b) purchases for the Petron refinery project, and reclassification to current portion of the amount due next year for the acquisition of Meralco shares of stock, net of payments made during the period.

Finance lease liabilities decreased by ₱1,249 million mainly due to payments made during the period and translation adjustments, net of interest expense for the period.

The increase in income and other taxes payable of ₱2,558 million, represents the income tax due for the first quarter of 2011 of SMC Global Power, SMB, Petron and SMPFC.

Dividends payable increased by ₱1,600 million in 2011 mainly due to a) the dividends payable of the Parent Company to its common shareholders (which was subsequently paid on April 11, 2011) and b) dividends payable of SMB to its non-controlling stockholders (which was subsequently paid on April 11, 2011), net of the dividends payable in 2010 subsequently paid by PF-Hormel in 2011 to its non-controlling stockholder.

Long-term debt increased by ₱11,508 million in 2011 mainly due to issuance of bonds by SMC Global Power, net of payments made by Petron, SMFBIL and GSMI and translation adjustments.

Deferred tax liabilities decreased by ₱1,764 million in 2011 mainly due to utilization of the deferred tax on the NOLCO by Petron and the recognition of deferred tax for the depreciation expense of SMC Global Power due to timing differences.

Other noncurrent liabilities decreased by ₱13,639 million in 2011 mainly due to reclassification to current liabilities of the amount due next year related to the acquisition of Meralco shares of stock.

Cumulative translation adjustments decreased by ₱484 million in 2011 mainly due to the translation of net assets of foreign subsidiaries. The exchange rates used for net assets in March 31, 2011 were ₱43.39 to US$1 (₱43.84 in December 31, 2010) and ₱43.785 to US$1 as of March 31, 2011 (₱45.996 as of March 31, 2010) for income and expense items.

Appropriated retained earnings increased by ₱929 million in 2011 mainly due to additional appropriation made by GSMI, for capital expenditures which include, among others, distillery replacement and maintenance projects and bottling plants building and equipment rehabilitation and maintenance.

Non-controlling interests increased by ₱16,382 million in 2011 mainly due to the preferred shares issued by SMPFC, which is presented as part of NCI, and share of non-controlling stockholders in the net income of SMB and Petron, net of dividends declared.

Equity

The increase (decrease) in equity is due to:

(In millions)	**March 31**	
	2012	2011
Addition to non-controlling interest	**₱19,154**	₱14,906
Income during the period	**11,735**	10,036
Issuance of capital stock	**79**	240
Effect of translation adjustments	**22**	(562)
Cash dividends	**(4,437)**	(3,616)
	₱26,553	₱21,004

V. SOURCES AND USES OF CASH FOR THE THREE MONTHS ENDED MARCH 31, 2012

A brief summary of cash flow movements is shown below:

(In millions)	**March 31**	
	2012	2011
Net cash flows provided by operating activities	**₱2,892**	₱3,893
Net cash flows used in investing activities	**(17,890)**	(18,228)
Net cash flows provided by financing activities	**29,768**	15,725

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

Net cash flows used in investing activities included the following:

(In millions)	**March 31**	
	2012	2011
Payment by (advances to) related parties	**₱7,574**	(₱1,506)
Proceeds from sale of investments and property and equipment	**2,036**	71
Interest received	**905**	1,481
Dividends received from associates	**362**	362

(In millions)	**March 31**	
	2012	2011
Additions to investments and advances	**(16)**	(840)
Payment of other liabilities	**(2,122)**	(14,082)
Additions to property, plant and equipment	**(8,012)**	(3,331)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(17,997)**	-
Increase in other noncurrent assets and others	**(620)**	(383)

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

(In millions)	**March 31**	
	2012	2011
Proceeds from long-term debt - net	**₱18,232**	₱12,155
Net proceeds from issuance of preferred shares	**14,406**	14,829
Proceeds from (payment of) short-term loans - net	**6,027**	(6,446)
Proceeds from issuance of capital stock	**5**	181
Payment of finance lease liabilities	**(4,350)**	(2,979)
Payments of dividends	**(4,552)**	(2,015)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱235 million) and (₱175 million) in March 31, 2012 and 2011, respectively.

VI. KEY PERFORMANCE INDICATORS FOR THE THREE MONTHS ENDED MARCH 31, 2012

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.

	MARCH 2012	December 2011
Liquidity:		
Current Ratio	**1.57**	1.61
Solvency:		
Debt to Equity Ratio	**2.00**	1.98
Asset to Equity Ratio	**3.00**	2.98
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**14.58%**	7.87%
Interest Rate Coverage Ratio	**3.02**	2.81

	Period Ended March 31	
	2012	2011
Operating Efficiency:		
Volume Growth (Decline)	**(1%)**	1%
Revenue Growth	**12%**	183%
Operating Margin	**10.45%**	13.54%

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

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

* *Annualized for quarterly reporting*

VII. FINANCIAL PERFORMANCE FOR THE PERIOD ENDING DECEMBER 31, 2011

Comparisons of key financial performance for the last three years are summarized in the following tables.

	YEARS ENDED DECEMBER 31		
	2011	2010	2009
		(In Millions)	
Sales	**₱535,775**	₱246,156	₱174,213
Gross Profit	**103,454**	72,227	49,918
Selling and Administrative Expenses	**(47,500)**	(37,619)	(30,249)
Financing Charges - Net	**(22,825)**	(13,555)	(1,937)
Equity in Net Earnings of Associates	**2,824**	6,817	2,816
Gain on Sale of Investments and Property and Equipment	**1,046**	529	50,630
Other Income (Charges) - Net	**(12)**	7,095	(6,843)
Net Income	**28,504**	24,056	60,629
Net Income Attributable to Equity Holders of the Parent Company	**17,518**	20,091	57,799

2011 vs. 2010

Consolidated sales revenue in 2011 reached ₱535,775 million, more than double the reported revenue in 2010. Steady growth derived from core businesses was complemented by a 63% contribution from the new businesses, specifically power and fuel and oil. Correspondingly, operating income grew 62% to ₱55,954 million. SMB, the packaging and the food businesses also helped with operating income growth of 10%, 8% and 4%, respectively.

The decrease in equity in net earnings of associates resulted from the consolidation of SMEC and SPDC on September 21, 2010 and of Petron on December 15, 2010, previously associates of the Parent Company.

With higher interest expenses and other financing charges and foreign exchange losses versus the gains recognized in 2010, the resulting consolidated net income before non-controlling interests for 2011 is ₱28,504 million, 18% higher than 2010. However, with much higher share of non-controlling interests in net income of the subsidiaries, particularly that of SMB, Petron and SMPFC, net income attributable to equity holders of the Parent Company ended at ₱17,518 million. Excluding one-off items, particularly the gain on acquisition of SMC Global Power Holdings Corp. (SMC Global Power) in 2010 and the gain on sale of Panasia Energy Holdings, Inc. (PanAsia) in 2011, the recurring net income attributable to equity holders of the Parent Company in 2011 amounted to ₱17,243 million, almost at par with 2010.

2010 vs. 2009

The consolidated sales revenue of the Company amounted to ₱246,156 million, 41% above 2009. The core businesses accounted for the 9% of the increase while the new businesses accounted for the remaining 32% increase. The power business which was consolidated starting third quarter brought in revenues amounting to ₱45,701 million or around 19% of the SMC Group's consolidated revenue. Most of the core businesses also delivered improved volumes in the last quarter of 2010.

Correspondingly, the consolidation of the power business brought in an additional ₱9,568 million in operating income. This resulted to a consolidated operating income of ₱34,608 million, 76% higher than 2009. Without the new businesses, the core businesses also did well registering 25% increase in operating income versus 2009.

The increase in equity in net earnings of associates resulted from the recognition of equity in net income of Meralco and of the following subsidiaries prior to consolidation: SMEC, SPDC and Petron.

Net financing charges increased in 2010 as a result of higher interest expense, attributable to higher average balances of drafts and loans payable and long-term debt in 2010 and the interest expense on SMC Global Power's finance lease liabilities.

Other income of ₱7,095 million in 2010, principally includes foreign exchange gains, gain on acquisition of a subsidiary and loss on impairment on the noncurrent assets of the China and Hong Kong operations of the SMC Group.

With other income from new investments, offset by higher net financing charges and higher income taxes, the resulting net income of the SMC Group attributable to equity holders of the Parent Company amounted to ₱20,091 million. Excluding one-off items, recurring net income attributable to equity holders of the Parent Company for 2010 is ₱17,078 million, more than double of last year's comparable net income.

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

2011 vs. 2010

BEVERAGE

SMB

For the Philippines' oldest and largest brewer, 2011 was another year of significant achievement in many important areas. SMB's growth strategies based on multi-value distribution and consumption-generating programs continued to deliver strong growth so that continuing profitable growth was enhanced for the majority of products in SMB's portfolio.

Total revenues grew 6% reaching ₱71,910 million with consolidated volumes of 223.8 million cases, 1% higher than 2010. Distribution remained SMB's key competitive advantage with volume generating initiatives further improving product availability among served outlets both domestically and overseas.

Operating income ended at ₱20,471 million, higher by 10%.

Beer Domestic

The domestic operations of SMB ended the year with a 5% revenue growth compared to the previous year, helped by a price increase implemented in May 2011 and higher volumes reaching 185 million cases, 1% higher than 2010.

The San Miguel brand continued to dominate the domestic market. Established volume - generating programs (Muziklaban, the National Beer Drinking contest, the Oktoberfest), numerous on-premise activations, sponsorship of major events and festivals, and consumer loyalty promotions all continued to work for the business raising its profile and strengthening brand loyalty. As a result, operating income grew 8% to ₱20,292 million.

Beer International

Revenues of beer international operations rose 16%, on the back of significant improvements in sales especially from North China, Hong Kong, Indonesia and exports. Higher volumes from these critical markets, largely offset lower volumes from South China, Vietnam and Thailand, allowing Beer International to register 5% growth in total international volume.

With these improvements and strong profitability in the brewery's Indonesian and exports operations, Beer International registered a very significant increase versus last year.

In South China, market conditions continued to be challenging, as competitors touted aggressive trade offers. While the South China operations continued to post negative operating results in 2011, there was considerable improvement over the previous year.

In response to intense market competition, Beer International embarked on a major business restructuring program that resulted in the integration of the sales and distribution teams of its local Dragon brand into the Guangzhou operations. The now purely brewing operation in Guangdong will also be developed as an exports production base and will focus on improving plant utilization, productivity and efficiency. South China operations also launched the new San Mig Light with an enhanced formula, new packaging design and new positioning in the market.

In North China, revenue and volume grew by 14% and 6%, respectively. Local brand Blue Star contributed 6% volume growth while SMPP likewise posted a 13% growth. The North China operations posted a significant recovery from last year's losses.

2011 was a very good year for Hong Kong operations as volume and revenue increased by 16% and 24%, respectively, a strong showing considering that the local beer industry grew only 2%. Against such a backdrop, the brewery further strengthened its position as the No. 1 beer company in Hong Kong in terms of volume with the flagship brand San Miguel at the forefront. San Mig Light chalked up impressive growth of 356% from its launch in 2010, while SMPP continued to build on its brand equity in sports. San Miguel Hong Kong Brewery also secured the exclusive distributorship of Budweiser and Harbin in Hong Kong, further strengthening its portfolio of brands and market dominance.

Operating performance likewise turned around from a loss in 2010, improving by 288%.

In Vietnam, revenues grew by 10% on account of better selling price due to an improvement in sales of San Miguel brands. Some of this headway however, was negated by the contraction of the Bia Hoi market.

PT Delta posted an 11% increase in volume, which translated to 23% revenue growth. Strong volume sales resulted from expansion programs implemented in primary cities across Indonesia. Operating income posted a 16% growth, despite the increase in excise tax, higher inflation affecting direct materials and payroll.

Thailand experienced widespread flooding across the country in the fourth quarter of the year, particularly in Bangkok and in its neighboring suburbs. This weighed heavily down on volumes, offsetting the gains registered in the first half of the year, bringing full year domestic volumes to a 7% decline versus last year.

Nevertheless, lower container, manufacturing supplies and freight, trucking and handling costs prevented a further drop in operating income.

Export revenues grew by a robust 26%, mainly due to strong volume sales which grew 23%. San Miguel brands performed well in Sudan, Singapore, Malaysia, Taiwan and Korea, and debuted in newly opened markets in Saudi Arabia, Zambia, Estonia and Timor Leste.

Liquor and Spirits

Amid the relentless pressure of competition and shifts in consumer preference, the hard liquor and soft beverages business of the Company under GSMI buckled under this highly competitive operating environment, turning in much lower volumes versus 2010. While GSMI's flagship Ginebra San Miguel gin held its ground and continued to be a strong contributor to the business, Gran Matador and GSM Blue trailed behind rival brands which managed to be first to market with lighter proof liquor products favored by younger consumers. GSMI responded to this challenge by way of launching Gran Matador Light and Antonov Mixed Drinks, managing to gain some lost ground in the last quarter of 2011, and successfully stemming the volume and revenue decline for the remainder of the year. Margins for GSMI were at par with last year as a price increase and lower bottle costs offset the adverse effects of higher excise taxes.

FOOD

SMPFC posted a record sales performance for 2011, with consolidated revenues reaching ₱ 89,591 million, 11% above last year's already strong showing. The double-digit growth was backed by strong volume sales and better average selling prices, surpassing 2010 levels across almost all business units.

The upward trend in raw material prices persisted in 2011, causing margin erosion throughout the business. Continuing efforts to rationalize low-margin products, stock-keeping units (SKU) and cost reduction programs, however, alleviated the margin squeeze, resulting to an operating income of ₱6,142 million, 4% better than 2010.

The sustained growth and profitability from the Food Group is hinged on its strategic programs on innovation, capacity expansion and efficiencies established in recent years.

Agro-Industrial

Integrated Agro-Industrial Zone. The Agro-Industrial cluster, which contributes 65% of SMPFC sales, posted a 5% revenue growth for 2011. The strong sales performance was driven by robust volume growth mainly from the poultry and basic meats sectors. However, high raw material prices continued to affect the business, resulting in a 29% operating income decline.

The commercial feeds revenue grew 8% compared to 2010, amidst volatile raw material prices and aggressive pricing stance of competition. The persistent increases in raw material prices and the inability of the market to absorb full cost deterred growth in operating profits.

The poultry business generated revenue growth of 10% on account of higher volumes and better selling prices, despite an industry oversupply of chicken which tempered price increases. Higher broiler costs and the increase in fixed costs due to the opening of additional Chicken Station outlets resulted to lower operating income.

SMFI fresh meats business' strong volume growth of 17% compensated for a decline in selling prices. Profits, however, were impacted by the higher cost of marketable hogs brought about by the increase in feed costs. As a result, in spite of a continuing drive to improve production efficiencies and effectively manage fixed costs, operating income was lower than the previous year.

Value-Added Businesses

Processed Meats. The value-added business of SMPFC did well in 2011, with a volume and revenue growth of 7% and 5%, respectively. Leading brands and products included TJ hotdog, PF Star hotdog, nuggets bacons, whole hams and corned meats. The business posted an impressive 43% increase in operating income helped by efforts to rationalize SKUs.

Milling

*Milling***.** The flour milling operation was affected by competition coming from lower-priced imported flour products. However, with better selling prices, revenue grew 17%. Operating income also managed to grow 16% despite rising wheat and freight costs.

Dairy and Others

Dairy, Oils & Fats. The Dairy, fats and oils business generated revenues that registered a stellar 23% increase from last year's level. Strong volumes and better selling prices across most product categories contributed to this strong showing. In spite of higher input costs, the segment registered 56% growth in operating income. Magnolia Ice Cream likewise posted considerable revenue and volume growths of 31% and 26%, respectively.

SMSCCI posted 32% revenue growth, with volumes growing 35%, the result of intensified distribution efforts. Operating income more than doubled compared to last year.

PACKAGING

The Packaging Group ended another solid year in 2011. Consolidated revenues reached ₱24,113 million, 3% higher than 2010, the result of continuing efforts to broaden reach both in the domestic and export markets. Bringing the packaging products overseas offers a new dimension to the business in 2011, exports from the domestic operations of the Packaging Group grew 36%. Revenue from the international operations of the Packaging Group accounted for 43% of the total, as lower demand from key customers, resulted in a 2% revenue growth from domestic operations. In spite of higher fuel and raw material costs and competitive pricing in overseas markets, operating income growth was sustained at 8%.

Glass. The glass segment, the largest segment of the Packaging Group with a 34% revenue contribution, posted ₱8,272 million in sales revenue, 9% above 2010 levels. Operating income for the segment surged 19%, reaching ₱1,443 million, the result of purposive cost-cutting measures such as working capital reduction, overhead expenses controls and efficiency improvements.

Metal. Metal business revenues amounted to ₱4,026 million. In 2011, customers from China, Hong Kong, Sri Lanka, the Middle East and Romania joined the business' list of clients.

Plastics. Driven largely by better selling prices, revenue of the plastics businesses reached ₱1,523 million, 12% above 2010 levels. Gross margins also improved by 25% from a year-ago, even as fixed costs ballooned due to higher depreciation. The result: operating income roughly at par with the prior year.

Paper. The paper segment, under Mindanao Corrugated Fibreboard, Inc. or Mincorr, registered revenue growth of 14% on account of higher sales volumes. Operating income likewise rose an impressive 64% due to successful utilization improvements and a decline in fixed costs.

PET. The PET business was severely hit by a drop in demand from key customers, registering much lower revenues compared to 2010. Cost management and containment initiatives allowed the business to minimize losses for 2011.

Flexibles. Flexibles volumes grew 24% to register revenue growth of 12%. 2011 marked a turnaround for the flexible packaging business.

Malaysia. SMYPC's Malaysian operations continued to contribute strongly to the overall business. Sales revenues increased 8%, with the woven segment contributing 6% volume growth and operating income grew 15% on account of lower fixed costs.

Cospak. The Australian trading arm of the Packaging Group, Cospak, continued to do well in 2011. Sales were strong, reaching ₱4,023 million and gross contribution likewise grew despite higher costs. Cospak continued to make a strategic contribution to the Packaging Group, enabling the Packaging Group to further grow its exports, allowing for better access to the growing Australian market.

PROPERTY

SMPI, the real estate arm of San Miguel Corporation, generated revenues of ₱844 million in 2011, higher by 43% versus 2010.

Residential subdivision projects in General Trias, Cavite and in Sta. Rosa, Laguna are in sellout status of its inventory and now positioning to generate fresh inventory. Townhouse developments in Pasig and Mandaluyong are on the drawing board and residential condominium is scheduled to rise along Pasay Road in Makati City. On the other hand, the on-going construction of the 29-storey serviced apartments at Legaspi St., Makati City is expected to be completed by 2014.

POWER GENERATION AND DISTRIBUTION

In a few short years, SMC has built a power company with a full spectrum of power plants and Independent Power Producer Administration (IPPA) contracts that are operated and maintained together with world class, independent power producers. Today, power subsidiary SMC Global Power, is one of the largest power companies in the country.

In January 2011, a US$300 million bond was issued in preparation for financing for future expansions. In September 2011, SMC Global Power also raised US$200 million from a syndicated loan. In August 2011, Limay power plant was sold to make room for capacity increases from new acquisitions through government biddings and construction of new plants.

With Sual, Ilijan and San Roque in the power portfolio, total capacity stood at 2,545 Megawatt Hours (MWH), 23% and 17% of the Luzon and national grid capacities, respectively.

Before the year ended, expiring contracts with customers were renewed. The Sual power plant was able to sign new customers, while Ilijan completed negotiations with Meralco, which remains the business' biggest customer.

2011 also saw the full-year effect of the power business's consolidation in the SMC group. And the year-end financial results bore out its positive contribution.

Total power generated reached 14,483 thousand MWH which brought revenues of ₱71,445 million and operating income of ₱16,720 million despite lower WESM prices during the year.

Sual Power Plant posted an 11% increase in revenues compared to 2010, mainly due to higher bilateral off-take volume and price. Margins improved to 29% from 21% in 2010 resulting from lower power purchase costs. Consequently, operating income grew by an impressive 51%.

Ilijan Power Plant under SPPC generated 7,964 thousand MWH in 2011, 90% above the 2010 figure covering operations starting June. Bilateral off-takes increased by approximately 110% resulting in an 81% revenue growth. Operating income growth at 35% was tempered by higher power purchased due to a 63-day planned outage which brought about higher power purchases.

Net generation volume of the San Roque Power Plant grew 77% to 1,041 thousand MWH due to abundant water supply in 2011. Operations were affected by the El Niño weather condition of 2010. Net capacity factor likewise improved to 34% from 21%. Accordingly, revenues increased by 17%. Operating income improved by 3% despite full year depreciation against 11 months in 2010.

FUEL AND OIL

Petron registered a good 2011 performance despite a challenging third quarter that saw weak demand brought about by higher fuel prices and aggressive competition particularly in the retail and industrial sectors.

Petron ended the year with consolidated revenues of ₱273,956 million, a significant 20% growth from last year. Lower domestic demand due to higher fuel prices and aggressive competition affected retail and industrial volumes, even as sales in petrochemical sales managed to remain buoyant. Margins grew, the result of a better product mix that included sales from high-margin petrochemical feed stocks such as propylene, benzene, toluene and mixed xylene.

In 2011, a refinery upgrade or the RMP2 plan was launched that will enable Petron to fully convert its residual products to higher-value gasoline, LPG, diesel and propylene. This ongoing project will allow Petron to further integrate high-margin products in the business mix. Petron has also embarked on the expansion of its distribution network. By year-end 2011, Petron has over 1,900 retail service stations, 16 car care centers and more than 700 LPG branch stores. Petron's ambitious modernization and expansion programs will result in better yields, more efficient production and optimized distribution.

Construction of a power plant in Limay, Bataan, which began in 2010, is still ongoing. The co-generation power plant adjacent to Petron's oil refinery will ensure reliable and economical steam and power supply for the business and provide Petron considerable cost savings. The first phase of this project is expected to be completed by the second half of 2012.

INFRASTRUCTURE

The infrastructure projects are well on track.

For the Boracay Airport, the rehabilitation of the existing terminal has been completed. The terminal fee has recently been increased to ₱200 which will help maintain the greatly improved facilities and services provided to visitors of this popular holiday spot. Meanwhile, Trans Aire Development Holdings Corp. (TADHC) is finalizing the technical plans related to the extension of the runway. Construction is expected to start by the third quarter.

For TPLEX, construction is on-going with the first phase nearing completion. We expect revenues to be coming in by the fourth quarter of 2012 as we start the operations of the 16-kilometer Tarlac-Gerona stretch.

On the other hand, the MRT 7 technical evaluation and other aspects related to the project are being jointly reviewed and discussed with the Department of Transportation and Communications and other pertinent government agencies. We expect the project's implementation to start within the year.

2010 vs. 2009

BEVERAGE

SMB

SMB's accelerated growth in 2010 owing to the strong economic recovery, election-related spending, an improving cost environment and stepped-up consumption-generating programs. Consolidated SMB sales revenue rose 6% to reach ₱67,575 million, while operating income increased to ₱18,551 million. This is on a consolidated beer volumes of about 221 million cases, 2% above 2009 level.

An important milestone for SMB included the acquisition of a 100% stake in San Miguel Brewing International Limited (SMBIL) in January 2010. In SMBIL, SMB has acquired a platform for its beer business in Southeast Asia and China. By integrating both the domestic and international beer businesses, SMB will improve the growth and returns of the business as a whole and broaden SMB's geographic participation, strengthening its brands and presence in the region.

Beer Domestic

SMB maintained its lead in the growing domestic beer market, directly attributable to SMB's outlet conversion and occasion-creation programs, and improved frequency of call and suggested retail price (SRP) campaigns. Comprehensive brand-building and off-take generating programs also strengthened preference and consumption of beer brands.
To capture the growing ranks of entry-point and female drinkers, SMB introduced San Miguel Alcoholic Malt Beverage in lemon and apple flavors through a soft launch in mid-December 2010. The new products have lower alcohol content relative to regular beers and are available in 330 ml bottles. All together, this robust performance generated stronger financial results in 2010. SMB domestic volumes reached an all-time high level of 183.6 million cases, representing a growth of 5.2% versus 2009 levels. Domestic sales revenue grew by 9.5% from the higher volumes and a price increase implemented in November 2009.

Beer International

In its international operations, the Brewery's exports business, Vietnam's core brands as well as Thailand's domestic operations performed strongly, with volumes significantly higher compared to 2009. These gains however were not enough to offset volume losses suffered in South China, Hong Kong and Indonesia. As a result, consolidated volumes for SMBIL fell 11% behind 2009.

In South China, sales of both Guangzhou San Miguel Brewery and San Miguel Guangdong Brewery remained sluggish due to aggressive trade offers of competitors and lower volumes from base markets Dongguan and Foshan markets, which continued to suffer from the lingering effects of the global recession.

In North China, Blue Star remains the leading beer brand in Baoding City. The North China operations of SMB posted a strong recovery in the last eight months of 2010, reversing the declining trend during the early part of the year. Volumes were slightly ahead versus 2009 by year-end driven by improvements in wholesaler channel management.

SMB retained its position as the leading player in the Hong Kong beer industry even as domestic volumes fell short in 2009. Premium brands continued to grow by double-digit in 2010 while exports nearly doubled versus 2009 volumes, bringing total production volumes 11% ahead of 2009.

Industry volumes in Indonesia were adversely affected by the tax restructuring, which significantly increased tax rates for beer products in 2010. PT Delta's Anker volumes fell, reflecting the industry's decline. On the other hand, core brands SMPP and San Mig Light did well, posting double-digit growth in 2010.

In Vietnam, San Miguel brands continued their growth momentum in 2010, growing by 20% compared to 2009, the result of greater outlet coverage, particularly in cities popular with tourists, and strong sales of SMB's draft beer variant.

Despite the political unrest in Thailand during the first half of 2010, the Thai unit of SMB was able to grow domestic volumes by 7% over 2009. Despite a decline in the total industry's Premium segment, sales were particularly good for San Mig Light and San Miguel Draught Beer. Volume growth for these brands was brought about by a focus on outlet penetration and an improvement in sales yields.

Beer export volumes surged by 15% versus 2009 fueled by incremental volumes from as yet untapped markets as well as sustained on-premise promotional activities in major markets such as Sudan, the Maldives, South Korea, the United States, Singapore and Malaysia.

Liquor and Spirits

GSMI ended 2010 with positive results, greatly surpassing the 2009's performance. Domestic liquor sales volumes reached 39.4 million cases, 7% higher than 2009 levels and a new all-time high record.

Flagship Ginebra San Miguel Gin and G.S.M. Blue were the main contributors to GSMI's volume growth. Marketing programs like "Blueniversity" and exposure in both traditional media and social media sites helped sustain the brand's popularity among younger drinkers. Ginebra San Miguel performed creditably, posting 11% growth. GSMI continues to provide the brand steady marketing support via the popular "Gin- U-Win 2" consumer promo. Vino Kulafu held its own in southern Philippines, with volumes rising markedly above the prior year. Owing to the decline in the overall brandy segment, sales of Gran Matador slid despite retaining its lead in the brandy market. To provide consumers choice, GSMI launched a lower-proof variant, Gran Matador Primo in late 2010.

GSMI's export sector performed strongly. GSMI's non-alcoholic beverage segment continues to face challenges owing to a weak beverage market.

Overall, GSMI's consolidated revenues for 2010 reached ₱22,688 million, 16% higher than 2009. Consolidated operating income stood at ₱1,519 million, a robust 40% over 2009 levels -the result of significant growth in the core liquor segments and exports. Losses from both Thai liquor and the non-alcoholic beverage sectors were also considerably lower than 2009.

FOOD

Full-year 2010 reflected the continuing success of the strategy of growing SMPFC's value-added sales with its branded poultry, flour, coffee and overseas operations all continuing to perform strongly in terms of volumes.

SMPFC ended 2010 with consolidated revenues of ₱80,418 million, 4% higher than 2009, largely on the back of sustained volume growth across the majority of its businesses. Cost pressures remained an issue as do lower selling prices for some food products, but in the aggregate, the Food Group has managed to offset these pressures by pricing actions, new product launches and strong promotional activities. Efforts to raise operating efficiencies over the years, complemented by lower costs of critical raw materials in poultry, basic meats, flour and dairy, translated into higher profitability -enabling SMPFC to post an operating income that was 30% above 2009 at ₱ 5,906 million.

Agro-Industrial Cluster

Integrated Agro-Industrial Zone. SMFI's poultry business, the SMPFC biggest revenue contributor, posted a 9% increase in sales for 2010 driven primarily by a 13% growth in poultry volumes even as a glut in industry broiler supply resulted in lower average selling prices. In terms of broiler performance, it was a banner year for SMFI with all-time record highs in operational efficiencies. Better efficiencies and reduced costs resulted in a 5% rise in poultry's operating profits for 2010.

The numerous market challenges bearing down on business profitability on SMFI's feeds business; i.e., increasing farm inputs, surging raw material prices, threats of animal disease, and weather disturbances, stood Feeds' operating income lower than 2009 performance. The continued use of raw material substitutes like cassava is being intensified to help manage direct material costs.

Improved efficiencies contributed to SMFI's basic meats business' operating profits, reversing 2009's loss. This strong showing offset lower volumes and revenues.

Value-Added Businesses

Processed Meats. Sales volumes of the value-added or processed meats business under the Purefoods-Hormel Company, Inc. (PF – Hormel) grew by 1% despite capacity issues resulting from the permanent closure of PF – Hormel's Marikina plant towards the end of 2009. Core brands such as TJ Hotdogs continue to maintain market share through a combination of innovation and advertising, supported by strong promotional campaigns. The result was an improved sales mix and revenue growth of 2% even though prices of major raw materials continued to weigh down the business. To improve profitability, PF – Hormel focused on high margin products and worked at raising production efficiencies.

Milling

*Milling***.** The Food Group's flour business under SMMI continued its strong year-on-year performance, with better operating margins versus 2009 helped by lower wheat and operating costs. Flour volumes grew by 7% amid competition from other local flour manufacturers and flour imports. Revenues dropped 3% due to lower selling prices, an offshoot of better global wheat prices.

Dairy and Others

Dairy, Oils & Fats. The Dairy, Spreads and Oils Business under Magnolia turned in another record breaking year in operating profits, largely the result of sustained operational efficiencies, and effective portfolio management on top of favorable input costs. Total revenue was 4% better than 2009 levels primarily driven by volume growth and higher average selling prices for Magnolia's butter, cheese, oil and ice cream categories.

SMSCCI's revenues topped 2009 by 17%, resulting in a significant improvement in operating profits.

PACKAGING

The Packaging Group had a strong year in 2010, with the PET and paper businesses in particular showing robust profit growth. Including the consolidation of Australian trading company, Cospak, the Packaging Group generated revenue of ₱23,438 million, 19% higher than 2009. Likewise, operating income for the group reached ₱1,999 million, 26% above 2009, on account of lower raw material costs.

Glass. Sales revenues of the glass business reached ₱7,615 million in 2010, mainly attributable to volume sales to the Coca-Cola Bottlers Group ("CCBG") and GSMI. Other customers contributing to revenue were SMB, pharmaceutical company United Laboratories and Cospak. 2010 marked the successful commercial delivery by the Packaging Group of the first flint and antique green wine bottles to customers in Australia.

Metal. For metal operations of the Packaging Group, sales revenues amounted to ₱4,276 million, mainly from sales of crowns to SMB and CCBG, metal caps to GSMI and roll-on-pilfer-proof caps to CCBG and Bickford's. For the second year running, the metal container plant of the Packaging Group bagged the Best Two-Piece Can Award in the Asia CanTech 2010.

Plastics. For the plastics business, higher sales of regrinds, pallets and crates pushed sales revenue to reach ₱1,361 million, at par versus 2009 level. In 2010, the plastics business launched its four-liter paint buckets for leading paint maker, Boysen, and developed the flexi-pallet, eight-piece pallet molds and the patented Suretube of the Packaging Group for customers in the pharmaceutical and personal care industries.

Paper. The paper business posted sales revenue of ₱1,440 million for 2010. Nestle Philippines was a major customer as were customers from the fresh produce segment.

PET. Driven by higher volume sales to CCBG and Del Monte, the Packaging Group's PET operations' sales revenue of ₱1,960 million was 12% above 2009. Preform sales to CCBG were also strong. The PET business introduced 38 mm caps and preforms for Pepsi as well as the amorphous neck finish preforms and 1-liter hot fill bottle for Del Monte.

Flexibles. Rightpak's sales served Nestle Philippines, SMFI, Alaska and Del Monte resulting in sales revenue of ₱647 million, 12% higher than 2009's level.

Malaysia. The sales revenue of the Malaysia operations of the Packaging Group of ₱3,075 million was 9% better than 2009.

Cospak. Through synergy between SMYPC and Cospak, new multi-year contracts were secured with major Australian customers such as General Mills, Gage Roads, Amcor Glass and Bickford's. At the end of 2010, Cospak's sales revenue totaled ₱3,698 million.

PROPERTY

Election-related spending and overseas Filipino workers remittances resulted in more reservation sales take-up for SMPI existing projects. However, due to depleting inventory and implementation of stringent measures to ensure the creditworthiness of buyers, SMPI residential sales dipped by 29%. The policy of requiring buyers' equity prior to loan releases also affected SMPI's booked sales.

SMPI implemented an aggressive marketing campaign that led to the re-launch of SMPI and its existing projects. Operating expenses grew 28% as SMPI invested in advertising and promotions

to raise the profile of existing projects and its newest development, Asian Leaf, an eight-hectare horizontal development located at General Trias, Cavite.

Despite achieving a 100% building occupancy rate at San Miguel Properties Centre, rental revenue declined by 10% following the sale of over five floors to Bank of Commerce.

SMPI is looking to expand in such growth areas as asset management services for the entire San Miguel Group and the introduction of mid-rise walk-up condominium developments to meet the residential needs of the middle-income market.

POWER GENERATION AND DISTRIBUTION

SMC Global Power is San Miguel's holding firm for all power-related units such as SMEC, SPDC and SPPC and PanAsia, which in turn own the 620-megawatt Limay combined-cycle power plant and manage the IPP Administration contracts of three power plants—the 1,200-megawatt Ilijan natural gas-fired power plant IPP Administration; 1,200-megawatt Sual coalfired power plant IPP Administration, and the 345-megawatt San Roque hydroelectric power plant IPP Administration. The power companies were consolidated into San Miguel during the third quarter of 2010 following SMC's subscription of 75% of the shares and voting interests of Global 5000 Investment Inc. and its acquisition of the remaining 25% stake from existing shareholders.

In February 2011, San Miguel's power business successfully completed its US$300 million, five-year benchmark US dollar bond at a 7% yield. SMC Global Power plans to use the proceeds to finance investments in other power-related assets, finance payment or, subject to negotiation with the Power Sector Assets and Liabilities Management Corporation (PSALM), prepay the obligations, and/or for general corporate purposes. SMC's four power plants—Sual, Limay, San Roque and Ilijan—generated an estimated 11.1 million megawatt hours in 2010. The revenue and operating income contribution of the power generation and distribution business to the SMC Group upon consolidation up to December 31, 2010 amounted to ₱45,701 million and ₱9,568 million, respectively.

VIII. FINANCIAL POSITION FOR THE PERIOD ENDING DECEMBER 31, 2011

2011 vs. 2010

The SMC Group's consolidated total assets as of December 2011 amounted to ₱890,536 million, ₱60,736 million higher than 2010. This is basically due to the increase in investments and advances, property, plant and equipment and certain current assets.

Below were the major developments in 2011:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

FOOD

- **Golden Food and Dairy Creamery Corporation**
  In September 2011, Magnolia, a wholly-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in GFDCC, a Philippine company engaged in the toll manufacturing of ice cream products.

- **Golden Bay Grain Terminal Corporation**
  In September 2011, the Parent Company, through SMMI, a wholly-owned subsidiary of SMPFC, incorporated GBGTC with an authorized capital stock of ₱2,000 million. GBGTC is a Philippine company with the primary purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others. In November 2011, following the approval by SEC of the incorporation of GBGTC, SMMI subscribed to 5,000,000 GBGTC shares for a total subscription

value of ₱500 million and paid an initial consideration amounting to ₱125 million. As of March 28, 2012, GBGTC has not yet started commercial operations.

POWER AND MINING

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

  In 2011, the SMC Group recognized a gain of ₱278 million for the said sale.

- **San Miguel Electric Corp. ("SMELCO")**
  On February 8, 2011, the Parent Company incorporated SMELCO, a wholly-owned subsidiary, with an authorized capital stock of ₱1,000 million divided into 10,000,000 shares and paid-up capital of ₱250 million. On August 22, 2011, SMELCO was granted a Retail Electricity Supplier (RES) license by the Energy Regulatory Commission pursuant to Section 29 of Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001. A RES license is needed to participate in retail sales and enter into off take agreements with contestable customers or those with power requirements of at least 1MW upon the implementation of Open Access and Retail Competition, which is scheduled in 2012.

  On August 31, 2011, the Parent Company sold its 100% shareholdings in SMELCO to SMC Global Power for ₱250 million.

TELECOMMUNICATIONS

- **San Miguel Equity Securities, Inc.**
  On March 28, 2011, the Parent Company incorporated SMESI, a wholly-owned subsidiary, with an initial authorized capital stock of ₱100 million divided into 100,000,000 shares and paid-up capital of ₱25 million.

- **Eastern Telecommunications Philippines, Inc.**
  On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, executed a Share Purchase Agreement with ISM Communications Corporation (ISM Corp.), for the purchase of 37.7% of the outstanding and issued shares of stock of ETPI for ₱1,508 million. The acquisition of ETPI was authorized by the BOD of the Parent Company during meetings held on December 16, 2010 and September 22, 2011.

  With the acquisition of the 37.7% by SMESI and of the 40% ownership by A.G.N. Philippines, Inc. (AGNP), the Parent Company obtained control and consolidated ETPI effective October 20, 2011.

PROPERTIES

- **SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC)**
  On July 5, 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all of its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of ₱399 million, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

OTHERS

- **Keppel Cebu Shipyard Land, Inc. (KCSLI)**
  On May 26, 2011, SMC Shipping and Lighterage Corporation (SMCSLC) executed an Asset and Share Purchase Agreement relating to the purchase of 100% of the issued shares of KCSLI for ₱ 826 million through which SMCSLC obtained an indirect ownership over a parcel of land and of certain fixed assets and foreshore leases and land rights.

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

- **San Miguel Equity Investments Inc.**
  On March 23, 2011, the Parent Company incorporated SMEII, a wholly-owned subsidiary, with an initial authorized capital stock of ₱100 million divided into 100,000,000 shares and paid-up capital of ₱25 million.

INVESTMENTS IN ASSOCIATES

- **Atlantic Aurum Investments BV**
  On October 11, 2011, the Parent Company through its wholly-owned subsidiary SMHC, entered into a Sale and Purchase Agreement of Shares with PT Matra Sarana Arsitama, a corporation organized and existing under the laws of the Republic of Indonesia, for the purchase of 16,022,041 Class B common shares, representing 46.53% of the outstanding capital stock of AAI for US$132 million or ₱5,871 million. AAI has indirect equity interests in the companies holding the concessions to construct, operate and maintain the South Luzon Expressway Project.

  On December 29, 2011, SMHC entered into an Option Agreement with Padma Fund L.P. (Padma), a corporation organized and existing under the laws of Cayman Island, for the option to purchase up to 53.47% of the outstanding capital stock of AAI, comprising of 47,369 Class A common shares and 18,364,461 Class B common shares. SMHC paid US$40 million or ₱1,754 million as option deposit for the option to purchase the shares. SMHC has the option to purchase the shares for a period of 25 calendar days from the execution of the Option Agreement or until January 23, 2012, or such date as may be agreed upon by the Parties in writing. The option deposit shall be returned upon the issuance of a written notice by SMHC confirming that the option shall not be exercised.

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

- **Meralco**

  On August 12, 2011, the BOD of the Parent Company approved the sale of a portion of its investment in Meralco to SMPFC, comprising of 59,090,909 common shares or approximately 5.2% of the outstanding capital stock of Meralco as of December 31, 2010 at ₱220.00 per share. The purchase price of the shares was based on the average trading price of Meralco shares for the period from January 1 to July 31, 2011, with a discount of 12%.

  In January and August 2011, the Parent Company paid in full the remaining balance of its liability related to the acquisition of Meralco shares of stock from GSIS amounting to an aggregate of ₱ 21,909 million.

  In January 2011, SMC Global Power paid the Development Bank of the Philippines and the Social Security System ₱2,575 million, related to the acquisition of Meralco shares of stock and paid in full the remaining balance of its payable on January 31, 2012.

- **Limay Energen Corporation ("LEC")**

  On August 3, 2010, Petron together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of ₱3,400 million. Out of its authorized capitalization, ₱850 million has been subscribed, of which ₱213 million has been paid-up by Petron. Petron owns 40% of LEC, while Two San Isidro owns the remaining 60%. In 2011, Petron infused ₱ 1,147 million to LEC to fully pay its 40% equity share.

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

- **Manila North Harbour Port Inc.**
  On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI. As of December 31, 2011, the cost of investment in MNHPI amounted to ₱691 million.

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

- **Private Infra Dev Corporation**
  On September 12, 2011, Rapid Thoroughfares Inc. advanced ₱1,111 million as deposit for future stock subscription to 1,111,228 common shares of PIDC. One of the conditions for the issuance of the subscribed shares of Rapid Thoroughfares Inc. is the approval of the SEC of the increase in the authorized capital stock of PIDC. As of December 31, 2011, the approval by the SEC has not yet been obtained.

- **Telecom Company**
  In 2011, Vega Telecom, Inc. (Vega) provided non-interest bearing cash advances to a telecom company, a future investee, amounting to ₱5,958 million as of December 31, 2011.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

- **Indophil Resources NL**
  As of December 31, 2011, Coastal View Exploration Corporation (Coastal View) stake in Indophil has been diluted to 3.99% as a result of the additional shares issuances made by Indophil.

ASSETS HELD FOR SALE

- **San Miguel (Thailand) Co. Ltd. ("SMTCL")**
  On December 7, 2011, the Parent Company through San Miguel Foods and Beverage International Limited (SMFBIL), signed a Share Sale and Purchase Agreement to sell all its outstanding shares in SMTCL to Pepsi Thai Trading Co., for a purchase price of US$35 million. The sale was completed on February 15, 2012.

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

- **San Miguel (Vietnam) Co. Ltd. ("SMVCL")**
  Included in the "Assets held for sale" account presented in the consolidated statement of financial position as of December 31, 2011, are building and land use rights of SMVCL in Amata Industrial Zone in Vietnam amounting to ₱168 million, which were sold to Pepsico International - Vietnam Company on February 23, 2012.

BORROWINGS AND EQUITY TRANSACTIONS

- **Sale of Common Shares of the Parent Company and Issuance of Exchangeable Bonds**
  On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from treasury stock of the Parent Company and 82,740,000 common shares of Top Frontier. In addition, Top Frontier sold to ATR Kim Eng Capital Partners, Inc., BDO

Capital & Investment Corporation and SB Capital Investment Corporation an additional 27,580,000 Offer Shares. The Parent Company likewise granted Credit Suisse (Singapore) Pte., Standard Chartered Securities (Singapore) Pte. Limited, Goldman Sachs (Singapore) Pte., and UBS AG an option, exercisable in whole or in part for thirty days from the date of allotment of Offer Shares in the international offer, to procure purchasers for up to 7,880,000 additional Common Shares, solely to cover over-allotments under the Offer, if any. The 7,880,000 common shares which were not utilized were reverted to treasury shares. The Offer Shares were priced at ₱110.00 per share on April 20, 2011.

Also on May 5, 2011, US$600 million worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the Singapore Stock Exchange. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds will be exchangeable for common shares from the treasury stock of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into Common Shares is ₱137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of ₱113.24 per share. Subsequently on December 8, 2011, 612,361 common shares of stock of the Parent Company were transacted and crossed at the Philippine Stock Exchange (PSE) via a special block sale in relation to the issuance of common shares pursuant to the US$600 exchangeable bonds of the Parent Company. As of December 31, 2011, P87 worth of exchangeable bonds were already exchanged to equity into common shares.

- **Issuance of Bonds by SMC Global Power**
  On January 28, 2011, SMC Global Power carried out a US$300 million, 7%, 5 year bond issue under Regulations of the U.S. Securities Act of 1933, as amended. The bond issue was listed on the Singapore Exchange Securities Trading Limited.

- **Draw Down by SMC Global Power of the US$200 Million Medium Term Loan**
  On September 30, 2011, SMC Global Power has drawn a US$200 million, syndicated 3-year term loan facility. Pursuant to the Facility Agreement signed on March 31, 2011, the amount of the loan drawn will bear interest at the rate of the London interbank offered rate plus a margin, payable in arrears on the last day of the interest period. The facility agreement has a final maturity date of September 2014.

- **Issuance and Listing of Preferred Shares by San Miguel Pure Foods Company, Inc.**
  On January 20, 2011, the SEC favorably considered SMPFC's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of ₱10.00 per share.

  On January 26, 2011, the PSE approved, subject to certain conditions, the application of the SMPFC to list up to 15,000,000 preferred shares with a par value of ₱10.00 per share to cover the SMPFC's follow-on preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

  On February 10, 2011, the SEC issued the order for the registration of SMPFC's 15,000,000 preferred shares with a par value of ₱10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

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

  On March 3, 2011, SMPFC's 15,000,000 preferred shares with par value of ₱10.00 per share were listed with the PSE.

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

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

- **Board of Directors Approval on the Issuance of Bonds by SMB**

  On October 11, 2011 the Board of Directors of SMB approved the issuance of fixed rate peso-denominated bonds in the aggregate principal amount of up to ₱20,000 million (the "Bonds"). The proceeds thereof will be used to refinance the Series A Bonds issued by SMB in 2009, which are maturing in 2012. The BOD has also delegated to management the authority to determine, negotiate and finalize the terms and conditions of the issuance, including the interest rate and listing thereof.

  Subsequently, on February 7, 2012 further to the approval by BOD of the issuance by SMB of the Bonds in October 2011, the BOD also approved the use of proceeds of the Bonds for the prepayment of the USD Facility, which will mature in 2015. On March 13, 2012, the BOD of SMB also approved among others the interest rate of the Bonds.

  Pursuant to the above approvals, SMB offered for subscription the Bonds on March 19 to 23, 2012. The Bonds were issued on April 2, 2012 at the issue price of 100.00% of face value in three series: Series D Bonds, Series E Bonds, and Series F Bonds. The Series D Bonds shall have a term beginning on the Issue Date and ending five years and one day from the Issue Date or on April 3, 2017, with a fixed interest rate equivalent to 6.05% per annum. The Series E Bonds shall have a term beginning on the Issue Date and ending seven years from the Issue Date or on April 2, 2019, with fixed interest rate equivalent to 5.93% per annum. The Series F Bonds shall have a term beginning on the Issue Date and ending ten years from the Issue Date or on April 2, 2022, with a fixed interest rate equivalent to 6.60% per annum. Interest in Series D Bonds, Series E Bonds and Series F Bonds shall be payable semi-annually in arrears on April 2 and October 2 of each year, or the subsequent business day without adjustment if such interest payment date is not a business day, while the Bonds are outstanding, provided that the first interest payment date for the Series D Bonds shall be on October 3, 2012 (or the subsequent business day if such date is not a business day).

OTHERS

- **Payment of the Balance of the Purchase Price of Vietnam Food Business**

  In May 2011, SMPFC increased its investment in San Miguel Pure Foods International, Limited ("SMPFIL") by an amount equivalent to the 90% balance of the purchase price of San Miguel Pure Foods (Vn) Co. Ltd. ("SMPFVN") acquired by SMPFIL from SMFBIL. Subsequently, SMPFIL paid US$16.8 million, the remaining balance of the purchase price of the Vietnam food business.

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

- **Declaration of Cash Dividend by Top Frontier Investment Holdings, Inc.**
  On February 10, May 23 and December 29, 2011, the Parent Company received cash dividends on its preferred shares in Top Frontier amounting to ₱139.50 per share or a total of ₱1,087 million.

- **Exercise of Option to Purchase from Q-Tech Alliance Holdings, Inc. a 12.9% Equity Interest in SMC by Top Frontier**

  On March 16, 2011, Top Frontier exercised its option to purchase from Q-Tech a 12.9% equity interest in the Parent Company which increased Top Frontier's equity interest in the Parent Company's issued and outstanding common shares of stock to 67.2%.

- **Sale of SMC Shares by Top Frontier**

  On December 1, 2011 Top Frontier sold 9,000,000 SMC common shares transacted through the PSE.

As of December 31, 2011, Top Frontier had total shareholdings of 1,447,865,673 common shares of the Parent Company or equivalent to 61.12% ownership interest. Out of the 1,447,865,673 common shares of the Parent Company held by Top Frontier as of December 31, 2011, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

2010 vs. 2009

The SMC Group's consolidated total assets as of December 2010 amounted to ₱829,800 million, ₱391,309 million higher than 2009. This is basically due to the consolidation of the power assets and the year-end consolidation of Petron, combined with the increase in investments and advances.

Below were the major developments in 2010:

BUSINESS COMBINATIONS

POWER AND MINING

- **Strategic Power Devt. Corp.**

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

  On March 15, 2010, the Parent Company and SMC Global Power executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SPDC. Prior to the subscription, the Parent Company beneficially owned the 2,500 subscribed common stock of SPDC, representing 100% ownership interest. On March 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPDC amounting to ₱0.1875 million.

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

- **South Premiere Power Corp.**

  On May 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPPC amounting to ₱0.1875 million.

- **SMC Global Power Holdings Corp.**

  On August 9, 2010, the Parent Company obtained control of SMC Global Power, an entity whose subsidiaries are primarily engaged in the production of electricity and mining, by acquiring 75% of the shares.

  In September 3 and 8, 2010, the Parent Company acquired the remaining 25% ownership in SMC Global Power, making it a wholly-owned subsidiary.

  On May 17, 2010, the BOD of the Parent Company approved the sale of its entire 40% ownership interest in SMEC and SPDC and 100% ownership in PanAsia and SPPC. On September 21, 2010, the Parent Company and SMC Global Power executed Deed of Absolute Sale of Shares whereby the former's entire interest in SMEC, PanAsia, SPPC and SPDC were sold for a total price of ₱7.15 million. Following such sale, SMEC, PanAsia, SPPC and SPDC became wholly-owned subsidiaries of SMC Global Power.

- **Mining (thru San Miguel Energy Corporation)**

  - **Sultan Energy Phils. Corp. (SEPC)**

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

  - **Daguma Agro Minerals, Inc. (DAMI)**

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

  - **Bonanza Energy Resources, Inc. (BERI)**

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

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

    As of December 31, 2010, SEPC, DAMI and BERI are in the exploratory stages of their mining activities.

FUEL AND OIL

- **Sea Refinery Corporation and Petron**

  The Parent Company entered into an option agreement with SEA Refinery Holdings B.V. (SEA BV) (the "Option Agreement") dated December 24, 2008, as amended on March 4, 2010, pursuant to which SEA BV granted to the Parent Company an option to acquire and purchase up to 100% of its interests in SEA BV's wholly-owned subsidiary, SRC, consisting of: (i) 16,000,000 common shares of SRC, representing 40% of the outstanding common shares of SRC on or before April 30, 2010; and (ii) 24,000,000 common shares of SRC, representing 60% of the outstanding common shares of SRC on or before December 23, 2010. SRC owns 4,696,885,564 common shares of Petron (representing approximately 50.1% of the outstanding common shares of Petron). The Parent Company conducted a tender offer as a result of its intention to exercise the option to acquire 100% of SRC from SEA BV. The tender offer period ended on June 2, 2010 and a total of the 184,702,538 Petron common shares tendered were crossed at the PSE on June 8, 2010, which is equivalent to approximately 1.97% of the issued and outstanding common shares of Petron.

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

On August 31, 2010, the Parent Company purchased an additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE. Said shares comprise approximately 16.19% of the outstanding common shares of Petron.

On October 18, 2010, the Parent Company also acquired from the public a total of 530,624 common shares of Petron, representing approximately 0.01% of the outstanding common shares of Petron.

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

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

(In millions)	2010
Cash	₱33,323
Equity interest held before business combination	16,720
Total consideration transferred:	50,043
Non-controlling interest measured at proportionate interest in identifiable net assets	23,750
Total identifiable net assets at fair value	(51,768)
Goodwill	**₱22,025**

The non-controlling interest measured at proportionate interest in identifiable net assets is broken down as follows:

(In millions)	2010
Net assets of Petron	₱52,758
Less: preferred shares	(9,864)
	42,884
Non-controlling interest (100%-68.26)	31.74%
Non-controlling interst on the net assets	13,612
Preferred shares of Petron	9,864
Non-controlling interest per own books of Petron	274
Total non-controlling interest measured at proportionate interest in identifiable net asstes	**₱23,750**

INFRASTRUCTURE

- **Trans Aire Development Holdings Corp. - Caticlan Airport**

On April 8, 2010, the Parent Company, through its wholly-owned subsidiary, San Miguel Holdings Corp. (SMHC), executed a share sale purchase agreement relating to the purchase by SMHC of the rights, title and interests to a total of 2,025,000 common shares in Caticlan International Airport Development Corp. (CIADC) (the "CIADC Shares"). On April 29, 2010, Deeds of Assignment of Shares were executed covering the CIADC Shares. CIADC holds the exclusive rights, obligations and privileges to finance, design, construct, operate and maintain the Caticlan Airport by virtue of the Concession Agreement, dated June 22, 2009, with the ROP, through the DOTC and the Civil Aviation Authority.

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

- **Universal LRT Corporation (BVI) Limited - MRT 7 Project (ULC BVI)**

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

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

TELECOMMUNICATIONS

- **Two Cassandra – CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC), Power Smart Capital Limited (PSCL)**

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

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

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

- **AGNP**

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

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

PROPERTIES

- **SMPI-Government Service Insurance System Joint Venture Corporation ("SMPI-GSIS JVC")**

  On October 31, 2007, the Parent Company through SMPI entered into a Joint Venture Agreement (JVA) with Government Service Insurance System (GSIS) to establish the SMPI-GSIS JVC. The SMPI-GSIS JVC will hold ownership and title to the real property owned by GSIS, develop the property into a first class high-rise service apartment and manage and operate the same. The SMPI-GSIS JVC will have an authorized capital stock of ₱600 million divided into 600,000,000 shares with a par value of ₱1.00 per share. The parties agreed to an equal equity participation wherein the real estate property owned by GSIS is valued at ₱300 million while SMPI has committed to contribute ₱300 million to the SMPI-GSIS JVC. On October 23, 2008, SMPI-GSIS JVC was incorporated.

In 2010, the Articles of Incorporation of SMPI-GSIS JVC was amended accordingly to reflect the increase in its authorized capital stock from ₱600 million divided into 600,000,000 shares to ₱625 million divided into 625,000,000 shares, both with par value of ₱1.00. SMPI then completed the acquisition of the 52% equity ownership in SMPI-GSIS JVC by assigning its 100% equity ownership in Maison 17 Properties (MPI), one of its wholly-owned subsidiaries, plus additional cash consideration of ₱181 million, which is in accordance with the JVA. After this transaction MPI became a wholly-owned subsidiary of SMPI-GSIS JVC.

INVESTMENTS IN ASSOCIATES

On January 6, 2010, the Parent Company acquired a 49% stake via equity infusion in Top Frontier consisting of its subscription to 2,401,960 common shares of Top Frontier from its unissued capital stock. On January 7, 2010, the Parent Company paid ₱48,324 million as deposit for future subscription in connection with the option granted to the Parent Company to apply the same to the subscription of 2,598,040 non-voting, redeemable, participating preferred shares of Top Frontier upon the increase in its authorized capital stock, amendment of its Articles of Incorporation and Top Frontier's compliance with its obligations related to the aforementioned investment.

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

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

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

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

- **Meralco**

  On August 9, 2010, the beneficial interest of the Parent Company in Meralco increased by 6.19% upon acquisition of SMC Global Power, which owns 69,059,538 common shares of Meralco for a total consideration of ₱7,063 million, inclusive of transaction costs of ₱46 million.

- **Liberty Telecoms Holdings, Inc.**

  In 2009, the Parent Company, through its wholly-owned subsidiary, Vega, acquired 579,111,669 common shares of LTHI from LTHI's existing stockholders for ₱2,041 million.

  On July 21, 2009, Vega entered into a subscription agreement with LTHI for the subscription of 587,951,737 voting, nonredeemable and participating preferred shares of LTHI for ₱1,764 million. As of December 31, 2010, Vega has fully paid the said subscription.

  On October 5, 2010, Vega also acquired from the public a total of 64,589,000 common shares of LTHI amounting to ₱221 million, representing approximately 2.18% of the outstanding capital stock of LTHI.

- **Bank of Commerce**

  In 2010, SMPI management decided not to pursue the sale of its ownership interest in Bank of Commerce and reclassified it back to "Investments and advances" and made further acquisitions of Bank of Commerce shares.

  In 2010, SMPI acquired additional 20,383,210 shares amounting to ₱3,562 million from various stockholders of Bank of Commerce. These acquisitions increased SMPI's equity ownership interest in Bank of Commerce to 32.77% as of December 31, 2010.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

- **10.1% stake in Indophil**

  On October 8, 2010, the Parent Company entered into a Share Placement Agreement with Indophil to subscribe to 48,016,960 common shares (Placement Shares) equivalent to approximately 10.1% of the currently issued common shares of Indophil, on a fully diluted basis.

  Indophil is an Australian company listed on the Australian stock exchange, which owns a 37.5% beneficial interest in Sagittarius Mines, Inc. (SMI). SMI has the rights to the Tampakan gold and copper mine in South Cotabato.

  On October 15, 2010, the Placement Shares were issued in the name of Coastal View, a subsidiary of SMHC. The total consideration for the purchase of the Placement Shares was A$41.3 million (approximately US$40 million) or A$0.86 per Placement Share.

ACQUISITION OF ASSETS

- **Independent Power Producer Administration Agreement**

  - **Sual IPPA Agreement**

    As a result of the bidding conducted by the PSALM on August 28, 2009 for the Appointment of the IPP Administrator for the Contracted Capacity of the Sual 2x500 MW Coal Fired Power Station (Sual Power Plant), SMEC was declared the winning bidder thereof as set out in the Notice of Award issued by PSALM on September 1, 2009. As of November 6, 2009, SMEC assumed the administration of the Contracted Capacity of the Sual Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the Sual Power Plant with Execution Date of September 8, 2009.

  - **San Roque IPP Administration Agreement**

    Following the December 15, 2009 bidding conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the 345 MW San Roque Multi-Purpose Hydroelectric Power Plant located at Barangay San Roque, San Miguel, Pangasinan (San Roque Power Plant), PSALM issued on December 28, 2009 the Notice of Award to SPDC as the winning bidder thereof. As of January 26, 2010, SPDC assumed the administration of the Contracted Capacity of the San Roque Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the San Roque Power Plant with Execution Date of December 29, 2009.

  - **Ilijan IPP Administration Agreement**

    On April 16, 2009, the Parent Company successfully bid for the Appointment of the IPP Administrator for the Contracted Capacity of the Ilijan Natural Gas Fired Combined Cycle Power Plant with an installed capacity of 1200 MW located at Ilijan, Batangas (Ilijan Power Plant) and received a notice of award on May 5, 2010. On June 10, 2010, the Parent Company and SPPC entered into an Assignment Agreement with Assumption of Obligations whereby the Parent Company assigned all its rights and obligations to SPPC under the IPP Administration Agreement for the Contracted Capacity of the Ilijan Power Plant with execution date of May 11, 2010. PSALM consented to the aforementioned assignment in its letter dated June 16, 2010.

    On June 26, 2010, SPPC assumed the administration of the contracted capacity of the Ilijan Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the Ilijan Power Plant with Execution Date of May 11, 2010.

- **Independent Power Producer**

- **Limay Power Plant**

  On September 11, 2009, PSALM issued the Notice of Award to SMEC as the winning buyer of the 620 MW Limay Combined Cycle Power Plant (Limay Power Plant). SMEC and PSALM entered into the Asset Purchase Agreement and Land Lease Agreement with effective date of September 18, 2009, with an option to acquire the land.

  On November 13, 2009, SMEC and PanAsia entered into an Assignment Agreement with Assumption of Obligations, wherein PanAsia assumed all the rights and obligations of SMEC under the Limay Agreements subject to the written consent of PSALM to such assignment. PSALM's consent to the assignment was secured by SMEC and PanAsia, as set out in the Amendment, Accession and Assumption Agreement executed by the parties on January 11, 2010.

  On January 18, 2010, the physical possession of the Limay Power Plant was turned over and transferred to PanAsia. PanAsia started operations of the Limay Power Plant on February 16, 2010.

  In July 2010, with the consent of PSALM, PanAsia's option to acquire the land was assigned to PCPI. Accordingly, PCPI assumed all the rights and obligations under the original contract between PanAsia and PSALM. On September 30, 2010, PCPI exercised the option and acquired ownership of the land.

BORROWINGS AND EQUITY TRANSACTIONS

- In 2010, the Parent Company entered into a US$1,000 million unsecured loan facility agreement. Proceeds of the loan were used to prepay the US$600 million loan and to finance the diversification projects of the SMC Group.

- In 2010, the Parent Company has drawn down ₱7,850 million for general financing and corporate requirements.

- On January 28, 2010, SMB entered into a US$ 300 million unsecured loan facility agreement. Proceeds of the loan were used to finance SMB's acquisition of the international beer and malt-based beverages business from SMC, through SMB's purchase of San Miguel Holdings Ltd.'s (SMHL) shares in SMBIL, comprising 100% of the outstanding capital stock of SMBIL.

- On May 25, 2010, GSMI entered into unsecured long-term, interest bearing loans from a local bank amounting to ₱1,500 million for the purpose of funding its permanent working capital requirements.

- In December 2010, SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate notes with principal amount of ₱800 million and ₱3,700 million, respectively. Both types of notes have a term of 5 years and 1 day beginning on December 10, 2010 and ending on December 11, 2015. Proceeds from the issuance of the notes will be used to fund any expansion or any investment in new businesses by SMFI and for other general corporate purposes.

- In 2010, Petron issued peso-denominated notes amounting to ₱20,000 million. The principal and interest will be translated into and paid in US dollars based on the average representative market rate at the applicable rate calculation date at the time of each payment.

- In 2010, Petron has entered into a US$355 million term facility agreement. The loan was used for general corporate purposes and refinancing of peso-denominated debts.

- On July 27, 2010, the Parent Company's BOD approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than ₱75.00 per share.

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

- On December 8, 2010, the Parent Company listed 873,173,353 Series "1" preferred shares worth ₱65,488 million, representing 27.6% of its outstanding stock.

OTHERS

- **San Miguel Brewery Inc. and Subsidiaries**

- **Sale of San Miguel Brewing International Ltd. to San Miguel Brewery Inc.**

On January 29, 2010 SMB completed the purchase of the international beer and malt-based beverages business of the Parent Company through the purchase of the shares of SMHL in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL (SMBIL Shares), for value of US$302 million (₱13,941 million), after adjustments in accordance with the terms of the SPA. As a result, SMBIL became a wholly-owned subsidiary of SMB.

- **Sale of Brewery Properties Inc. (BPI) to San Miguel Brewery Inc.**

On November 10, 2010, SMB and the Parent Company executed a Deed of Absolute Sale of Shares ("Deed") for the purchase by SMB of all the shares of the Parent Company in BPI (the "BPI Shares"), at the aggregate purchase price of ₱6,829 million. Upon execution of the Deed, SMB paid ₱6,629 million to the Parent Company, corresponding to the appraised value of the 128 land titles transferred in the name of BPI. The balance shall be paid by SMB to the Parent Company upon transfer of the remaining eight (8) land titles in the name of BPI. The BPI Shares comprise 40% of the issued and outstanding capital stock of BPI. The acquisition was financed using part of the proceeds of the bond offering of SMB.

BPI owned the land on which all of SMB's production facilities and certain sales offices are located.

- **Impairment Losses on Noncurrent Assets of San Miguel Brewery Hong Kong and San Miguel Guangdong Brewery**

In 2010, the SMC Group recognized an impairment loss of ₱4,333 million against certain assets of operations in Hong Kong and mainland China, comprising mainly the production plant, office building, warehouse, trademarks and other tangible assets.

- **San Miguel Pure Foods Company, Inc. and Subsidiaries**

- **Merger of Monterey Foods Corporation (Monterey) to San Miguel Foods, Inc.**

In August 2010, the SEC approved the merger of Monterey into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective Board of Directors and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective September 1, 2010.

- **Sale of San Miguel Pure Foods Investment (BVI) Limited (SMPFI) shares to SMPFC**

In July 2010, the Parent Company, through its wholly-owned subsidiary, SMFBIL, sold to San SMPFIL, (a wholly-owned subsidiary of SMPFC) its 51% interest in SMPFI for US$18.6 million. SMPFI owns 100% of SMPFVN. Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$ 16.8 million (₱734.3 million as of December 31, 2010) shall be payable (i) upon change in controlling interest of SMPFIL to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first.

- **Sale of Food-related Brands to SMPFC**

On July 21, 2010, the Parent Company and SMPFC entered into an Intellectual Property Rights Transfer Agreement for the transfer to SMPFC of the food-related brands and intellectual property rights at a purchase price of ₱3,200 million. Following the provision of the Agreement between the Parent Company and SMPFC, 10% of the purchase price was paid on July 30, 2010 and the balance payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on 1 year PDSTF plus an agreed margin after one year, whichever comes first. On March 8, 2011, the remaining balance was fully paid by SMPFC.

MATERIAL CHANGES PER LINE OF ACCOUNT

2011 vs. 2010

Trade and other receivables increased by 11% to ₱84,472 million in 2011 primarily due to the increase in trade receivables of: a) Petron on account of higher sales to industrial customers, b) SMB and SMPFC due to higher sales and of GSMI due to extension of longer credit terms to dealers, c) SMC Global Power's higher receivable balance from WESM; additional advances to SMC Retirement Plan; and option deposit on the acquisition of the remaining 53.47% stake in AAI, net of the decrease in receivable from other related parties; lower government receivables of Petron and the deconsolidation of PanAsia's balance.

Inventories increased by 14% to ₱65,720 million in 2011 mainly due to: a) increase in volume and price of crude oil inventory of Petron; b) higher coal inventory for the period of SMEC; c) increase in molasses inventory of GSMI, and d) build-up of malt in anticipation of higher production and sales requirements for the summer months of SMB, net of the decrease in fuel inventory of SMC Global Power due to deconsolidation of PanAsia, decrease in GSMI's finished goods inventory as a result of the inventory depletion program and the decrease in SMB's containers due to higher sales volume during the year.

Current portion of biological assets increased by 26% due to higher feed costs and increase in volume of growing poultry livestock and hogs.

Prepaid expenses and other current assets increased by 34% to ₱22,620 million in 2011 mainly due to the excess input tax over VAT payable of the SMC Group particularly Petron and SMC Global Power.

The increase in assets held for sale was mainly due to the total assets of SMTCL and SMYUI, which were sold on February 15 and January 31, 2012, respectively, and the carrying value of SMVCL's building and land use rights in the Amata Industrial Zone in Vietnam, which were sold on February 23, 2012, net of the sale of the 32nd floor and 10 parking lots of Petron Mega Plaza and the reclassification to investment properties account of its remaining carrying amount.

Investments increased by 9% from ₱152,814 million in 2010 mainly due to a) advances made for future investment in a telecommunications company and in PIDC shares by Rapid Thoroughfares, Inc., b) investment in 46.53% stake in AAI by SMHC and in 35% stake in Manila North Harbour Port, Inc. by Petron and c) additional investment in Bank of Commerce shares of stock by SMPI and in Limay Energen Corp. by Petron and equity in net income of Meralco, net of the consolidation of ETPI, previously an associate in 2010, equity in net loss of Top Frontier, LTHI and PAHL and dividends from Meralco and Top Frontier.

Available-for-sale financial assets decreased by 43% from₱3,597 million in 2010 mainly due to the fair value adjustment of the investment in shares of stock of Indophil, net of the disposal of Petron's AFS and fair value adjustments on other available for sale financial assets of the SMC Group.

Investment properties increased by 34% due to reclassification to investment properties of Petron Mega Plaza's remaining carrying amount from assets held for sale and the construction costs of

SMPI's Makati Diamond Hotel Project, net of the disposal of SMBIL's investment property in Thailand and the depreciation for the year.

Biological assets – net of current portion increased by 23% mainly due to the increase in volume of breeding stock coupled with higher feed costs.

Deferred tax assets (DTA) increased by 15% to ₱8,233 million in 2011 due to the effect of recognition of deferred tax assets on net operating loss carry over (NOLCO) and minimum corporate income tax (MCIT) of GSMI, and the recognition of deferred tax asset on SMC Global Power's excess of depreciation and interest over monthly PSALM payments.

Other noncurrent assets increased by 14% to ₱38,517 million in 2011 mainly due to the advances made by Petron to Petrochemical Asia Holdings Limited and additional advances to Petron Corporation Employee Retirement Plan ("PCERP"), advances made by the Parent Company to AAI, SMC Global Power's receivable from MHI on the sale of PanAsia and purchase of additional containers to support the increasing sales for domestic operations of SMB.

Drafts and loans payable increased by 11% mainly due to net availments made during the year to support the financial requirements of the SMC Group's operations.

Accounts payable and accrued expenses decreased by 12% mainly due to the payment made by SMPI to SMCRP related to the acquisition of Bank of Commerce shares and payment made by SMC related to the acquisition of Meralco shares of stock, net of the reclassification to current liabilities of the amount due from SMC Global Power in 2012 and increase in payables of Petron due to increase in crude and finished product prices in 2011.

Income and other taxes payable decreased by 10% mainly due to tax incentives of SMC Global Power as a result of the income tax holiday granted by the BOI in August 2010, net of the increases due to higher taxable income during the year.

Dividends payable increased by 161% mainly due to the dividends payable of the Parent Company to its preferred shareholders which were paid on January 20, 2012.

The balance of liabilities directly associated with assets held for sale pertains to the total liabilities of SMTCL and SMYUI.

Long-term debt increased by 25% from ₱168,927 million in 2010 mainly due to issuance of bonds by the Parent Company and SMC Global Power and the availment of corporate notes, net of payments made.

Deferred tax liabilities decreased by 18% from ₱13,752 million in 2010 mainly due to the effect of recognition of lower deferred income tax liability on the undistributed net earnings of foreign subsidiaries during the period and the effect of recognition of deferred tax on the foreign currency loss of SMC Global Power as compared to the forex gains recognized last year.

Finance lease liabilities decreased by ₱146 million mainly due to payments, net of the recognition of effective interest for the year.

Other noncurrent liabilities decreased by 74% in 2011 mainly due to the prepayment made by SMC in August 2011; the reclassification to current liabilities of the amount due from SMC Global Power, which was subsequently paid on January 31, 2012, related to the acquisition of Meralco shares of stock; and the reclassification to current liabilities of the payable related to the acquisition of AGNP shares of stock in 2010, net of the payable on the acquisition of ETPI shares in 2011 and the increase in cylinder deposits, cash bond, asset retirement obligation and pension liability of Petron.

Appropriated retained earnings increased significantly in 2012 mainly due to additional appropriations made by SMC Global Power, Petron, SMPI, GSMI and SMCSLC.

Amounts recognized directly in equity relating to assets held for sale pertains to the balance of SMTCL and SMYUI's cumulative translation adjustments.

Non-controlling interests (NCI) increased by 37% in 2011 mainly due to the recognition of non-controlling interests on the preferred shares issued by SMPFC, the NCI upon the consolidation of ETPI and the share of non-controlling interests in the net income.

Equity

The increase in equity in 2011 is due to:

(In millions)	2011
Income during the period	₱28,504
Addition to non-controlling interests	15, 578
Issuance of capital stock	4,259
Amounts recognized directly in equity relating to assets held for sale	(53)
Effect of translation adjustments	(235)
Cash dividends	(15,778)
	₱32,275

2010 vs. 2009

Cash and cash equivalents decreased by 40% from ₱209,411 million in 2009 to ₱125,188 million in 2010 mainly due to: (1) acquisition of subsidiaries (Petron & SRC, SMC Global Power, Belltel, ULC BVI, AGNP, TADHC, IGI and SMPI - GSIS JVC); (2) investment in shares of stock of Top Frontier, Bank of Commerce, LTHI, PIDC and Indophil; (3) payment of dividends; (4) net payments of short-term loans; and (5) various acquisition of property plant equipment by GSMI, SMCSLC, SMYPIL and SMB, net of the net proceeds from loan availment of the Parent Company, SMB, SMFI and the consolidation of Petron and SMC Global Power's cash balance.

Trade and other receivables increased by 55% to ₱75,904 million in 2010 mainly due to the consolidation of Petron and SMC Global Power's balance and additional advances to SMCRP and other related parties, net of the collection of insurance claim of SMPFC and interest received from money market placements.

Inventories increased by 126% to ₱57,442 million in 2010 due to the consolidation of Petron and SMC Global Power's balances and increase in the inventory of raw alcohol and production volume of liquor products of GSMI, net of the decrease in inventory of the Packaging Group due to higher sales.

Current biological assets increased by 29% to ₱3,267 million in 2010 due to the increase in the volume of growing poultry livestock and hogs as a result of expected increase in sales volume and the reclassification to current portion of SMPFVN's biological assets.

Prepaid expenses and other current assets increased by 90% to ₱16,914 million in 2010 mainly due to the consolidation of Petron and SMC Global Power's balance and of IGI's - raw land inventory and input tax of SMPFC from the acquisition of brands.

Assets held for sale as of December 31, 2010, consist of Petron's office units located at Petron Mega Plaza. On December 1, 2010, Petron's Board of Directors approved the sale of these properties to provide cash flows for various projects. The investment property's carrying amount amounted to ₱823 million as of December 31, 2010. The balance as of December 31, 2009 of ₱ 2,746 million represents the carrying value of SMPI's investment in Bank of Commerce (16,396,689 common shares). In 2010, SMPI's management decided not to pursue the sale of its ownership interest in Bank of Commerce and reclassified it back to "Investments and advances" account in the consolidated statements of financial position.

Investments increased from ₱39,005 million to ₱152,814 million in 2010 mainly due to the: (a) investment in shares of stock of Top Frontier and ETPI; (b) additional investments in Bank of Commerce and LTHI; (c) consolidation of SMC Global Power's investment in shares of stock of Meralco and of Petron's investment in Petrochemical Asia (HK) Limited and Limay Energen Corp.; (d) reclassification of investment in Bank of Commerce previously reported in assets held for sale; and (e) equity in net earnings of Meralco, SMEC, SPDC and Bank of Commerce, net of equity in net loss of Top Frontier, LTHI and dividend income from Meralco.

The increase in available-for-sale financial assets was mainly due to consolidation of Petron's balance and the investment in shares of stock of Indophil.

Property, plant and equipment increased from ₱65,919 million to ₱308,073 million in 2010 mainly due to the consolidation of Petron and SMC Global Power's balance, which mainly accounts for the Sual, Ilijan, Limay and San Roque power plants under IPPA agreements with PSALM and expansion of GSMI's distillery capacity, net of the impairment of SMBIL's plant and depreciation in 2010.

Investment properties increased by 14% due to the consolidation of Petron's balance and translation adjustments of SMBIL's investment properties.

Noncurrent biological assets decreased by 20% to ₱1,479 million in 2010 mainly due to the reclassification to current portion of SMPFVN's biological assets.

Goodwill increased to ₱30,251 million in 2010 mainly due to the goodwill recognized from the acquisition of Petron, ULC BVI and TADHC, net of the impairment of SMBHK's goodwill and translation adjustments.

Other intangible assets increased by 202% from ₱3,630 million in 2009 mainly due to the licenses recognized by Vega from the acquisition of BellTel and the mining rights recognized by SMEC from the acquisition of Sultan, DAMI and BERI.

Deferred tax assets decreased by 20% from ₱8,883 million in 2009 to ₱7,134 million in 2010 mainly due to the effect of recognition of unrealized foreign exchange gains and the decrease in MCIT and NOLCO of the Parent Company and utilization of Monterey's NOLCO, net of the consolidation of SMC Global Power and Sea Refining's balance.

Other noncurrent assets increased by 171% from ₱12,468 million in 2009 to ₱33,801 million in 2010 mainly due to the (a) consolidation of Petron's balance, attributable to the noncurrent receivables from Petron Corporation Employee Retirement Plan; (b) project development cost of Universal LRT BVI; and (c) the noncurrent portion of receivable on the sale of SMPI's Reliance Property, net of the sale of long-term receivables from Coca-Cola South Asia Holdings.

Drafts and loans payable increased by 31% from ₱56,789 million in 2009 mainly due to consolidation of Petron's balance, net of the net payments and translation adjustments.

Accounts payable and accrued expenses increased by 122% from ₱31,391 million in 2009 mainly due to the (a) consolidation of Petron and SMC Global Power's balance, attributable to the current portion of liability related to the acquisition of Meralco shares of stock and trade and other payables of the power group; (b) reclassification to current liabilities of the unpaid balance due next year of the Parent Company, related to the acquisition of Meralco shares of stock; (c) SMHC's payable on the acquisition of TADHC; and (d) the reclassification to current liabilities of the subscriptions payable related the investment in PIDC.

The increase in income and other taxes payable of ₱5,815 million from ₱4,186 million in 2009 to ₱10,001 million in 2010, primarily represents the income tax payable of SMC Global Power.

Dividends payable increased by 44% mainly due to the dividends payable of PF – Hormel to its non-controlling stockholder in 2010.

Deferred tax liabilities increased by 14% from ₱12,037 million in 2009 to ₱13,752 million in 2010 mainly due to the consolidation of Petron and SMC Global Power's balance, net of the decrease of deferred tax liability on the undistributed net earnings of foreign subsidiaries.

The increase in finance lease liabilities represents the amount payable to PSALM, attributable to the IPP administration of the Sual, Ilijan and San Roque power plants.

Other noncurrent liabilities decreased by 12% in 2010 mainly due to the (a) reclassification to current portion of the unpaid balance due next year related to the acquisition of Meralco shares of stock of the Parent Company; (b) reclassification to current liabilities of amount due next year on the acquisition of PIDC; net of the consolidation of Petron and SMC Global Power, related to the acquisition of Meralco shares of stock and the subscriptions payable of Vega and SMHC on the acquisition of AGNP and TADHC, respectively.

The increase in revaluation increment of ₱1,373 million in 2010 is mainly due to the recognition of revaluation increment in connection with the acquisition of non-controlling interest in SMC Global Power.

Cumulative translation adjustments decreased by 8% from ₱5,845 million in 2009 mainly due to the translation of foreign subsidiaries' net assets. The exchange rates used for net assets in December 31, 2010 is ₱43.84 to US$1 (₱46.2 in December 31, 2009).

Non-controlling interests increased by ₱23,673 million in 2010 mainly due to the additional amount recognized as a result of the acquisition of 68.26% ownership interest in Petron, 51% ownership interest in Universal LRT BVI and 52% ownership interest in SMPI - GSIS JVC and share in the 2010 net income of non-controlling stockholders of SMB and SMYPC, net of dividends declared to non-controlling stockholders and translation adjustments.

Equity

The increase in equity in 2010 is due to:

(In millions)	2010
Income during the period	₱24,056
Addition to non-controlling interests	24,854
Issuance of capital stock	2,514
Effect of translation adjustments	(673)
Cash dividends	(26,260)
Acquisition of a subsidiary and others	1,396
	₱25,887

IX. SOURCES AND USES OF CASH FOR THE PERIOD ENDING DECEMBER 31, 2011

A brief summary of cash flow movements is shown below:

	December 31		
	2011	2010	2009
		(In Millions)	
Net cash flows provided by operating activities	**₱32,207**	₱45,314	₱13,368
Net cash flows provided by (used in) investing activities	**(70,488)**	(126,931)	49,155
Net cash flows provided by (used in) financing activities	**42,335**	(2,226)	32,550

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash provided by (used in) investing activities included the following:

	December 31		
	2011	2010	2009
		(In Millions)	
Interest received	**₱4,523**	₱3,798	₱5,249
Dividends received from associates	**2,637**	-	-
Proceeds from sale of investments and property and equipment	**1,347**	1,175	55,127
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(775)**	(18,978)	(1,494)
Decrease (increase) in other noncurrent assets and others	**(5,262)**	1,424	(950)
Payment by (advances to) related parties	**(5,709)**	(6,070)	3,243
Additions to investments and advances	**(16,338)**	(99,762)	(5,771)
Payment of other liabilities	**(24,485)**	-	-
Additions to property, plant and equipment	**(26,426)**	(8,518)	(6,249)

Major components of cash flow provided by (used in) financing activities are as follows:

	December 31		
	2011	2010	2009
		(In Millions)	
Proceeds from short-term borrowings	**₱492,117**	₱685,768	₱691,093
Proceeds from long-term borrowings	**55,399**	72,937	67,786
Increase in non-controlling interests	**14,829**	126	315
Proceeds from issuance of capital stock and reissuance of treasury stock	**3,919**	2,314	7,087
Payments of finance lease liabilities	**(11,781)**	(4,798)	(12)
Payments of long-term borrowings	**(14,025)**	(29,196)	(44,657)
Cash dividends paid	**(14,451)**	(26,001)	(5,493)
Payments of short-term borrowings	**(483,672)**	(703,376)	(683,569)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱181 million), (₱380 million) and (₱2,601 million) in December 31, 2011, 2010 and 2009 respectively.

Cash and cash equivalents associated to assets held for sale amounted to ₱86 million as of December 31, 2011.

X. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS FOR THE PERIOD ENDING DECEMBER 31, 2011

The following items are not available for declaration as dividends:

	December 31	
	2011	2010
		(In Millions)
Accumulated equity in net earnings of subsidiaries and associates (included in the unappropriated retained earnings balance)	**₱44,000**	**₱55,565**
Treasury stock	**(67,441)**	**(69,541)**

XI. KEY PERFORMANCE INDICATORS

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

	December 31	
	2011	2010
Liquidity:		
Current Ratio	**1.61**	1.57
Solvency:		
Debt to Equity Ratio	**1.98**	2.11
Asset to Equity Ratio	**2.98**	3.11
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**7.87%**	9.35%
Interest Rate Coverage Ratio	**2.81**	3.17
Operating Efficiency:		
Volume Growth	**97%**	34%
Revenue Growth	**118%**	41%

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

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

XII. OTHER MATTERS

- Events After the Reporting Date
- Investment in ExxonMobil

On August 12, 2011, the BOD of the Parent Company approved the investment in the oil refining and marketing business in Malaysia through the acquisition of 65% of Esso Malaysia Berhad ("EMB") and its wholly-owned associate businesses ExxonMobil Malaysia Sdn Bhd ("EMMSB") and ExxonMobil Borneo Sdn Bhd ("EMBSB"). On August 17, 2011, the share purchase agreement was signed between the Parent Company and Exxon Mobil International Holdings Inc., wherein the Parent Company has the right to assign its interest in the investment to any of its subsidiaries.

On January 11, 2012, the Executive Committee of Petron approved Petron's investment in the ExxonMobil downstream business in Malaysia.

On January 20, 2012, the Parent Company approved the assignment of the share purchase agreement to Petron Oil and Gas International Sdn Bhd (Petron International), an indirect wholly-owned subsidiary of Petron.

On March 16, 2012, Petron International served on the Board of Directors of EMB a notice of mandatory take-over offer to acquire all the remaining 94,500,000 shares representing approximately 35% of the total voting shares of EMB. The cash offer price is Malaysian Ringgit 3.59 per share, subject to adjustments as specified in the Notice and subsequently disclosed by EMB to the Malaysian Stock Exchange.

The mandatory take-over offer was required under the laws of Malaysia governing listed corporations and resulted from the acquisition by Petron International of 175,500,000 EMB shares, representing approximately 65% of the voting shares of EMB.

- Sale of Petron Shares by PCERP

On January 24, 2012, PCERP sold 695,300,000 common shares of Petron at a price of ₱11.00 per share through the facilities of the PSE.

- Acquisition of East Pacific Star Bottlers Philippines, Inc. ("EPSBPI")

On January 27, 2012, GSMI acquired 100% of the outstanding capital stock of EPSBPI for ₱200 million.

- Amendment of Articles of Incorporation and By-Laws of the Parent Company

At the March 14, 2011 and June 7, 2011, meeting of the Parent Company's BOD and stockholders, respectively, the amendments to the Parent Company's Articles of Incorporation and By-Laws were approved as follows:

a. that the Parent Company's corporate term be extended for another fifty (50) years from August 21, 2013; and

b. that the date of the annual regular meeting of the stockholders be changed from second Tuesday of May to second Tuesday of June.

The SEC approved on March 16, 2012, the amendment of the Articles of Incorporation and By-Laws of the Parent Company.

- Contingencies

The SMC Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

- Deficiency Excise Tax

  On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals ("CTA") (1st Division) under CTA case numbers 7052 and 7053.

  In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

  The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

  On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

  On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy". The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of March 28, 2012, the BIR has taken no further action on the matter.

  On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

  On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of ₱926 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA En Banc and is pending review.

  On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of ₱781 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied, and the Commissioner is presently taking steps to elevate the decision to CTA En Banc for review.

  In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

  On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division)

under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; and on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400. All of these cases are undergoing trial.

- Tax Credit Certificates Cases

  In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron's use of ₱659 million worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron is contesting the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of Board of Investments-registered companies, Petron is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality the Commissioner of Internal Revenue's motion for reconsideration of the Decision dated July 28, 2010.

  In November 1999, the BIR issued a ₱284 million assessment against Petron for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In August 2006, the CTA denied Petron's petition, ordering it to pay the BIR ₱580 million representing the ₱284 million unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine Supreme Court ("SC") nullified the assessment against Petron and declared Petron as a valid transferee of the TCCs. The BIR filed a motion for reconsideration which remains pending as of March 28, 2012.

  In May 2002, the BIR issued a ₱254 million assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In May 2007, the CTA second division denied Petron's petition, ordering Petron to pay the BIR ₱601 million representing Petron's ₱254 million unpaid deficiency excise taxes for the taxable years 1995 to 1998, and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA *en banc,* which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending.

  There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to ₱911 million.

- Pandacan Terminal Operations

  In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a MOU with the City of Manila and DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, Petron filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a

status quo order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("Ordinance 8119"), which applied to the entire City of Manila. Ordinance 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the "February 13 Resolution"), the Supreme Court also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their relocation plans to the RTC.

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

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending.

- Oil Spill Incident in Guimaras

  On August 11, 2006, M/T Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of M/T Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

- Bataan Real Property Tax Cases

  Petron has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of ₱86.4 million covering Petron's isomerization and gas oil hydrotreater facilities which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law per the Board of Investments Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for ₱17 million relating to the leased foreshore area on which the pier of Petron's Refinery is located. In 2007, the Bataan

Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of ₱2,168 million allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron's non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Petron timely contested the assessments by filing appeals with the Local Board of Assessment Appeals ("LBAA"), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of Petron, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by Petron, the Central Board of Assessment Appeals ("CBAA"), in August 2008, remanded the case to the LBAA for factual determination, effectively granting Petron's appeal and reversing the LBAA's dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of ₱1,731 million made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

- Top Frontier

On November 27, 2009, Top Frontier acquired 857,115,914 common shares of the issued and outstanding common shares of the Parent Company for a total of ₱64,284 million. To acquire an additional 327,000,000 Class "B" common shares of the Parent Company under the SPA with Q-Tech, Top Frontier conducted a tender offer before such acquisition pursuant to the 35% threshold under the mandatory provisions of the Securities Regulation Code.

On April 8, 2010, such tender offer closed and a total of 47,700,679 Class "A" and 31,759,499 Class "B" common shares were tendered for ₱75.00 per share, for a total consideration of ₱5,959 million. Such tendered shares were crossed through the PSE on April 13, 2010 together with the 327,000,000 common shares acquired from Q-Tech under the SPA.

Following the tender offer, Top Frontier acquired in the open market a total of 1,942,906 common shares for ₱75.00 per share.

The SPA with Q-Tech also provides a grant of call option to Top Frontier for the purchase of 301,666,675 Class "B" common shares of the Parent Company at

₱70.00 per share. The call option may be exercised by Top Frontier until March 31, 2011 or such later date as may be mutually agreed upon by the parties in writing. On March 8, 2011, Top Frontier has notified Q-Tech of its intention to exercise the call option within the period specified in the SPA. On March 16, 2011, Top Frontier exercised its option to purchase from Q-Tech a 12.9% equity interest in the Parent Company which increased Top Frontier's equity interest in the Parent Company's issued and outstanding common shares of stock to 67.2%.

Top Frontier entered into an Option Agreement with 44 Corporations in 2009 wherein Top Frontier has exclusive right to acquire 476,722,639 Class "A" and 16,652,544 Class "B" common shares of the Parent Company at ₱75.00 per share for which Top Frontier paid an amount of US$200 million as advances. The call option may be exercised by Top Frontier until November 12, 2012. Any further extension of the term of the option period shall require the written consent and approval of both parties.

The Parent Company completed the secondary offering of its common shares which includes 110,320,000 shares of stock held by Top Frontier. The Offer Shares were priced at ₱110.00 per share on April 20, 2011.

On December 1, 2011 Top Frontier sold 9,000,000 SMC common shares transacted through the PSE.

As of December 31, 2011 and 2010, Top Frontier had total shareholdings of 1,447,865,673 and 1,265,518,998 common shares of the Parent Company, respectively. Out of the 1,447,865,673 common shares of the Parent Company held by Top Frontier as of December 31, 2011, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

- *Commitments*

  Amount authorized but not yet disbursed for capital projects as of December 31, 2011 is approximately ₱25,250 million, which SMC expects to be funded through a combination of internally generated funds and external fundraising activities, including debt and equity financing.

- Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

- *Foreign Exchange Rates*

  The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of ₱43.84 in 2011 and 2010 for consolidated statements of financial position accounts; and average rates of ₱43.31, ₱45.12 and ₱47.64 in 2011, 2010 and 2009, respectively, for income and expense accounts.

- Events After the Date of Auditor's Report but Before the Date the Consolidated Financial Statements are Issued

  a. *Investment in ExxonMobil*

     On March 30, 2012, Petron International completed the acquisition of 65% of EMB, 100% of EMMSB, and 100% of EMBSB for an aggregate purchase price of US$577.3 million.

b. *Investment in Trustmark Holdings Corporation and Zuma Holdings and Management Corporation*

On March 28, 2012, the Board of Directors of the Parent Company approved its investment, through SMEII, in the Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (Air Phil). On April 3, 2012, the Parent Company, through SMEII, and the Lucio Tan Group signed investment agreements whereby SMEII agreed to subscribe to unissued common shares constituting 49% of the outstanding capital stock of Trustmark Holdings Corporation and Zuma Holdings and Management Corporation, the holding companies of PAL and Air Phil, respectively. The investment will result in the Parent Company indirectly owning a minority stake in PAL and Air Phil.

- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.

- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the SMC Group's liquidity.

- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

- There were no known events that will trigger direct or contingent financial obligation that is material to the SMC Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 26 (c) of the 2011 Audited Consolidated Financial Statements and "Contingencies" of Section VI above, that remain outstanding as of December 31, 2011. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the SMC Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the SMC Group as of and for the period December 31, 2011.

- The effects of seasonality or cyclicality on the interim operations of the SMC Group's businesses are not material.

External Audit Fees and Services

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

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

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

Interest of Named Experts and Counsel

Legal Matters

All legal opinion / matters in connection with the issuance of the Offer Shares which are subject of the Offer will be passed upon by Picazo Buyco Tan Fider & Santos for the Company and SyCip Salazar Hernandez & Gatmaitan for the Joint Bookrunners.

Independent Auditors

Manabat Sanagustin & Co. audited the financial statements of the SMC Group for the years ended 31 December 2011, 2010 and 2009, included in this Prospectus.

There is no arrangement that experts and independent counsels will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

Taxation

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

PROSPECTIVE PURCHASERS OF THE OFFER SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

Taxes on Dividends on the Offer Shares

Individual Philippine citizens and individual aliens who are residents of the Philippines are subject to a final tax on dividends derived from the Offer Shares at the rate of 10%, which tax shall be withheld by the Company.

The dividends derived by domestic corporations (i.e. corporations created or organized in the Philippines or under its laws) and resident foreign corporations (i.e. foreign corporations engaged in trade or business within the Philippines) from the Offer Shares shall not be subject to tax.

Non-resident alien individuals engaged in a trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 20% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual. A non-resident alien individual who comes to the Philippines and stays for an aggregate period of more than 180 days during any calendar year is considered engaged in a trade or business in the Philippines. Non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 25% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual.

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

(a) who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and

(b) should a tax treaty be applicable, whose ownership of the Offer Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

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

(a) the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or
(b) the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident corporation taxes deemed to have been paid in the Philippines equivalent to 15%.

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

The requirements for a tax treaty relief application in respect of dividends are set out in the applicable tax treaty and BIR Form No. 0901-D. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the non-resident holder of Offer Shares which states that the non-resident holder is a resident of such country under the applicable tax treaty. If the non-resident holder of Offer Shares is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.
If tax at the regular rate is withheld by the corporation instead of the reduced rates applicable under a treaty, the non-resident holder of the Offer Shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund. Moreover, in view of the requirement of the BIR that an application for tax treaty relief be filed prior to the deadline for the filing by the investee domestic corporation of the final withholding tax return on dividend income, the non-resident holder of Offer Shares may not be able to successfully pursue a claim for refund if such an application is not filed before the deadline for the filing of the withholding tax return.

Taxes on the Sale or Other Disposition of the Offer Shares

Since the Offer Shares will be issued only upon approval of the SEC of the increase in authorized capital stock of the Company, and will not be listed on the PSE until such SEC approval and the approval of PSE for the listing application of the Company are obtained, the sale of the Offer Shares or any rights thereto cannot be made through the stock exchange.

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

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

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

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

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

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

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

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

Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries. Investors seeking to invoke the tax treaty must file an application with the BIR:

In percentage (%)	Dividends	Stock transaction tax on sale or disposition effected through the PSE	Capital Gains Tax due on disposition of of Shares outside the PSE
Canada	25[(1)]	0.5[(8)]	Exempt[(9)]
France	25[(2)]	0.5[(8)]	Exempt[(9)]
Germany	15[(3)]	0.5[(8)]	5/10[(10)]

In percentage (%)	Dividends	Stock transaction tax on sale or disposition effected through the PSE	Capital Gains Tax due on disposition of of Shares outside the PSE
Japan	25[4]	0.5[8]	Exempt[9]
Singapore	25[5]	0.5[8]	Exempt[9]
United Kingdom	25[6]	0.5[8]	Exempt[11]
United States	25[7]	0.5[8]	Exempt[9]

Notes:

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

(2) 15% if the recipient company holds directly at least 15% of the voting shares of the company paying the dividends.

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

(4) 10% if the recipient company holds directly at least 25% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of 6 months immediately preceding the date of payment of the dividends.

(5) 15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting stock of the paying company was owned by the recipient company.

(6) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.

(7) 20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting stock of the paying corporation were owned by the recipient corporation. Notwithstanding the rates provided under the RP-US Treaty, residents of the US may avail of the 15% withholding tax rate under the tax-sparing clause of the Philippine Tax Code provided certain conditions are met.

(8) Exempt if the stock transaction tax is expressly covered by the applicable tax treaty or is deemed by the relevant authorities as an identical or substantially similar tax to the Philippine income tax. In BIR Ruling No. ITAD 22-07 dated February 9, 2007, the BIR held that the stock transaction tax cannot be considered as an identical or substantially similar tax on income, and, consequently ruled that a Singapore resident is not exempt from the stock transaction tax on the sale of its shares in a Philippine corporation through the PSE.

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

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

(11) Under the RP-UK Tax Treaty, capital gains on the sale of the stock of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

Documentary Stamp Taxes on Offer Shares

The Philippines imposes a documentary stamp tax upon transfers of the Offer Shares at a rate of ₱0.75 on each ₱200, or fractional part thereof, of the par value of the Offer Shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the Offer Shares.

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

Estate and Gift Taxes

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

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

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

Corporate Income Tax

In general, a tax of 30% is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines) pursuant to Philippine Republic Act 9337.

Regulatory Framework

Various laws and government agencies in the Philippines regulate the manufacturing, processing, sale and distribution aspects of the businesses of SMC.

SMC

The Consumer Act

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

This law imposes rules to regulate such matters as (i) consumer product quality and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labeling and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

Advertising Regulations

The Ad Standards Council Circulars in the Advertising Industry as formulated by the Ad Standards Council, a non-stock, non-profit organization, established by the Kapisanan ng mga Brodkaster ng Pilipinas, Philippine Association of National Advertisers and Association of Accredited Advertising Agencies handles the screening of all broadcast, out-of-home and print advertising and settlement of disputes regarding advertising content.

Foreign Investment Laws and Restrictions

Retail Trade Liberalization Act

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

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

- Category A — Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens;

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

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

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

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

Foreign Investment Act of 1991

The FIA liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. The oil refining and distribution business is not found in the latest 8thNegative List of the FIA.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term “Philippine National” is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly-owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100%

Filipino-owned corporation. A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

Local Government Code

The Local Government Code establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The Local Government Code general welfare clause states that every local government unit ("LGU") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, though its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Securities and Exchange Commission

Under the SRC, the SEC has jurisdiction and supervision over all corporations, partnerships or associations that are grantees of primary franchises, license to do business or other secondary licenses. As the government agency regulating the Philippine securities market, the SEC issues regulations on the registration and regulation of securities exchanges, the securities market, securities trading, the licensing of securities brokers and dealers and reportorial requirements for publicly listed companies and the proper application of SRC provisions, as well as the Corporation Code, and certain other statutes.

Department of Trade and Industry

The DTI is the primary government agency with the dual mission of facilitating the creation of a business environment wherein participants could compete, flourish, and succeed and, at the same time, ensuring consumer welfare. It is the enforcement of laws to protect and educate consumers that becomes the driving factor in the relationship of DTI and manufacturers, such as SMC.

Department of Labor and Employment

Department of Labor and Employment stands as the national government agency mandated to formulate policies, implement programs and services, and serve as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The Department has exclusive authority in the administration and enforcement of labor and employment laws and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

Social Security System and PhilHealth

An employer, or any person who uses the services of another person in business, trade, industry or any undertaking is required under the Social Securities Act of 1997 (Republic Act No. 8282) ensure coverage of employees following procedures set out by the law and the Social Security System ("SSS"). The employer must deduct from its employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

PhilHealth is a government corporation attached to the Department of Health ("DOH") that ensures sustainable, affordable and progressive social health insurance pursuant to the provisions of RA 7875 or the National Health Insurance Act of 1995. Employers are required to ensure enrollment of its employees in a National Health Program being administered by the PhilHealth.

THE BEVERAGE BUSINESS

Various government agencies in the Philippines regulate the different aspects of the beer manufacturing, sales and distribution business of the Company. Philippine national and local government legislation require a license to sell alcoholic beverages and prohibit the sale of alcoholic beverages to persons below 18 years of age or within a certain distance from schools and churches.

The Bureau of Food and Drugs (under the DOH) administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people. Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The Department of Health also prescribed the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers.

THE FOOD BUSINESS

Health Regulations

The Food and Drugs Administration ("FDA") (under the DOH) administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people.

Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The DOH (which includes the FDA, formerly known as the Bureau of Food and Drugs) is the government agency tasked to implement the Consumer Act with respect to food products. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers. Under the Consumer Act, the DOH also has the authority to order the recall, ban, or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

The FDDC Act

The Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the "FDDC Act"), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The FDA is the governmental agency under the DOH tasked to implement and enforce the FDDC Act.

The FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of any health product that is adulterated, unregistered or misbranded; and (ii) the manufacture, importation, exportation, transfer or distribution of any food, cosmetic or household/urban hazardous substance by any natural or juridical person without the license to operate from the FDA required under the FDDC Act.

Any person found in violation of any of the provisions of the FDDC Act shall be subject to administrative penalties or imprisonment or both. Furthermore, the health products found in violation of the provisions of the FDDC Act and other relevant laws, rules and regulations may be seized and held in custody pending proceedings, without hearing or court order, when the director-general of the FDA has reasonable cause to believe from facts found by him/her or an authorized officer or employee of the FDA that such health products may cause injury or prejudice to the consuming public.

The Livestock and Poultry Feeds Act

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

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

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

The Meat Inspection Code

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

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

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

with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

The Price Act

Repulbic Act No. 7851 or the Price Act (the "Price Act") covers basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. It is primarily enforced and implemented by the DA and DTI.

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

The Philippine Food Fortification Act

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

THE FUEL AND OIL BUSINESS

Downstream Oil Industry Deregulation Act

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Oil Deregulation Act"), provides the regulatory framework for the country's downstream oil industry.

Under the Oil Deregulation Act, any person may import or purchase any quantity of crude oil and petroleum products from foreign and domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Act in March 11, 1998 through Department Circular No. 98-03-004.

The DOE is the lead Philippine government agency overseeing the oil sector. With the enactment of the Oil Deregulation Act, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. The current function of the DOE is solely to

monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Act include the following:

- monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;

- monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;

- maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;

- immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and

- in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

Other Regulatory Requirements

Petroleum products are subject to Philippine National Standards specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the Philippine National Standards. The Oil Deregulation Act also requires the registration with the DOE of any fuel additive prior to its use in a product.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/transshipment; (c) distribution/ operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper Philippine government authorities.

Other Relevant Tax-related Regulations

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3% to 5%, but was later reduced to 3% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3% import duty on crude oil shall be adjusted to 2%, 1% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate tariffs on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. Under the ASEAN Trade in Goods Agreement, crude oil and refined petroleum products imported from ASEAN Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

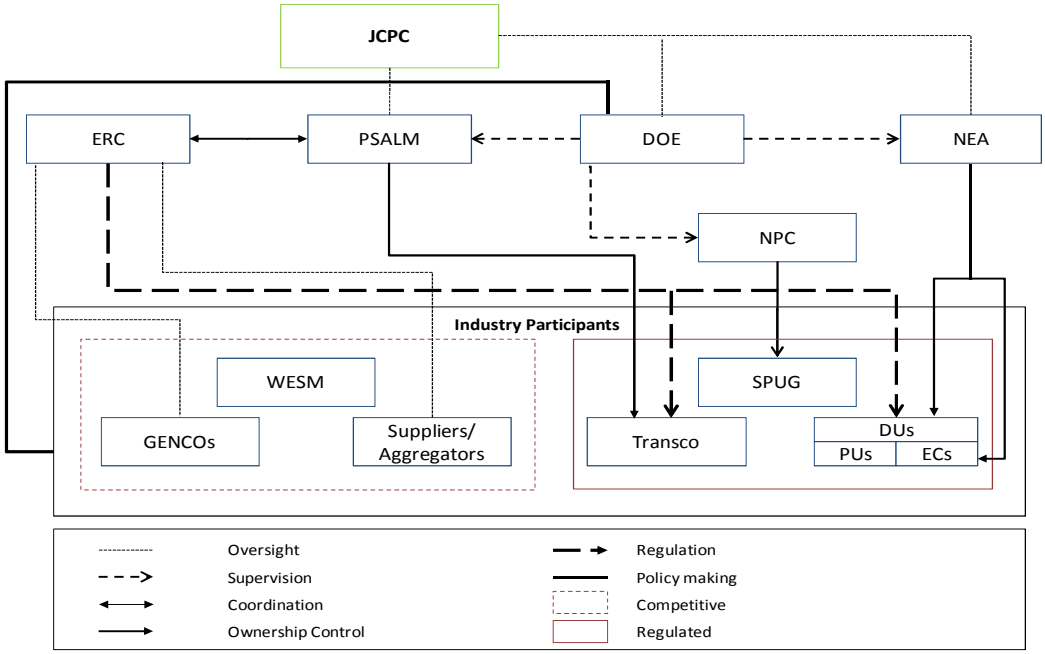
Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity.

THE ENERGY BUSINESS

Organization and Operation of the Power Industry

The EPIRA established a framework for the organization and operation of the electric power industry in connection with its restructuring, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Power Industry Structure under the EPIRA



Note:
DUs: Distribution Utilities
ECs: Electric Cooperatives
GENCOs: Any entity authorized by the ERC to operate electricity generation facilities
JCPC: Joint Congressional Power Commission
PUs: Production Utilities

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Philippine government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;

- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and to broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to ensure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant government agencies, electric power industry participants, non-government organizations and electricity consumers, promulgated the Implementing Rules and Regulations of the EPIRA (the "EPIRA IRR") on February 27, 2002.

The EPIRA IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely the DOE, NPC, National Electrification Administration ("NEA"), ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission and distribution sectors will remain regulated. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate government agencies under existing laws.

Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anti-competitive behavior. The ERC may impose fines and penalties for violation of the EPIRA and the EPIRA IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers and private distribution utilities, or through spot sale transactions in the Wholesale Electricity Spot Market ("WESM"). Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any

revenue therefrom. Upon commencement of retail competition and open access, generation rates, except those intended for the "Captive Market" (i.e., a market of electricity end-users who may not choose their supplier of electricity), will cease to be regulated.

The generation sector converts fuel and other forms of energy into electricity. This sector, by utility, consists of the following: (i) NPC-owned and -operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned and -operated plants, all of which supply electricity to NPC; and (iii) IPP-owned and -operated plants that supply electricity to customers other than NPC. Successes in the privatization process of NPC continue to build up momentum for the power industry reforms.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to retail electricity suppliers through either bilateral contracts or the WESM as described below. Once the regime of retail competition and open access is implemented, generation companies may likewise sell electricity to eligible end-users. The ERC issued a resolution on January 24, 2007 prescribing the timeline for full retail competition and open access in Luzon. Pursuant to Section 31 of the EPIRA, such implementation is subject to the fulfillment of five conditions. The last of these conditions have been substantially fulfilled, namely: (1) the establishment of WESM; (2) unbundling of transmission and distribution wheeling charges; (3) initial implementation of the cross-subsidy removal scheme; and (4) privatization of at least 70% of the total capacity of the generating assets of NPC in Luzon and Visayas, with the successful asset turnover of the rebidding for the 600 MW Calaca coal-fired power plant in August 2009. To date, the one condition that remains unsatisfied is the transfer to IPPAs the management and control of at least 70% of the total energy output of power plants under contract with NPC and the IPPs. The same was accomplished in 2011 . No generation company is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectiveness of the EPIRA.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP agreements of NPC, which exclude the assets devoted to missionary electrification through the NPC Small Power Utilities Group ("SPUG"). NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

As of June 30, 2011, PSALM has privatized 25 operating/generating power facilities with an aggregate rated capacity of 3,468.23 MW accounting for 91.80% of the total 3,778.23 MW total rated capacity of NPC generating assets in the Luzon and Visayas grids. Major generation assets include the 748 MW Tiwi-Makban geothermal power plant, the 655 MW Limay combined-cycle power plant, the 600 MW Calaca coal-fired thermal power plant, the 600 MW Masinloc coal-fired thermal power plant, the 360 MW Magat hydro-electric power plant and the 305 MW Palinpinon-Tongonan geothermal power plant. In addition, as of June 30, 2011, IPPA agreements covering generation assets with an aggregate rated capacity of 4,213.75 MW, or approximately 85.90% of the total energy output of power plants under contract with NPC and IPPAs have been awarded. These include IPPA agreements for the 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the San Roque Power Plant, the 70 MW Bakun hydro-electric power plant, the 40 MW Benguet hydro-electric power plant and the 1,200 MW Ilijan combined-cycle gas-fired power plant.

In terms of market share limitations, no generation company is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas, or Mindanao and/or 25% of the total nationwide installed generating capacity. To date, there is no power generation company, including NPC, breaching the mandated ceiling. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the enactment of EPIRA.

Requirement of Public Offering for Generation Companies

Under Section 43(t) of the EPIRA, the ERC was mandated to issue rules and guidelines under which, among others, generation companies which are not publicly listed shall offer and sell to the public a portion of not less than 15% of their common shares of stock.

ERC Resolution No. 9, Series of 2011, the latest ruling of the ERC with regard to public offerings of generation companies and distribution utilities, adopted the rules to implement Section 43(t) of the EPIRA. Under the resolution, generation companies, among others, which are not publicly listed are required to sell to the public a portion of not less than 15% of their common shares of stock. If the authorized capital stock of a generation company is fully subscribed, such company must increase its authorized capital stock by 15% or sell or cause the sale of 15% of its existing subscribed capital stock in order to comply with the public offering requirement under the EPIRA.

Any offer of common shares of stock for sale to the public through any of the following modes may be deemed as a public offering for purposes of compliance with the public offering requirement under the EPIRA: (1) listing on the PSE; and (2) listing of the shares of stock in any accredited stock exchange or direct offer of the required portion of a company's capital stock to the public. For generation companies registered with the BOI under the Omnibus Investments Code, the public offering requirement may be complied with by a direct offer of the required portion of the registered enterprise's shares of stock to the public or through its employees through an employee stock option plan (or any plan analogous thereto), provided such offer is deemed feasible and desirable by the BOI.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP agreements that have not been disposed of by PSALM.

The Transmission Sector

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the operation of the electrical transmission systems throughout the Philippines. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("Grid Code"). TransCo is also mandated to provide Open Access to all industry participants. The EPIRA granted TransCo a monopoly over the high-voltage network and subjected it to performance-based regulations.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated common carrier business, the transmission wheeling charges of TransCo are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of a concession over, the transmission assets while the subtransmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of US$3.95 billion. NGCP was officially granted the authority to operate the country's sole transmission system on January 15, 2009.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or Philippine Electricity Market Corporation ("PEMC"). These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;
- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity;
- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and
- other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity ("CPCN") from the ERC to operate as public utilities.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code ("Distribution Code") (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules ("DSOAR") and the performance standards set out in the EPIRA IRR.

The distribution sector is and will continue to be regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is subject to ERC approval. In addition, as a result of the Philippine government's policy of promoting free competition and open access, distribution utilities are required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of retail open access.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines.

The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connected to a distribution system;
- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and
- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function is currently being undertaken solely by franchised distribution utilities. However, upon commencement of retail open access, the supply function will become competitive. The business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to the "Contestable Market" (i.e., a market of electricity end-users who have a choice on their supplier of electricity) is considered a business with a public interest dimension. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

Once retail competition and open access are implemented as mandated by the EPIRA, it is expected that the Contestable Markets may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. The EPIRA also contemplates that certain end-users will directly source power directly through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level. It has been planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

Role of the ERC

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive end-users, including self-generating entities;
- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator to ensure a greater supply and rational pricing of electricity;
- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the Contestable and Captive Markets;
- to fix user fees to be charged by TransCo/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;
- to review all power purchase contracts executed between NPC and IPPs, including the distribution utilities;
- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;

- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;
- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and
- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all government activities pertaining to energy projects;
- encouragement of private investment in the power industry sector and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine Senate and House of Representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;
- endorsement of the initial privatization plan of PSALM for approval by the President of the Philippines;
- ensuring transparency in the public bidding procedures adopted for the privatization of the generation and transmission assets of NPC;
- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA; and
- recommendation of necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

Competitive Market Devices

Wholesale Electricity Spot Market

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of retail competition and open access, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

In June 28, 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly trading period). These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

In November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM became operational in the Luzon grid on June 26, 2006. Prior to the commencement of the Luzon WESM commercial operations, the ERC issued the enforcement of 90% cap on the bilateral supply contracts of distribution utilities to address other issues that may arise during the commercial operations of the WESM. The ERC is responsible for monitoring the 90% cap on power sourced from bilateral PSCs of distribution utilities' total monthly demand.

As of the date of this Prospectus, there were more than 200 entities registered as WESM members.

Retail Competition and Open Access

The EPIRA likewise provides for a system of retail competition and open access on transmission and distribution wires, whereby TransCo/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. Conditions for the commencement of the open access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

The Philippine government expects retail competition and open access to be implemented in phases. As far as Luzon is concerned, the WESM began operations in June 2006 and retail competition has already been introduced, with end-users who comprise the Contestable Market for this purpose already identified.

The ERC officially declared December 26, 2011 as the open access date, marking the commencement of the full operation of the competitive retail electricity market in Luzon and Visayas. This declaration (ERC Resolution No. 10 Series of 2011) was signed on June 6, 2011.

On October 24, 2011, through ERC Case No. 2011-009 RM, the ERC declared the deferment of the open access date. The ERC found that not all rules, systems, preparations, and infrastructures required to implement retail competition and open access have been put in place to allow a December 26, 2011 open access commencement. For instance, the accounting and billing system had not been finalized. The essential business-to-business system, an information technology structure that shall handle the information exchange among retail competition and open access participants, is also not yet in place. A final open access date has yet to be announced, but is expected to occur late in 2012.

Upon implementation of open access, the various contracts entered into by utilities and suppliers may potentially be "stranded". Stranded contract cost refers to the excess of the contracted cost of electricity under eligible IPP contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that transmission and distribution wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility. The initial implementation of the cross-subsidy removal scheme was accomplished in 2001.

These arrangements are now in place, in satisfaction of the conditions for retail competition and open access.

The EPIRA likewise provides for a socialized pricing mechanism such as the lifeline rate subsidy to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of ten years, unless extended by law. Its application was extended for another 10 years by Republic Act No. 10150, which was approved on June 2011.

Implementation of the PBR

On June 22, 2009, the ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering Performance Based Regulation ("PBR") for the fourth entry points, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation ("RORB") that has historically determined the distribution charges paid by the distribution companies' customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor. For each year during the regulatory period, a distribution utility's distribution charge is adjusted upwards or downwards taking into consideration the utility's efficiency factor set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the EPIRA IRR, President Arroyo enacted Executive

Order No. 100 on May 3, 2002, to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements for the two most recent 12-months periods, if available, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

The ERC also governs the approval process for Power Supply Agreement ("PSAs") between distribution utilities and power suppliers. Under ERC Resolution No. 38, Series of 2006, Rule 20 (B), the ERC specified that the procedures established by the Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Rates (ERC Res. No. 11, s. 2005), shall also be applicable for PSAs of the distribution utilities. Aside from the regulatory certificates from the SEC, BOI, DOE, and the like, the ERC also requires additional documentary support for PSA approval. For instance, they require financial data such as debt-to-equity ratios, project costs, annual interests, weighted average cost of capital, bank loans, to name a few. The ERC also requires a specification of the cash flow on the initial costs, operating & maintenance expenses, Minimum Energy Offtake ("MEOT"), fuel costs, and the like. In addition, technical and economic characteristics of the generating plant such as the kWh generation (basis of maintenance allowance), installed capacity, mode of operation, and dependable capacity, also need to be presented for ERC approval.

Both resolutions specify that ERC must render a decision within 90 days from the date of filing of the application. If no decision is rendered within the 90 day period, the PSA shall be deemed approved, unless the extension of the period is due to extraordinary circumstances

Upon the introduction of retail competition and open access, the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction and operation, including environmental licenses and permits.

THE PACKAGING BUSINESS

Safety and Quality Regulations under the Consumer Act

The DTI is tasked to implement the Consumer Act with respect to labels and packaging of consumer products other than food products, and regulates product labeling, proper and correct description of goods, product labels with foreign characters/languages, data/information on product contents and origins and other similar matters.

Manufacturers, distributors, importers or repackers of consumer products are required to indicate in their labels or packaging, a parallel translation in the English or Filipino language of the nature, quality and quantity and other relevant prescribed information or instructions of such consumer products in a manner that cannot be easily removed, detached or erased. In addition to the information required to be displayed in the principal and secondary panels, DTI Adminstrative Order No. 01-08 mandates that all consumer products sold in the Philippines, whether manufactured locally or imported shall indicate and specify the (i) country of manufacture; (ii) required information of consumption duration safety; (iii) warranty of the manufacturer; (iv) weight content prior to packaging; (v) consumer complaint desk address; and (vi) all other information necessary for giving effect to a consumer's right to information.

The packaging of consumer products must not cause the purchaser to be deceived as to the contents, size, quantity, measurement or fill of the product. For consumer products which are packaged in such a way that the contents cannot be seen or inspected upon purchase, samples or labeling describing the product inside the package, in words, in pictorial or graphical representation or by similar means, shall be provided for the inspection of the purchaser. Such sample or description should accurately represent the product in the package.

With respect to the packaging and repackaging of food products, such activities are regulated by the DOH and the FDA as discussed above. Establishments engaged in these activities are required to comply with, among others, the current guidelines on good manufacturing practice in manufacturing, packing, repacking, or holding food promulgated by the DOH.

ENVIRONMENTAL MATTERS

The operations of the businesses of SMC are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

EISS Law

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

Clean Water Act

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

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the Maritime Industry Authority ("MARINA") and the Philippine Coast Guard. Both are agencies under the Philippine Department of Transportation and Communications.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA mandated the use of double-hull vessels for transporting Black Products beginning at end of 2008 and by year 2011 for White Products.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills.

Moreover, both the Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

Clean Air Act

The Clean Air Act provides for air quality standards and regulations against air pollution. It provides that the DENR shall have authority to issue permits as it may determine necessary for the prevention and abatement of air pollution. Said permits shall cover emission limitations for regulated air pollutants to help attain and maintain the ambient air quality standards. Under the implementing rules and regulations of the Clean Air Act, all sources of air pollution are required to obtain a valid Permit to Operate while new or modified sources must first obtain an Authority to Construct. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Air Act.

The Clean Air Act provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Clean Air Act mandates the sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by January 1, 2004 nationwide. The law also regulates the use of any fuel or fuel additives. Furthermore, the Clean Air Act prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or additive unless these

have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for certain petroleum products following strict time-bound and quality-specific targets under the mandate of the Clean Air Act and the DOE initiative on alternative fuels.

The Biofuels Act of 2006

Republic Act No. 9637, also known as "The Biofuels Act of 2006", aims to reduce the dependence of the transport sector on imported fuel and mandates that, starting February 2009, at least 5% bioethanol shall comprise the total annual volume of gasoline fuel sold by every oil company. Oil companies are allowed to blend the different premium gasoline grades with 10% ethanol to be sold in selected areas to achieve the 5% of total gasoline volume requirement. The requirement to sell ethanol blended gasoline commenced on February 9, 2009. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In 2008, a Joint Administrative Order known as the "Guidelines Governing the Biofuel Feedstock Production and Biofuel Blends Production, Distribution and Sale" (the "Guidelines") was issued by various Philippine government agencies. The Guidelines provide for responsibilities of oil companies in the sourcing and blending of biodiesel and bioethanol with diesel and gasoline. The Guidelines mandate that oil companies should source biofuels only from biofuel producers accredited by the DOE or from Biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, an oil company's failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

Renewable Energy Act of 2008

Republic Act No. 9513, also known as "The Renewable Energy Act" aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, and wind through various tax incentives. Some of the tax incentives granted to renewable energy developers under the law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for power generated from these energy sources; and (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday.

Other Laws

Other regulatory environmental laws and regulations applicable to the businesses of SMC include the following:

- The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. Said Act is implemented by the DENR.

- The Ecological Solid Waste Management Act of 2000 provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. Said Act prohibits, among others, the transporting and dumping of collected solid wastes in areas other than such centers and facilities prescribed thereunder. The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.

- The Sanitation Code provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis. Said Code is implemented by the DOH.

The Philippine Stock Market

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

Brief History

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

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

In June 1998, the Philippine SEC granted the Self-Regulatory Organization ("SRO") status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of ₱36.8 million, of which ₱30.6 million is subscribed and fully paid-up. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the trading facilities of the PSE. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

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

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

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

The table below sets out movements in the composite index from 1995 up to December 1, 2010 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ 'billions)	Combined Value of Turnover (in ₱ 'billions)
1995	2,594.2	205	1,545.7	379.0
1996	3,170.6	216	2,121.1	668.9
1997	1,869.2	221	1,261.3	588.0
1998	1,968.8	221	1,373.7	408.7
1999	2,142.9	226	1,938.6	713.9
2000	1,494.5	230	2,577.6	357.6
2001	1,168.1	232	2,142.6	159.5
2002	1,018.4	234	2,083.2	159.7
2003	1,442.2	236	2,973.8	145.4
2004	1,822.8	236	4,766.2	206.6
2005	2,096.0	237	5,948.4	383.5
2006	2,982.5	240	7,172.8	572.6
2007	3,621.6	244	7,980.0	1,340.0
2008	1,872.9	248	4,070.0	763.9
2009	3,052.7	248	6,029.1	994.2
2010	4,201.1	253	8,866.1	1,207.4
2011	4.372.0	253	8,697.0	1,422.6
2012*				

*as of [ ]
Source: Philippine Stock Exchange, Inc.

Trading

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

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

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

Whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of a security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

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

(ii) In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for Security Cluster A

and newly-listed securities; 15% for Security Cluster B; and 10% for Security Cluster C); otherwise, such order will be rejected by the PSE.

Settlement

The Securities Clearing Corporation of the Philippines ("SCCP") is a private institution organized primarily as a clearance and settlement agency for depository eligible trades executed on the PSE. The PSE holds 100% ownership of SCCP. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

(a) synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment (DVP) clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the Exchange;

(b) guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund ("CTGF"), and;

(c) performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three (3) trading days after transaction date ("T+3"). The deadline for settlement of trades is 12:00 noon on T+3. Securities sold should be in scripless form and lodged under the book-entry system of the Philippine Depository & Trust Corporation's ("PDTC", formerly the Philippine Central Depository, Inc). Each Trading Participant maintains a Cash Settlement Account with one of the four existing Settlement Banks of SCCP which are Banco de Oro Unibank, Inc., Deutsche Bank AG (Manila Branch), Metropolitan Bank & Trust Company and Rizal Commercial Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.
SCCP implemented its new clearing and settlement system called Central Clearing and Central Settlement ("CCCS") on May 29, 2006. CCCS employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-Eligible trade cleared through it.

Scripless Trading

In 1995, the PDTC, was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Banco de Oro Unibank, Inc., Deutsche Bank AG (Manila Branch), Metropolitan Bank & Trust Company and Rizal Commercial Banking Corporation.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation (''PCD Nominee''), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. ''Immobilization'' is the process by which the warrant or share certificates of lodging holders are canceled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of PCD

Nominee through the PDTC participant will be recorded in the registry of the Issuer. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PDC nominee. The expenses for upliftment are for the account of the uplifting shareholder.

If the shares will be kept in scripless form, the PDTC currently imposes a maintenance and custody fee. The fee payable to the PDTC shall be for the account of the stockholder.
The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are canceled and a new certificate is issued in the name of PCD Nominee Corp. to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current ''de facto'' custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the Securities Regulation Code. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the Exchange shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the Philippine SEC.

For listing applications, the amended rule on lodgment of securities is applicable to:

a. The offer shares/securities of the applicant company in the case of an initial public offering;

b. The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Philippine SEC in the case of a listing by way of introduction;

c. New securities to be offered and applied for listing by an existing listed company; and

d. Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

For new companies to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the Transfer Agent on the companies shall no longer issue a certificate to PCD Nominee Corp but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date.

On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCD Nominee evidencing the total number of shares registered in the name of PCD Nominee in the registry of the Issuer as of confirmation date.

Issuance of Certificated Offer Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply to PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of certificated shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of beneficial ownership in the shares to certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until certificated shares shall have been issued by the relevant company's transfer agent.

Appendix

A. Reviewed Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2012

B. Audited Consolidated Financial Statements as of and for the years ended December 31, 2011, 2010 and 2009

C. List of properties owned and leased by SMC

A. Reviewed Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2012

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

ANNEX "A"

ASSETS

	2012 Unaudited	2011 Audited
Current Assets		
Cash and cash equivalents (Notes 7 and 8)	₱ **143,510**	₱ 128,975
Trade and other receivables - net (Notes 3, 7 and 8)	**100,287**	84,472
Inventories	**92,705**	65,720
Current portion of biological assets - net	**4,171**	4,124
Prepaid expenses and other current assets (Notes 7 and 8)	**27,547**	22,620
	368,220	305,911
Assets held for sale	**10**	2,268
Total Current Assets	**368,230**	308,179
Noncurrent Assets		
Investments and advances - net	**164,127**	166,854
Available-for-sale financial assets (Notes 7 and 8)	**2,219**	2,068
Property, plant and equipment - net (Note 4)	**341,198**	319,626
Investment properties - net	**2,955**	2,850
Biological assets - net of current portion	**1,869**	1,812
Goodwill - net	**41,699**	30,990
Other intangible assets - net	**11,294**	11,407
Deferred tax assets	**8,653**	8,233
Other noncurrent assets - net (Notes 3, 7 and 8)	**34,610**	38,517
Total Noncurrent Assets	**608,624**	582,357
	₱ **976,854**	₱ 890,536

LIABILITIES AND EQUITY

	2012 Unaudited	2011 Audited
Current Liabilities		
Drafts and loans payable (Notes 7 and 8)	₱ **103,055**	₱ 82,588
Accounts payable and accrued expenses (Notes 3, 7 and 8)	**84,207**	61,629
Finance lease liabilities - current portion (Notes 7 and 8)	**15,387**	15,388
Income and other taxes payable	**10,840**	9,041
Dividends payable	**2,038**	2,153
Current maturities of long-term debt - net of debt issue costs (Notes 3, 7 and 8)	**19,275**	19,453
	234,802	190,252
Liabilities directly associated with assets held for sale	**-**	578
Total Current Liabilities	**234,802**	190,830
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 3, 7 and 8)	**209,254**	191,967
Deferred tax liabilities	**12,596**	11,257
Finance lease liabilities - net of current portion (Notes 7 and 8)	**189,043**	192,873
Other noncurrent liabilities (Notes 7 and 8)	**5,506**	4,509
Total Noncurrent Liabilities	**416,399**	400,606
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	**16,397**	16,397
Capital stock - preferred	**4,852**	4,852
Additional paid-in capital	**103,579**	103,511
Revaluation increment	**1,355**	1,443
Cumulative translation adjustments	**5,284**	5,264
Retained earnings:		
Appropriated	**24,664**	24,315
Unappropriated	**146,969**	141,126
Treasury stock	**(67,430)**	(67,441)
	235,670	229,467
Amounts recognized directly in equity relating to assets held for sale	**-**	(53)
	235,670	229,414
Non-controlling Interests	**89,983**	69,686
Total Equity	**325,653**	299,100
	₱ **976,854**	₱ 890,536

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

CERTIFIED CORRECT:

BELLA C. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Period Ended March 31, 2012 and 2011 (Unaudited)
(In Millions, Except Per Share Data)

	2012	2011
SALES (Note 2)	₱ **142,039**	₱ 126,592
COST OF SALES	**115,345**	99,300
GROSS PROFIT	**26,694**	27,292
SELLING AND ADMINISTRATIVE EXPENSES	**(11,853)**	(10,157)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(7,169)**	(6,757)
INTEREST INCOME	**1,102**	1,451
EQUITY IN NET EARNINGS OF ASSOCIATES	**1,350**	630
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	**538**	50
OTHER INCOME (CHARGES) - Net	**3,879**	(59)
INCOME BEFORE INCOME TAX	**14,541**	12,450
INCOME TAX EXPENSE	**2,806**	2,414
NET INCOME	₱ **11,735**	₱ 10,036
Net Income Attributable to :		
Equity Holders of the Parent Company	₱ **8,477**	₱ 7,138
Non-controlling Interests	**3,258**	2,898
	₱ **11,735**	₱ 10,036
Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 5):		
Basic	₱ **2.96**	₱ 2.44
Diluted	₱ **2.94**	₱ 2.42

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended March 31, 2012 and 2011 (Unaudited)
(In Millions)

	2012	2011
NET INCOME	₱ 11,735	₱ 10,036
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(390)	183
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	256	(748)
INCOME TAX BENEFIT	-	4
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	156	(1)
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	22	(562)
TOTAL COMPREHENSIVE INCOME - NET OF TAX	₱ 11,757	₱ 9,474
Comprehensive Income Attributable to :		
Equity Holders of the Parent Company	₱ 8,497	₱ 6,654
Non-controlling Interests	3,260	2,820
	₱ 11,757	₱ 9,474

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

CERTIFIED CORRECT:

BELLA C. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended March 31, 2012 and 2011 (Unaudited)
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in	Revaluation	Cumulative Translation Adjustments		Retained Earnings		Treasury			
	Common	Preferred	Capital	Increment	Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated	Stock	Total		
As of January 1, 2012 (Audited)	₱ 16,397	₱ 4,852	₱ 103,511	₱ 1,443	₱ 5,662	₱ (451)	₱ 24,315	₱ 141,126	₱ (67,441)	₱ 229,414	₱ 69,686	₱ 299,100
Foreign currency translation differences	-	-	-	-	(394)	-	-	-	-	(394)	4	(390)
Share in comprehensive income of associates	-	-	-	-	-	156	-	-	-	156	-	156
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	258	-	-	-	258	(2)	256
Other comprehensive income (loss)	-	-	-	-	(394)	414	-	-	-	20	2	22
Net income for the period	-	-	-	-	-	-	-	8,477	-	8,477	3,258	11,735
Total comprehensive income (loss) for the period	-	-	-	-	(394)	414	-	8,477	-	8,497	3,260	11,757
Issuance of capital stock	-	-	5	-	-	-	-	-	-	5	-	5
Reissuance of treasury stock	-	-	6	-	-	-	-	-	11	17	-	17
Stock options	-	-	57	-	-	-	-	-	-	57	-	57
Net addition to non-controlling interests and others	-	-	-	(88)	53	-	-	-	-	(35)	19,189	19,154
Appropriations - net	-	-		-	-	-	349	(349)	-	-	-	-
Cash dividends (Note 6):												
Common	-	-	-	-	-	-	-	(829)	-	(829)	(1,376)	(2,205)
Preferred	-	-	-	-	-	-	-	(1,456)	-	(1,456)	(776)	(2,232)
As of March 31, 2012 (Unaudited)	₱ 16,397	₱ 4,852	₱ 103,579	₱ 1,355	₱ 5,321	₱ (37)	₱ 24,664	₱ 146,969	₱ (67,430)	₱ 235,670	₱ 89,983	₱ 325,653
As of January 1, 2011 (Audited)	₱ 16,343	₱ 4,852	₱ 101,406	₱ 1,391	₱ 5,241	₱ 124	₱ 5,671	₱ 150,544	₱ (69,541)	₱ 216,031	₱ 50,794	₱ 266,825
Foreign currency translation differences	-	-	-	-	253	-	-	-	-	253	(70)	183
Share in comprehensive loss of associates	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	(736)	-	-	-	(736)	(8)	(744)
Other comprehensive income (loss)	-	-	-	-	253	(737)	-	-	-	(484)	(78)	(562)
Net income for the period	-	-	-	-	-	-	-	7,138	-	7,138	2,898	10,036
Total comprehensive income (loss) for the period	-	-	-	-	253	(737)	-	7,138	-	6,654	2,820	9,474
Issuance of capital stock	10	-	171	-	-	-	-	-	-	181	-	181
Stock options	-	-	59	-	-	-	-	-	-	59	-	59
Addition to non-controlling interests	-	-	-	-	-	-	-	-	-	-	14,906	14,906
Appropriations - net	-	-	-	-	-	-	929	(929)	-	-	-	-
Cash dividends (Note 6):												
Common	-	-	-	-	-	-	-	(816)	-	(816)	(1,106)	(1,922)
Preferred	-	-	-	-	-	-	-	(1,456)	-	(1,456)	(238)	(1,694)
As of March 31, 2011 (Unaudited)	₱ 16,353	₱ 4,852	₱ 101,636	₱ 1,391	₱ 5,494	₱ (613)	₱ 6,600	₱ 154,481	₱ (69,541)	₱ 220,653	₱ 67,176	₱ 287,829

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

CERTIFIED CORRECT:

BELLA C. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended March 31, 2012 and 2011 (Unaudited)
(In Millions)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 14,541	₱ 12,450
Adjustments for :		
Depreciation, amortization and others - net	41	2,606
Interest expense and other financing charges	7,169	6,757
Interest income	(1,102)	(1,451)
Equity in net earnings of associates	(1,350)	(630)
Gain on sale of investments and property and equipment	(538)	(50)
Operating income before working capital changes	18,761	19,682
Changes in noncash current assets, certain current liabilities and others	(11,431)	(11,508)
Cash generated from operations	7,330	8,174
Interest and other financing charges paid	(3,414)	(2,792)
Income taxes paid	(1,024)	(1,489)
Net cash flows provided by operating activities	2,892	3,893
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	(17,997)	-
Additions to investments and advances	(16)	(840)
Additions to property, plant and equipment	(8,012)	(3,331)
Payment of other liabilities	(2,122)	(14,082)
Payments by (advances to) related parties - net	7,574	(1,506)
Increase in other noncurrent assets and others	(620)	(383)
Proceeds from sale of investments and property and equipment	2,036	71
Interest received	905	1,481
Dividends received from associates	362	362
Net cash flows used in investing activities	(17,890)	(18,228)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from :		
Short-term borrowings	127,100	107,355
Long-term borrowings	23,247	12,869
Payments of:		
Short-term borrowings	(121,073)	(113,801)
Long-term borrowings	(5,015)	(714)
Payment of finance lease liabilities	(4,350)	(2,979)
Cash dividends paid	(2,269)	(1,455)
Dividends paid to non-controlling shareholders	(2,283)	(560)
Proceeds from issuance of capital stock	5	181
Net proceeds from issuance of preferred shares of a subsidiary	14,406	14,829
Net cash flows provided by financing activities	29,768	15,725
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(235)	(175)
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,535	1,215
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	128,975	125,188
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱ 143,510	₱ 126,403

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION (Parent Only)
ACCOUNTS RECEIVABLE - NON-TRADE
MARCH 31, 2012
(AMOUNTS IN MILLIONS)

		TOTAL	OVER 90 DAYS
ACCOUNTS RECEIVABLE - NON-TRADE	₱	249	249
ALLOW. FOR DOUBTFUL ACCOUNTS		(249)	
NET	₱	0	

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated interim financial statements as of and for the period ended March 31, 2012 and comparative financial statements for the same period in 2011 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

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

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7, Financial Instruments: Disclosures),* require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets. Entities are required to apply the amendments for annual period beginning on or after July 1, 2011.

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

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

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

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

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

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements).* The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The effective date of the amendment is for periods beginning on or after January 1, 2013.

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

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

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

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

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

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

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

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

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

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

2. Segment Information

Operating Segments

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

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

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

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

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

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

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

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

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

Inter-segment Transactions

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

Financial information about reportable segments follow:

	Beverage		Food		Packaging		Power Generation and Distribution		Fuel and Oil		Infra-structure		Telecommu-nications		Others		Eliminations		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2(**	2(	**2(**	2(	**2012**	2011	**2012**	2011	**2012**	2011
Sales																				
External sales	**P21,99**	P22,13(	**P22,39**	P20,59(	**P4,76**	P4,95	**P19,14**	P16,	**P73,431**	P62,761			**1**		**P –**	P	**P –**	P	**P142,039**	P126,59
Inter-segment sales	**31**	1	**1**	–	**1,089**	727	**219**	197	**1,224**	1,289	–	–	–	–	–	–	**(2,564)**	(2,214)	–	–
Total sales	**P22,02**	P22,13'	**P22,39**	P20,59(	**5,85**	P5,67	**P19,36**	P16,	**P74,655**	P64,050			**1**		**P –**	P –	**(P2,564)**	(P2,21	**P142,039**	P126,59
Results																				
Segment results	**P5,03**	P4,97'	**P65**	P1,55	**P51**	P46	**P4,95**	P3,	**P4,618**	P6,996	(		**(1**	(1	**(P976)**	(P169	**P154**	P12	**P14,841**	P17,13

3. **Related Party Disclosures**

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

	Relationship with Related Parties	Period	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
Petron Corporation Employee Retirement Plan (PCERP)	Retirement plan	**March 31, 2012**	**P -**	**P -**	**P 16,008**	**P -**
		December 31, 2011	-	-	23,247	-
Meralco	Associate	**March 31, 2012**	**9,846**	**346**	**6,384**	**35**
		December 31, 2011	32,871	494	4,166	60
SMC Retirement Plan (SMCRP)	Retirement plan	**March 31, 2012**	**-**	**-**	**5,802**	**-**
		December 31, 2011	-	-	5,755	-
Top Frontier Investment Holdings, Inc.	Associate	**March 31, 2012**	**-**	**-**	**2,537**	**-**
		December 31, 2011	-	-	2,592	-
Petrochemical Asia (HK) Limited	Associate	**March 31, 2012**	**-**	**-**	**687**	**-**
		December 31, 2011	-	-	701	-
Atlantic Aurum Investments BV	Associate	**March 31, 2012**	**-**	**-**	**525**	**90**
		December 31, 2011	-	-	537	-
Liberty Telecommunications Holdings, Inc.	Associate	**March 31, 2012**	-	**-**	**433**	-
		December 31, 2011	47	-	433	-
Ginebra San Miguel, Inc. Retirement Plan	Retirement plan	**March 31, 2012**	**-**	**-**	**137**	**-**
		December 31, 2011	-	-	137	-
Thai San Miguel Liquor Co. Ltd.	JVC	**March 31, 2012**	**-**	**-**	**118**	**-**
		December 31, 2011	-	-	118	-
Hormel Netherlands, BV	Shareholder in a subsidiary	**March 31, 2012**	**-**	**-**	**35**	**-**
		December 31, 2011	-	-	19	-
Private Infra Dev Corporation	Associate	**March 31, 2012**	**60**	**-**	**23**	**-**
		December 31, 2011	95	-	13	-
Manila North Harbour Port Inc.	Associate	**March 31, 2012**	**-**	**14**	**11**	**-**
		December 31, 2011	-	-	6	-
Kirin Holdings Company, Limited and subsidiaries	Shareholder in a subsidiary	**March 31, 2012**	**2**	**1**	**4**	**-**
		December 31, 2011	19	18	4	-
Bank of Commerce (BOC)	Associate	**March 31, 2012**	**4**	**-**	**3**	**-**
		December 31, 2011	31	-	13	-
Limay Energen Corp.	Associate	December 31, 2011	-	1,393	-	-
Super Coffee Corporation Pte. Ltd.	Shareholder in a subsidiary	**March 31, 2012**	**-**	**-**	**-**	**43**
		December 31, 2011	-	-	-	61
Others	Others	**March 31, 2012**	-	**76**	**4**	**195**
		December 31, 2011	1	76	4	205
		March 31, 2012	**P9,912**	**P437**	**P32,711**	**P363**
		December 31, 2011	P33,064	P1,981	P37,745	P326

a. Amounts owed by related parties consist of trade and non-trade receivables, share in expenses and cash advances.

b. Amounts owed to related parties consist of trade payables, professional fees and cash advances.

c. The Parent Company has advances to SMCRP amounting to P5,802 and P5,755 as of March 31, 2012 and December 31, 2011, respectively, included as part of "Trade and other receivables" account in the consolidated statements of financial position.

d. Petron has outstanding advances to PCERP for some investment opportunities, included as part of "Other noncurrent assets" account in the consolidated statements of financial position.

e. Golden Food and Dairy Creamery Corporation has an outstanding loan from BOC amounting to P198 and P204, as of March 31, 2012 and December 31, 2011, respectively, included as part of "Long-term debt" account in the consolidated statements of financial position.

f. San Miguel Brewery Hong Kong has an outstanding loan from BOC amounting to US$30 as of March 31, 2012, included as part of "Long-term debt" account in the consolidated statements of financial position.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2012

	January 1, 2012	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	March 31, 2012
Cost:					
Land and land improvements	**P16,408**	**P453**	**P312**	**P6**	**P17,1**
Buildings and improvements	**32,662**	**33**	**(239)**	**(199)**	**32,2**
Power plants	**214,319**	**-**	**-**	**-**	**214,3**
Refinery and plant equipment	**37,810**	**-**	**4,365**	**-**	**42,1**
Service stations and other equipment	**6,070**	**410**	**11,995**	**-**	**18,4**
Machinery and equipment	**86,664**	**332**	**604**	**(423)**	**87,1**
Telecommunications equipment	**7,394**	**134**	**1**	**-**	**7,5**
Transportation equipment	**10,880**	**359**	**(35)**	**(7)**	**11,1**
Tools and small equipment	**2,507**	**45**	**(85)**	**10**	**2,4**
Office equipment, furniture and fixtures	**4,806**	**37**	**(56)**	**(9)**	**4,7**
Molds	**809**	**37**	**(43)**	**(1)**	**8**
Leasehold improvements	**1,551**	**5**	**97**	**-**	**1,6**
Construction in progress	**21,009**	**6,167**	**(30)**	**(1)**	**27,1**
	442,889	**8,012**	**16,886**	**(624)**	**467,1**
Accumulated depreciation and amortization:					
Land improvements	**2,612**	**36**	**(5)**	**(2)**	**2,6**
Buildings and improvements	**12,100**	**268**	**(290)**	**(46)**	**12,0**
Power plants	**10,628**	**1,296**	**-**	**-**	**11,9**
Refinery and plant equipment	**18,579**	**507**	**-**	**-**	**19,0**
Service stations and other equipment	**4,221**	**158**	**-**	**-**	**4,3**
Machinery and equipment	**48,620**	**1,002**	**(5)**	**(136)**	**49,4**
Telecommunications equipment	**5,406**	**82**	**-**	**-**	**5,4**
Transportation equipment	**2,947**	**199**	**(31)**	**(6)**	**3,1**
Tools and small equipment	**1,810**	**50**	**(89)**	**5**	**1,7**
Office equipment, furniture and fixtures	**3,724**	**82**	**(182)**	**(7)**	**3,6**
Molds	**638**	**56**	**(20)**	**(1)**	**6**
Leasehold improvements	**655**	**23**	**8**	**(1)**	**6**
	111,940	**3,759**	**(614)**	**(194)**	**114,8**

(forward)

	January 1, 2012	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	March 31, 2012
Accumulated impairment losses:					
Land improvements	**P385**	**P-**	**P-**	**P-**	**P3**
Buildings and improvements	**3,812**	**-**	**(1)**	**(84)**	**3,7**
Machinery and equipment	**7,007**	**-**	**(47)**	**(114)**	**6,8**
Telecommunications equipment	**45**	**-**	**-**	**-**	
Transportation equipment	**13**	**-**	**-**	**(1)**	
Tools and small equipment	**20**	**-**	**-**	**(1)**	
Office equipment, furniture and fixtures	**41**	**-**	**-**	**(1)**	
	11,323	**-**	**(48)**	**(201)**	**11,0**
Net book value	**P319,626**	**P4,253**	**P17,548**	**(P229)**	**P341,1**

March 31, 2011

	January 1, 2011	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	March 31, 2011
Cost:					
Land and land improvements	P15,277	P370	(P107)	(P18)	P15,5
Buildings and improvements	32,224	235	5,788	(84)	38,1
Power plants	214,899	-	-	-	214,8
Refinery and plant equipment	37,286	3	6	-	37,2
Service stations and other equipment	5,319	71	34	-	5,4
Machinery and equipment	85,763	413	(4,227)	(246)	81,7
Telecommunications equipment	1,002	-	-	-	1,0
Transportation equipment	8,615	68	(396)	(1)	8,2
Tools and small equipment	2,327	115	(21)	(24)	2,3
Office equipment, furniture and fixtures	4,194	57	(1,171)	(5)	3,0
Molds	702	65	(28)	-	7
Leasehold improvements	1,237	1	-	-	1,2
Construction in progress	6,097	1,933	(32)	3	8,0
	414,942	3,331	(154)	(375)	417,7
Accumulated depreciation and amortization:					
Land improvements	2,462	35	(3)	1	2,4
Buildings and improvements	10,732	256	(3,941)	(31)	7,0
Power plants	5,611	1,344	-	-	6,9
Refinery and plant equipment	16,545	515	(6)	-	17,0
Service stations and other equipment	3,742	142	(14)	-	3,8
Machinery and equipment	46,652	837	2,430	(133)	49,7
Telecommunications equipment	678	32	-	-	7
Transportation equipment	2,389	156	331	-	2,8
Tools and small equipment	1,691	(14)	42	(16)	1,7
Office equipment, furniture and fixtures	3,585	64	1,373	(3)	5,0
Molds	510	205	(165)	-	5
Leasehold improvements	555	44	6	(1)	6
	95,152	3,616	53	(183)	98,6
Accumulated impairment losses:					
Land improvements	412	-	-	-	4
Buildings and improvements	3,829	-	-	(9)	3,8
Machinery and equipment	7,403	-	(8)	(5)	7,3
Transportation equipment	12	-	-	-	
Tools and small equipment	20	-	-	-	
Office equipment, furniture and fixtures	41	-	-	-	
	11,717	-	(8)	(14)	11,6
Net book value	P308,073	(P285)	(P199)	(P178)	P307,4

Depreciation and amortization charged to operations amounted to P3,759 and P3,616 in March 2012 and 2011, respectively.

5. Basic and Diluted Earnings Per Share (EPS)

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

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

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

Basic and Diluted EPS is computed as follows:

	March	
	2012	2011
Income attributable to equity holders of the Parent Company	**P8,477**	P7,138
Less dividends on preferred shares for the period (a)	**1,456**	1,456
Net income attributable to common shareholders of the Parent Company (b)	**P7,021**	P5,682
Weighted average number of common shares outstanding (in millions) - basic (c)	**2,369**	2,331
Effect of dilution - common	**16**	14
Weighted average number of common shares outstanding (in millions) - diluted (d)	**2,385**	2,345
Common:		
Basic EPS (b/c)	**P2.96**	P2.44
Diluted EPS (b/d)	**P2.94**	P2.42

6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to P0.35 per share both in March 2012 and 2011.

On April 18, 2012, the Parent Company's BOD declared cash dividend at P0.35 per share, payable on May 28, 2012 to all common shareholders as of May 4, 2012.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P1.50 per share both in March 2012 and 2011.

7. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,148 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 at March 31, 2012 and December 31, 2011, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

March 31, 2012	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed rate							
Philippine peso-denominated	**P14,217**	**P1,897**	**P28,129**	**P1,212**	**P6,162**	**P26,430**	**P78,047**
Interest rate	**4.25% - 9.33%**	**4.25% - 9.33%**	**4.25% - 9.33%**	**4.25% - 9.33%**	**4.25% - 9.33%**	**4.25% - 10.5%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**25,649**	**12,876**	**-**	**-**	**38,525**
Interest rate			**2%**	**7%**			
Floating rate							
Philippine peso-denominated	**1,025**	**875**	**947**	**11,550**	**-**	**-**	**14,397**
Interest rate	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**			
Foreign currency-denominated (expressed in Philippine peso)	**4,411**	**12,545**	**27,084**	**50,499**	**5,886**	**-**	**100,425**
Interest rate	**LIBOR and THBFIX + margin**	**LIBOR and THBFIX + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**		
	P19,653	**P15,317**	**P81,809**	**P76,137**	**P12,048**	**P26,430**	**P231,394**

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%	5.4885% - 9.33%	6.145% - 9.33%	6.3212% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	-	-	26,216	-	13,152	-	39,368
Interest rate			2%		7%		
Floating rate							
Philippine peso-denominated	1,025	875	1,104	11,550	-	-	14,554
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin			
Foreign currency-denominated (expressed in Philippine peso)	3,577	4,115	13,323	59,656	997	-	81,668
Interest rate	LIBOR and THBFIX + margin	LIBOR and THBFIX + margin	LIBOR and THBFIX + margin	LIBOR + margin	LIBOR + margin		
	P19,642	P5,503	P69,927	P72,476	P20,197	P26,230	P213,975

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:

	March 31, 2012		December 31, 2011	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,753**	**P75,259**	US$1,386	P60,759
Trade and other receivables	**1,083**	**46,453**	567	24,879
AFS financial assets	**25**	**1,073**	20	862
Noncurrent receivables	**289**	**12,395**	44	1,918
	3,150	**135,180**	2,017	88,418
Liabilities				
Drafts and loans payable	**424**	**18,193**	88	3,878
Accounts payable and accrued expenses	**1,488**	**63,808**	661	28,990
Long-term debt (including current maturities)	**3,110**	**133,488**	2,761	121,036
Finance lease liabilities	**2,550**	**109,353**	2,574	112,751
Other noncurrent liabilities	**77**	**3,304**	10	434
	7,649	**328,146**	6,094	267,089
Net foreign currency-denominated monetary liabilities	**(US$4,499)**	**(P192,966)**	(US$4,077)	(P178,671)

The Group reported net foreign exchange gains amounting to P3,689 and P1,440 in 2012 and 2011, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
December 31, 2010	43.84
March 31, 2011	43.39
December 31, 2011	43.84
March 31, 2012	42.92

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 March 31, 2012 and December 31, 2011:

March 31, 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	**(P1,368)**	**(P1,343)**	**P1,368**	**P1,343**
Trade and other receivables	**(215)**	**(1,018)**	**215**	**1,018**
AFS financial assets	**-**	**(25)**	**-**	**25**
Noncurrent receivables	**(24)**	**(281)**	**24**	**281**
	(1,607)	**(2,667)**	**1,607**	**2,667**
Drafts and loans payable	**6**	**422**	**(6)**	**(422)**
Accounts payable and accrued expenses	**463**	**1,348**	**(463)**	**(1,348)**
Long-term debt (including current maturities)	**3,080**	**2,187**	**(3,080)**	**(2,187)**
Finance lease liabilities	**2,548**	**1,784**	**(2,548)**	**(1,784)**
Other noncurrent liabilities	**11**	**74**	**(11)**	**(74)**
	6,108	**5,815**	**(6,108)**	**(5,815)**
	P4,501	**P3,148**	**(P4,501)**	**(P3,148)**

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

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

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

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

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

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

March 31, 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	**P143,510**	**P143,510**	**P143,510**	**P -**	**P -**	**P -**
Trade and other receivables - net	**100,287**	**100,287**	**100,287**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**167**	**167**	**167**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**211**	**211**	**211**	**-**	**-**	**-**
AFS financial assets	**2,219**	**2,219**	**-**	**2,219**	**-**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**19,972**	**19,972**	**-**	**19,972**	**-**	**-**

(forward)

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Drafts and loans payable	**P 103,055**	**P 103,498**	**P 103,498**	**P -**	**P -**	**P -**
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**83,893**	**83,893**	**83,893**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**132**	**132**	**132**	**-**	**-**	**-**
Long-term debt (including current maturities)	**228,529**	**267,962**	**29,815**	**25,185**	**183,364**	**29,598**
Finance lease liabilities (including current portion)	**204,430**	**295,569**	**17,945**	**19,404**	**64,968**	**193,252**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**3,245**	**3,245**	**-**	**3,245**	**-**	**-**

December 31, 2011

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

(forward)

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

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

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

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

	March 31,	December 31,
Cash and cash equivalents	**P143,510**	P128,975
Trade and other receivables - net	**100,287**	84,472
Derivative assets	**167**	121
Financial assets at FVPL	**211**	194
AFS financial assets	**2,219**	2,068
Noncurrent receivables and deposits - net	**19,972**	27,471
	P266,366	P243,301

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

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

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

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

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

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

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

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

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

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

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

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

8. **Financial Assets and Financial Liabilities**

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

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

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

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

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

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

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

Financial Assets

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are

evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in the consolidated statements of changes in equity. Any interest earned shall be recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL shall be recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets and financial assets at FVPL are classified under this category.

The combined carrying amounts of financial assets under this category amounted to P378 and P315 as of March 31, 2012 and December 31, 2011, respectively.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included in this category.

The combined carrying amounts of financial assets under this category amounted to P263,769 and P240,918 as of March 31, 2012 and December 31, 2011, respectively.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be

recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of March 31, 2012 and December 31, 2011, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest Income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity and debt securities included under "Available-for-sale financial assets" account are classified under this category.

The carrying amounts of financial assets under this category amounted to P2,219 and P2,068 as of March 31, 2012 and December 31, 2011, respectively.

Financial Liabilities
Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense" in the consolidated statements of income.

The Group's derivative liabilities are classified under this category.

The carrying amounts of financial liabilities under this category amounted to P132 and P118 as of March 31, 2012 and December 31, 2011, respectively.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral

part of the effective interest rate of the liability.

Included in this category are the Group's liabilities arising from its trade or borrowings such as drafts and loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities.

The combined carrying amounts of financial liabilities under this category amounted to P623,152 and P566,041 as of March 31, 2012 and December 31, 2011, respectively.

Debt Issue Costs
Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

Derecognition of Financial Assets and Financial Liabilities
Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses at the reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

Classification of Financial Instruments Between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P143,510**	**P143,510**	P128,975	P128,975
Trade and other receivables - net	**100,287**	**100,287**	84,472	84,472
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**167**	**167**	121	121
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**211**	**211**	194	194
AFS financial assets	**2,219**	**2,219**	2,068	2,068
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**19,972**	**19,972**	27,471	27,471
Financial Liabilities				
Drafts and loans payable	**103,055**	**103,055**	82,588	82,588
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**83,893**	**83,893**	61,424	61,424
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**132**	**132**	118	118
Long-term debt (including current maturities)	**228,529**	**242,416**	211,420	228,523
Finance lease liabilities (including current portion)	**204,430**	**204,430**	208,261	208,261
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**3,245**	**3,245**	2,348	2,348

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables and Noncurrent Receivables and Deposits. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Drafts and Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of drafts and loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of March 31, 2012 and December 31, 2011, discount rates used for Philippine peso-denominated loans range from 2.5% to 5.7% and 1.7% to 5.4%, respectively. The discount rates used for foreign currency-denominated loans range from 0.3% to 1.0% as of March 31, 2012 and December 31, 2011. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments Accounted for as Hedges

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized

firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in profit or loss. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if the hedging instrument expired, sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

As of March 31, 2012 and December 31, 2011, the Group has no outstanding derivatives accounted for as fair value hedges.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is recognized in profit or loss.

As of March 31, 2012 and December 31, 2011, the Group has no outstanding derivatives accounted for as cash flow hedge.

Net Investment Hedge. As of March 31, 2012 and December 31, 2011, the Group has no hedge of a net investment in a foreign operation.

Other Derivative Instruments Not Designated as Hedges
The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Freestanding Derivatives
Freestanding derivatives consist of commodity and currency derivatives entered into by the Group.

Currency Forwards
As of March 31, 2012 and December 31, 2011, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$549 and US$220, respectively, and with various maturities in 2012. As of March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these currency forwards amounted to (P12) and P40, respectively.

Currency Options
The Group entered into short-term currency options with an aggregate notional amount of US$985 and with net negative fair value of P45 as of March 31, 2012. The Group has no outstanding currency option agreements as of December 31, 2011.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of March 31, 2012 and December 31, 2011 is 2,055 and 845 metric tons, respectively. As of March 31, 2012 and December 31, 2011, the net negative fair value of these swaps amounted to P4 and P13, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps as of March 31, 2012 and December 31, 2011 is 1.2 and 1.8 million barrels, respectively. As of March 31, 2012 and December 31, 2011, the positive fair value of these swaps amounted to P192 and P147, respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of March 31, 2012 and December 31, 2011 of 99,337 and 47,083 metric tons, respectively. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these options amounted to P19 and (P5), respectively.

As of March 31, 2012 and December 31, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 5,625 and 7,439 metric tons, respectively. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of March 31, 2012 and December 31, 2011, the positive (negative) fair value of these options amounted to P6 and (P5), respectively.

As of March 31, 2012 and December 31, 2011, the Group has outstanding commodity options covering its crude oil requirements with notional quantity of 1.5 and 1.3 million barrels, respectively. These call and put options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. The net positive (negative) fair value of these options as of March 31, 2012 and December 31, 2011 amounted to (P100) and P47, respectively.

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

Embedded Currency Forwards
As of March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$216 and US$201, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2012 and December 31, 2011, the net positive (negative) fair value of these embedded currency forwards amounted to P79 and (P2), respectively.

Embedded Currency Options
As of March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$20 and US$24, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. As of March 31, 2012 and December 31, 2011, the net negative fair value of these embedded currency options amounted to P8 and P11, respectively.

For the periods ended March 31, 2012 and 2011 and December 31, 2011 and 2010, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P76), (P1,662), P182, and P660, respectively.

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of March 31, 2012 and December 31, 2011. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

March 31, 2012

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P12**	**P155**	**P167**
Financial assets at FVPL	**211**	**-**	**211**
AFS financial assets	**1,276**	**943**	**2,219**
Financial Liabilities			
Derivative liabilities	**1**	**131**	**132**

December 31, 2011

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P2	P119	P121
Financial assets at FVPL	194	-	194
AFS financial assets	1,069	999	2,068
Financial Liabilities			
Derivative liabilities	10	108	118

As of March 31, 2012 and December 31, 2011, the Group has no financial instruments valued based on Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

9. Events After the Reporting Date

a. *Investment in Trustmark Holdings Corporation (Trustmark) and Zuma Holdings and Management Corporation (Zuma)*

On March 28, 2012, the BOD of the Parent Company approved its investment, through San Miguel Equity Investments Inc. (SMEII), in the Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (Air Phil). On April 3, 2012, the Parent Company, through SMEII, and the Lucio Tan Group signed investment agreements whereby SMEII agreed to subscribe to unissued common shares constituting 49% of the outstanding capital stock of Trustmark and Zuma, the holding companies of PAL and Air Phil, respectively. The investment resulted in the Parent Company indirectly owning a minority stake in PAL and Air Phil.

b. *Issuance of Bonds by San Miguel Brewery Inc. (SMB)*

On April 2, 2012, SMB completed the offering of its Philippine Peso-denominated fixed rate bonds in the aggregate principal amount of P20,000 ("P20 billion Bonds") with its issuance of the P20 billion Bonds and receipt of the proceeds amounting to P20,000. The P20 billion Bonds consisted of the following: Series D Bonds with the aggregate principal amount of P3,000 having a term of 5 years and 1 day beginning on April 2, 2012 ("Issue Date") and ending on April 3, 2017, with a fixed

interest rate of 6.05% per annum; Series E Bonds with an aggregate principal amount of P10,000 having a term of 7 years beginning on Issue Date and ending on April 2, 2019, with a fixed interest rate of 5.93% per annum; and Series F Bonds with an aggregate principal amount of P7,000 having a term of 10 years beginning on Issue Date and ending on April 2, 2022, with a fixed interest rate of 6.60% per annum. The Series E Bonds and Series F Bonds of the P20 billion Bonds were listed on Philippine Dealing & Exchange Corp. on the same date.

On April 3, 2012, SMB completed the payment of the aggregate principal amount of the Series A fixed rate bonds ("Series A Bonds") of P13,590, which matured on the same day. The Series A Bonds form part of the P38,800 fixed rate bonds that were issued by SMB in 2009. Part of the proceeds of SMB's ₱20 billion Bonds offering was used to settle the Series A Bonds maturity.

On April 13,2012, SMB made a partial prepayment of its P300 term facility in the amount of US$100. A subsequent partial prepayment was made on April 27, 2012 in the amount of US$50. Part of the proceeds of SMB's ₱20 billion Bonds offering was used for the said prepayments.

c. *Share Purchase Agreement with CIMB Bank Berhad (CIMB) for the Sale of Equity Ownership in Bank of Commerce (BOC)*

On May 8, 2012, the Parent Company through San Miguel Properties, Inc. (SMPI), together with the other stockholders of BOC, namely, SMCRP and Q-Tech Alliance Holdings, Inc., have executed a share purchase agreement with CIMB for the sale of up to 65,083,087 fully paid ordinary shares, equivalent to a 58% equity interest in BOC for a total consideration of up to approximately 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 and the Bank of Negara Malaysia.

CIMB is a 99.99% subsidiary of CIMB Group Sdn Bhd. of Malaysia while the Parent Company owns 98.45% of the outstanding stock of SMPI.

10. **Other Matters**

a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

b. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.

c. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

d. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

e. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

f. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual statements of financial position date, except for Note 26 (c-1) of the 2011 Audited Consolidated Financial Statements that remain outstanding as of March 31, 2012. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2012.

h. The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

i. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of March 31, 2012. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

B. Audited Consolidated Financial Statements as of and for the years ended December 31, 2011, 2010 and 2009

ANNEX "B"

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011, 2010 and 2009

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
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Branches · Subic · Cebu · Bacolod · Iloilo

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

We have audited the accompanying consolidated financial statements of San Miguel Corporation and Subsidiaries which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, Group A, valid until December 31, 2013
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Group A, valid until December 17, 2014

KPMG

ANNEX "B-1"

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Corporation and Subsidiaries as at December 31, 2011 and 2010, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2011, in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO., CPAs

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-3, Group A, valid until January 4, 2015
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3174023MA
Issued January 2, 2012 at Makati City

March 28, 2012, except as to Note 46, which is as of April 3, 2012
Makati City, Metro Manila

SAN MIGUEL CORPORATION

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, 2011, 2010 and 2009, 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 examined 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 examination.

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.

MAR 2 8 2012

Before me, a Notary Public for and in Mandaluyong City this _____ day of March 2012, personally appeared:

Name	Passport Nos.	Date/Place Issued
Eduardo M. Cojuangco, Jr.	XX1347206	June 6, 2008; Manila
Ramon S. Ang	XX4227006	July 27, 2009; Manila
Ferdinand K. Constantino	XX0167306	November 24, 2007; 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. 336;
Page No. 69;
Book No. 07;
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 C

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Millions)

		December 31	
	Note	**2011**	2010
ASSETS			
Current Assets			
Cash and cash equivalents	*9, 41, 42*	**P128,975**	P125,188
Trade and other receivables - net	*4, 10, 34, 41, 42*	**84,472**	75,904
Inventories	*4, 11*	**65,720**	57,442
Current portion of biological assets - net	*18*	**4,124**	3,267
Prepaid expenses and other current assets	*12, 36, 41, 42*	**22,620**	16,914
		305,911	278,715
Assets held for sale	*5, 8*	**2,268**	823
Total Current Assets		**308,179**	279,538
Noncurrent Assets			
Investments and advances - net	*4, 5, 13*	**166,854**	152,814
Available-for-sale financial assets	*14, 41, 42*	**2,068**	3,597
Property, plant and equipment - net	*4, 16*	**319,626**	308,073
Investment properties - net	*4, 17*	**2,850**	2,133
Biological assets - net of current portion	*4, 18*	**1,812**	1,479
Goodwill - net	*4, 5, 19, 39*	**30,990**	30,251
Other intangible assets - net	*4, 5, 19*	**11,407**	10,980
Deferred tax assets	*4, 25*	**8,233**	7,134
Other noncurrent assets - net	*4, 20, 34, 36, 41, 42*	**38,517**	33,801
Total Noncurrent Assets		**582,357**	550,262
		P890,536	P829,800
LIABILITIES AND EQUITY			
Current Liabilities			
Drafts and loans payable	*21, 41, 42*	**P82,588**	P74,128
Accounts payable and accrued expenses	*22, 34, 35, 36, 41, 42*	**61,629**	69,774
Finance lease liabilities - current portion	*4, 35, 41, 42*	**15,388**	10,946
Income and other taxes payable		**9,041**	10,001
Dividends payable	*37*	**2,153**	826
Current maturities of long-term debt - net of debt issue costs	*23, 34, 41, 42*	**19,453**	12,549
		190,252	178,224
Liabilities directly associated with assets held for sale	*8*	**578**	-
Total Current Liabilities		**190,830**	178,224

Forward

		December 31	
	Note	**2011**	2010
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*23, 34, 41, 42*	**P191,967**	P156,378
Deferred tax liabilities	*25*	**11,257**	13,752
Finance lease liabilities - net of current portion	*4, 35, 41, 42*	**192,873**	197,461
Other noncurrent liabilities	*4, 24, 36, 41, 42*	**4,509**	17,160
Total Noncurrent Liabilities		**400,606**	384,751
Equity	*23, 26, 37, 38, 40*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		**16,397**	16,343
Capital stock - preferred		**4,852**	4,852
Additional paid-in capital		**103,511**	101,406
Revaluation increment		**1,443**	1,391
Cumulative translation adjustments		**5,264**	5,365
Retained earnings:			
Appropriated		**24,315**	5,671
Unappropriated		**141,126**	150,544
Treasury stock		**(67,441)**	(69,541)
		229,467	216,031
Amounts recognized directly in equity relating to assets held for sale	*8*	**(53)**	-
		229,414	216,031
Non-controlling Interests	*2*	**69,686**	50,794
Total Equity		**299,100**	266,825
		P890,536	P829,800

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In Millions, Except Per Share Data)

	Note	**2011**	2010	2009
SALES	*34*	**P535,775**	P246,156	P174,213
COST OF SALES	*27*	**432,321**	173,929	124,295
GROSS PROFIT		**103,454**	72,227	49,918
SELLING AND ADMINISTRATIVE EXPENSES	*28*	**(47,500)**	(37,619)	(30,249)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*21, 23, 31, 35*	**(27,443)**	(16,578)	(7,926)
INTEREST INCOME	*32*	**4,618**	3,023	5,989
EQUITY IN NET EARNINGS OF ASSOCIATES	*13*	**2,824**	6,817	2,816
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*5, 14, 16, 17*	**1,046**	529	50,630
OTHER INCOME (CHARGES) - Net	*33*	**(12)**	7,095	(6,843)
INCOME BEFORE INCOME TAX		**36,987**	35,494	64,335
INCOME TAX EXPENSE	*25, 43*	**8,483**	11,438	3,706
NET INCOME		**P28,504**	P24,056	P60,629
Attributable to:				
Equity holders of the Parent Company		**P17,518**	P20,091	P57,799
Non-controlling interests		**10,986**	3,965	2,830
		P28,504	P24,056	P60,629
Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*38*			
Basic		**P4.97**	P6.18	P19.21
Diluted		**4.94**	6.14	19.10

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In Millions)

	Note	**2011**	2010	2009
NET INCOME		**P28,504**	P24,056	P60,629
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**356**	(653)	521
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	*13*	**645**	(422)	252
GAIN ON CASH FLOW HEDGES - Net	*42*	**-**	-	222
INCOME TAX EXPENSE		**-**	-	(67)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	*14*	**(1,236)**	447	(33)
INCOME TAX BENEFIT (EXPENSE)		**-**	(45)	3
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX		**(235)**	(673)	898
TOTAL COMPREHENSIVE INCOME - NET OF TAX		**P28,269**	P23,383	P61,527
Attributable to:				
Equity holders of the Parent Company		**P17,417**	P19,611	P58,807
Non-controlling interests		**10,852**	3,772	2,720
		P28,269	P23,383	P61,527

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company												
		Capital Stock		Additional		Cumulative Translation Adjustments			Retained Earnings				Non-	
	Note	Common	Preferred	Paid-in Capital	Revaluation Increment	Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Treasury Stock	Total	controlling Interests	Total Equity
As of January 1, 2011		**P16,343**	**P4,852**	**P101,406**	**P1,391**	**P5,241**	**P -**	**P124**	**P5,671**	**P150,544**	**(P69,541)**	**P216,031**	**P50,794**	**P266,825**
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	474	-	-	-	-	-	474	(118)	356
Share in comprehensive income of associates	*13*	-	-	-	-	-	-	645	-	-	-	645	-	645
Net loss on available-for-sale financial assets	*14*	-	-	-	-	-	-	(1,220)	-	-	-	(1,220)	(16)	(1,236)
Other comprehensive income (loss)		-	-	-	-	474	-	(575)	-	-	-	(101)	(134)	(235)
Net income for the year		-	-	-	-	-	-	-	-	17,518	-	17,518	10,986	28,504
Total comprehensive income (loss) for the year		-	-	-	-	474	-	(575)	-	17,518	-	17,417	10,852	28,269
Issuance of capital stock	*26*	54	-	894	-	-	-	-	-	-	-	948	-	948
Reissuance of treasury stock	*26*	-	-	958	-	-	-	-	-	-	2,100	3,058	-	3,058
Stock options	*40*	-	-	253	-	-	-	-	-	-	-	253	-	253
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	52	-	-	-	-	-	-	52	15,526	15,578
Appropriations - net	*26*	-	-	-	-	-	-	-	18,644	(18,644)	-	-	-	-
Cash dividends	*37*													
Common		-	-	-	-	-	-	-	-	(2,469)	-	(2,469)	(5,395)	(7,864)
Preferred		-	-	-	-	-	-	-	-	(5,823)	-	(5,823)	(2,091)	(7,914)
		54	**-**	**2,105**	**52**	**474**	**-**	**(575)**	**18,644**	**(9,418)**	**2,100**	**13,436**	**18,892**	**32,328**
Amounts recognized directly in equity relating to assets held for sale		-	-	-	-	**(53)**	-	-	-	-	-	**(53)**	-	**(53)**
As of December 31, 2011	*26*	**P16,397**	**P4,852**	**P103,511**	**P1,443**	**P5,662**	**P -**	**(P451)**	**P24,315**	**P141,126**	**(P67,441)**	**P229,414**	**P69,686**	**P299,100**

Forward

		Equity Attributable to Equity Holders of the Parent Company												
		Capital Stock		Additional		Cumulative Translation Adjustments			Retained Earnings				Non-	
	Note	Common	Preferred	Paid-in Capital	Revaluation Increment	Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Treasury Stock	Total	controlling Interests	Total Equity
As of January 1, 2010		P16,150	P4,852	P99,085	P18	P5,737	P -	P108	P5,497	P151,911	(P69,541)	P213,817	P27,121	P240,938
Loss on exchange differences on translation of foreign operations		-	-	-	-	(496)	-	-	-	-	-	(496)	(157)	(653)
Share in comprehensive loss of associates	*13*	-	-	-	-	-	-	(422)	-	-	-	(422)	-	(422)
Net gain (loss) on available-for-sale financial assets, net of tax	*14*	-	-	-	-	-	-	438	-	-	-	438	(36)	402
Other comprehensive income (loss)		-	-	-	-	(496)	-	16	-	-	-	(480)	(193)	(673)
Net income for the year		-	-	-	-	-	-	-	-	20,091	-	20,091	3,965	24,056
Total comprehensive income (loss) for the year		-	-	-	-	(496)	-	16	-	20,091	-	19,611	3,772	23,383
Issuance of capital stock	*26*	193	-	2,121	-	-	-	-	-	-	-	2,314	-	2,314
Stock options	*40*	-	-	200	-	-	-	-	-	-	-	200	-	200
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	(23)	-	-	-	-	-	-	(23)	24,877	24,854
Appropriations - net	*26*	-	-	-	-	-	-	-	174	(174)	-	-	-	-
Cash dividends	*37*													
Common		-	-	-	-	-	-	-	-	(15,584)	-	(15,584)	(4,976)	(20,560)
Preferred		-	-	-	-	-	-	-	-	(5,700)	-	(5,700)	-	(5,700)
Acquisition of subsidiary and others	*5*	-	-	-	1,396	-	-	-	-	-	-	1,396	-	1,396
As of December 31, 2010	*26*	P16,343	P4,852	P101,406	P1,391	P5,241	P -	P124	P5,671	P150,544	(P69,541)	P216,031	P50,794	P266,825

Forward

		Equity Attributable to Equity Holders of the Parent Company												
		Capital Stock		Additional		Cumulative Translation Adjustments			Retained Earnings				Non-	
	Note	Common	Preferred	Paid-in Capital	Revaluation Increment	Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Treasury Stock	Total	controlling Interests	Total Equity
As of January 1, 2009		P16,112	P -	P31,183	P18	P4,882	(P123)	P78	P5,522	P96,298	(P4,053)	P149,917	P18,307	P168,224
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	662	-	-	-	-	-	662	(141)	521
Share in comprehensive income of associates	*13*	-	-	-	-	193	-	59	-	-	-	252	-	252
Gain on cash flow hedges, net of tax	*42*	-	-	-	-	-	123	-	-	-	-	123	32	155
Net loss on available-for-sale financial assets, net of tax	*14*	-	-	-	-	-	-	(29)	-	-	-	(29)	(1)	(30)
Other comprehensive income (loss)		-	-	-	-	855	123	30	-	-	-	1,008	(110)	898
Net income for the year		-	-	-	-	-	-	-	-	57,799	-	57,799	2,830	60,629
Total comprehensive income for the year		-	-	-	-	855	123	30	-	57,799	-	58,807	2,720	61,527
Issuance of capital stock	*26*	38	486	6,563	-	-	-	-	-	-	-	7,087	-	7,087
Exchange of capital stock	*26*	-	4,366	61,122	-	-	-	-	-	-	(65,488)	-	-	-
Stock options	*40*	-	-	217	-	-	-	-	-	-	-	217	-	217
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	-	-	-	-	-	-	-	-	8,392	8,392
Appropriations - net	*26*	-	-	-	-	-	-	-	(25)	25	-	-	-	-
Cash dividends	*37*	-	-	-	-	-	-	-	-	(2,211)	-	(2,211)	(2,298)	(4,509)
As of December 31, 2009	*26*	P16,150	P4,852	P99,085	P18	P5,737	P -	P108	P5,497	P151,911	(P69,541)	P213,817	P27,121	P240,938

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(In Millions)

	Note	**2011**	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P36,987**	P35,494	P64,335
Adjustments for:				
Depreciation, amortization and others - net	*7, 29*	**19,305**	9,457	14,724
Interest expense and other financing charges	*31*	**27,443**	16,578	7,926
Interest income	*32*	**(4,618)**	(3,023)	(5,989)
Equity in net earnings of associates	*13*	**(2,824)**	(6,817)	(2,816)
Gain on sale of investments and property and equipment	*33*	**(1,046)**	(5,019)	(50,630)
Operating income before working capital changes		**75,247**	46,670	27,550
Changes in noncash current assets, certain current liabilities and others	*39*	**(15,788)**	13,111	(1,183)
Cash generated from operations		**59,459**	59,781	26,367
Interest paid		**(14,434)**	(5,155)	(6,348)
Income taxes paid		**(12,818)**	(9,312)	(6,651)
Net cash flows provided by operating activities		**32,207**	45,314	13,368
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of subsidiaries, net of cash and cash equivalents acquired	*39*	**(775)**	(18,978)	(1,494)
Additions to investments and advances	*13*	**(16,338)**	(99,762)	(5,771)
Additions to property, plant and equipment	*7, 16*	**(26,426)**	(8,518)	(6,249)
Payment of other liabilities	*13*	**(24,485)**	-	-
Decrease (increase) in other noncurrent assets and others		**(5,262)**	1,424	(950)
Payment by (advances to) related parties		**(5,709)**	(6,070)	3,243
Proceeds from sale of investments and property and equipment		**1,347**	1,175	55,127
Interest received		**4,523**	3,798	5,249
Dividends received from associates	*13*	**2,637**	-	-
Net cash flows provided by (used in) investing activities		**(70,488)**	(126,931)	49,155

Forward

	Note	**2011**	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P492,117**	P685,768	P691,093
Long-term borrowings		**55,399**	72,937	67,786
Payments of:				
Short-term borrowings		**(483,672)**	(703,376)	(683,569)
Long-term borrowings		**(14,025)**	(29,196)	(44,657)
Payment of finance lease liabilities		**(11,781)**	(4,798)	(12)
Cash dividends paid	*37*	**(6,801)**	(21,118)	(3,301)
Proceeds from issuance of capital stock	*26*	**948**	2,314	7,087
Proceeds from reissuance of treasury stock	*26*	**2,971**	-	-
Dividends paid to non-controlling shareholders		**(7,650)**	(4,883)	(2,192)
Increase in non-controlling interests		**-**	126	315
Net proceeds from issuance of preferred shares of a subsidiary		**14,829**	-	-
Net cash flows provided by (used in) financing activities		**42,335**	(2,226)	32,550
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(181)**	(380)	(2,601)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,873**	(84,223)	92,472
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**125,188**	209,411	116,939
CASH AND CASH EQUIVALENTS ASSOCIATED TO ASSETS HELD FOR SALE	*8*	**(86)**	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	*9*	**P128,975**	P125,188	P209,411

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

San Miguel Corporation (SMC or Parent Company) was incorporated in the Philippines. The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange (PSE). The Group is primarily engaged in the production, processing and marketing of beverage, food and packaging products, power generation and distribution, mining, fuel and oil, infrastructure, telecommunications and management and development of real estate properties. The registered office address of the Parent Company is No. 40 San Miguel Avenue, Mandaluyong City.

2. Basis of Preparation

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 28, 2012.

Basis of Measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the following:

- derivative financial instruments, financial assets at fair value through profit or loss (FVPL), and available-for-sale (AFS) financial assets are measured at fair value;
- defined benefit asset (liability) is measured as the net total of the fair value of the plan assets, less unrecognized actuarial gains (losses) and the present value of the defined benefit obligation; and
- agricultural produce are measured at fair value less estimated costs to sell at the point of harvest.

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information are rounded off to the nearest million (P000,000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership		Country of Incorporation
	2011	2010	
Beverage Business:			
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) [(a)] and subsidiary, Brewery Landholdings, Inc. and San Miguel Brewing International Ltd. (SMBIL) [(b)] and subsidiaries {including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, PT Delta Djakarta Tbk (PT-Delta) [(c)] and a subsidiary, San Miguel (Baoding) Brewery Co. Ltd. [(c)], San Miguel Brewery Vietnam Ltd. (SMBV) [(c)], San Miguel Beer (Thailand) Ltd. (SMBTL) and San Miguel Marketing Thailand Ltd.}]	**51.00**	51.00	Philippines
Ginebra San Miguel, Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc. and Ginebra San Miguel International, Ltd. (GSMIL), Ginebra San Miguel International Holdings Ltd. (GSMIHL), Global Beverage Holdings Ltd. (GBHL) and Siam Holdings Ltd. (SHL)]	**77.63**	78.00	Philippines
San Miguel Foods and Beverage International Limited (SMFBIL) and subsidiaries [including PT San Miguel Indonesia Foods & Beverages (PTSMIFB) [(c)], San Miguel (Thailand) Co. Ltd. (SMTCL) [(c)], San Miguel (Guangdong) Foods & Beverages Co. Ltd. [(c)], San Miguel (Vietnam) Co. Ltd. (SMVCL) [(c)], PT San Miguel Marketing Indonesia[(c)], and San Miguel (Malaysia) Sdn. Bhd.]	**100.00**	100.00	British Virgin Islands (BVI)
Food Business:			
San Miguel Pure Foods Company, Inc. (SMPFC) and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. (SMMI) and subsidiary, Golden Bay Grain Terminal Corporation (GBGTC) [(d)], The Purefoods-Hormel Company, Inc., Magnolia, Inc. (Magnolia) and subsidiaries including Golden Food and Dairy Creamery Corporation (GFDCC) [(e)], San Miguel Super Coffeemix Co., Inc., P.T. San Miguel Pure Foods Indonesia (PTSMPFI) and San Miguel Pure Foods International, Limited (SMPFIL) and subsidiary, San Miguel Pure Foods Investment (BVI) Limited (SMPFI) and subsidiary, San Miguel Hormel (Vn) Co. Ltd. [(f)]]	**99.92**	99.92	Philippines
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiary, SMC Yamamura Fuso Molds Corporation	**65.00**	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Co. Ltd. [(c)], Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Co. Ltd., PT San Miguel Yamamura Utama Indoplas (SMYUI)[(c)], San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Plastic Films Sdn. Bhd. and San Miguel Yamamura Knox Pty. Ltd. (SMYK) [(c, g)] and subsidiaries]	**65.00**	65.00	BVI
Mindanao Corrugated Fibreboard, Inc. (Mincorr) [(c)]	**100.00**	100.00	Philippines
San Miguel Paper Packaging Corporation (SMPPC) [(c)]	**100.00**	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	**60.00**	60.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2011	2010	
Power Generation and Distribution Business:			
SMC Global Power Holdings Corp. (SMC Global) [(h)] and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELCO) and Panasia Energy Holdings, Inc. (PanAsia) [(i)]]	**100.00**	100.00	Philippines
Fuel and Oil Business:			
Sea Refinery Corporation (SRC) and subsidiary, Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation (PMC), Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation[(c)], Petron Singapore Trading Pte. Ltd. and New Ventures Realty Corporation and subsidiary, Las Lucas Construction & Development Corporation] [(j)]	**100.00**	100.00	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. (SMHC) and subsidiaries [including Rapid Thoroughfares Inc. (Rapid), Trans Aire Development Holdings Corp. (TADHC) [(c, k)] and Universal LRT Corporation (BVI) Limited (ULC BVI) [(c, l)]]	**100.00**	100.00	Philippines
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC) and Power Smart Capital Limited (PSCL) [collectively own Bell Telecommunication Philippines, Inc. (BellTel)] and A.G.N. Philippines, Inc. (AGNP)] [(c, m)]	**100.00**	100.00	Philippines
Eastern Telecommunications Philippines, Inc. (ETPI) and subsidiary, Telecommunications Technologies Phils., Inc. (TTPI) [(n)]	**77.70**	-	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) and subsidiaries [including Excel Unified Land Resources Corporation, First HQ Ayala Business Centers, Inc., SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC) and Integrated Geosolutions, Inc. (IGI)] [(c)]	**99.68**	99.68	Philippines
Others:			
SMC Stock Transfer Service Corporation	**100.00**	100.00	Philippines
ArchEn Technologies Inc.	**100.00**	100.00	Philippines
SMITS, Inc. [(c)] and subsidiary	**100.00**	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	**58.33**	58.33	Philippines
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries [including MG8 Terminal Inc. (MG8) [(o)], Keppel Cebu Shipyard Land, Inc. (KCSLI) [(p)] and Mactan Shipyard Corporation (MSC) [(q)]]	**70.00**	70.00	Philippines
Challenger Aero Air Corp.	**100.00**	100.00	Philippines
Pacific Central Properties, Inc. (PCPI)	**100.00**	100.00	Philippines
San Miguel Equity Securities, Inc. (SMESI) [(r)]	**100.00**	-	Philippines
San Miguel Equity Investments Inc. (SMEII) [(s)]	**100.00**	-	Philippines

(a) Consolidated to SMB on November 10, 2010 (Note 6).
(b) Consolidated to SMB effective January 29, 2010 (Note 6).
(c) The financial statements of these subsidiaries were audited by other auditors.
(d) Incorporated on November 8, 2011 (Note 6).
(e) Consolidated to Magnolia effective September 12, 2011 (Note 5).
(f) Formerly San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN)(Note 6).
(g) Formerly JHK Investments Pty Limited. Renamed to "San Miguel Yamamura Knox Pty. Ltd." in February 2010.
(h) Formerly Global 5000 Investment Inc. Consolidated effective July 31, 2010 (Note 5).
(i) Sold to Millenium Holdings, Inc. (MHI) on August 18, 2011 (Note 5).
(j) Consolidated effective December 15, 2010 (Note 5).

(k) Formerly Caticlan International Airport Development Corp. (CIADC). Consolidated to SMHC effective April 8, 2010 (Note 5).
(l) Consolidated to SMHC effective November 8, 2010 (Note 5).
(m) TCCI, PHC, and PSCL were consolidated to Vega effective July 30, 2010. AGNP was consolidated to Vega effective December 30, 2010 (Note 5).
(n) Consolidated effective October 20, 2011. 40% owned by AGNP in 2011 and 2010 and 37.7% owned by SMESI in 2011 (Notes 5 and 6).
(o) Incorporated on March 16, 2011 (Note 6).
(p) Consolidated to SMCSLC effective May 26, 2011 (Note 5).
(q) Incorporated on August 18, 2011 (Note 5).
(r) Incorporated on March 28, 2011 (Notes 5 and 6).
(s) Incorporated on March 23, 2011 (Note 6).

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the Group's equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Group in SMB, GSMI, SMPFC, SMYPC, SMYPIL, SMYAC, SMPI, AIBC, SMCSLC, Petron, TADHC, ULC BVI and IGI in 2011 and 2010 and also ETPI in 2011 and SMPI-GSIS JVC in 2010.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS.

Adopted Effective 2011

The Group has adopted the following PFRS starting January 1, 2011 and accordingly, changed its accounting policies in the following areas:

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments, provided the entity offers the rights, options or warrants pro rata

to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010. The adoption of this amendment to standards did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments,* paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010. The adoption of this Philippine Interpretation did not have a material effect on the consolidated financial statements.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this revision to standard did not have a material effect on the consolidated financial statements.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- *Improvements to PFRS 2010* contain 11 amendments to 6 standards and 1 interpretation. The following are the said amendments to PFRS and interpretation:

  - PFRS 3, *Business Combinations*. The amendments: (a) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (b) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (c) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost, when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to enable users to evaluate better an entity's exposure to risks arising from the financial instruments. In addition, the International Accounting Standards Board amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

Additional disclosures required by the revised standards, amendments to standards and interpretations were included in the consolidated financial statements, where applicable.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 11, *Joint Arrangements*, which will become mandatory for the Group's 2013 financial statements and will require the equity method for joint ventures and PFRS 9, *Financial Instruments,* which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt these standards early and the extent of the impact has not been determined.

The Group will adopt the following new or revised standards, amendments to standards and interpretations on the respective effective dates:

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7),* require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets. Entities are required to apply the amendments for annual period beginning on or after July 1, 2011.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) - 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets,* into PAS 12, and as a result Philippine Interpretation SIC - 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1).* The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The effective date of the amendment is for periods beginning on or after January 1, 2013.

- PFRS 10, *Consolidated Financial Statements,* introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008). The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements,* focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities,* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement,* replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The new standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted and required to be disclosed.

- PAS 19, *Employee Benefits* (amended 2011), includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements* (2011), supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The adoption of the amendment is required for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations,* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and, (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.

- PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before January 1, 2012. PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation - IFRIC 9, *Reassessment of Embedded Derivatives.* The adoption of the new standard is required for annual periods beginning on or after January 1, 2015.

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate,* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The Philippine Securities and Exchange Commission (SEC) issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction costs.

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there is no significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where the transaction price is based on data which are not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial Assets

Financial Assets at FVPL. A financial asset is classified at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented

risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in the consolidated statements of changes in equity. Any interest earned shall be recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL shall be recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets and financial assets at FVPL are classified under this category (Notes 12 and 42).

The combined carrying amounts of financial assets under this category amounted to P315 and P442 as of December 31, 2011 and 2010, respectively (Note 42).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included in this category (Notes 9, 10 and 20).

The combined carrying amounts of financial assets under this category amounted to P240,918 and P225,875 as of December 31, 2011 and 2010, respectively (Note 42).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on

acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2011 and 2010, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest Income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity and debt securities included under "Available-for-sale financial assets" account are classified under this category (Note 14).

The carrying amounts of financial assets under this category amounted to P2,068 and P3,597 as of December 31, 2011 and 2010, respectively (Note 42).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense" in the consolidated statements of income.

The Group's derivative liabilities are classified under this category (Note 22).

The carrying amounts of financial liabilities under this category amounted to P118 and P71 as of December 31, 2011 and 2010, respectively (Note 42).

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

Included in this category are the Group's liabilities arising from its trade or borrowings such as drafts and loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities (Notes 21, 22, 23, 24 and 35).

The combined carrying amounts of financial liabilities under this category amounted to P566,041 and P536,828 as of December 31, 2011 and 2010, respectively (Note 42).

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

Derivative Financial Instruments and Hedging

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in profit or loss. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if the hedging instrument expired, sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

As of December 31, 2011 and 2010, the Group has no outstanding derivatives accounted for as fair value hedges.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is recognized in profit or loss.

As of December 31, 2011 and 2010, the Group has no outstanding derivatives accounted for as a cash flow hedge.

Net Investment Hedge. As of December 31, 2011 and 2010, the Group has no hedge of a net investment in a foreign operation.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derecognition of Financial Assets and Financial Liabilities
Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but

has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses at the reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

Classification of Financial Instruments Between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories

Finished goods, goods in process and materials and supplies are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and conditions are accounted for as follows:

Finished goods and goods in process	-	at cost which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; cost of goods in process also includes unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Petroleum products (except lubes and greases, waxes and solvents), crude oil, and other products	-	at cost which includes duties and taxes related to the acquisition of inventories; costs are determined using the first-in, first-out method.
Lubes and greases, waxes and solvents	-	at cost which includes duties and taxes related to the acquisition of inventories; costs are determined using the moving-average method.
Materials, supplies and others	-	at cost using the moving-average method.
Coal	-	at cost using the first-in, first-out method.

Net realizable value of finished goods is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Net realizable value of goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

For petroleum products, crude oil, and tires, batteries and accessories (TBA), the net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

Net realizable value of materials and supplies, including coal is the current replacement cost.

Containers (i.e., returnable bottles and shells) are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented under deferred containers included under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

Biological Assets and Agricultural Produce

The Group's biological assets include breeding, growing hogs, cattle and poultry livestock and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive

stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets have no active market and no active market for similar assets prior to point of harvest are available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs, efficiency values, production) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result to a reliable basis for determining the fair value.

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using straight-line method over the following estimated productive lives of breeding stocks:

	Amortization Period
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Business Combination

Acquisitions on or after January 1, 2010

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

For acquisitions on or after January 1, 2010, the Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at

cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments.*

    Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimates. The amortization expense on intangible asset with finite life is recognized in profit or loss.

- *Loss of Control*
  Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

Acquisitions Prior to January 1, 2010
In comparison to the above-mentioned requirements, the following differences applied:

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs.

- The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

- Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Transactions Under Common Control
Transactions under common control entered into in contemplation of each other, and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

Non-controlling Interests
For acquisitions of non-controlling interests on or after January 1, 2010, the acquisitions are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Investments in Associates
The Group's investments in associates are accounted for under the equity method of accounting from the date when they become associates. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition. The Group's share of the profit or loss of the associate is recognized as "Equity in net earnings of associates" in the Group's consolidated statements of income. Dividends received from an associate reduce the

carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognized in other comprehensive income.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized.

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Upon acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3. Consequently:

a. goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investment in an associate is reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The financial statements of the associates are prepared for the same reporting period as the Parent Company. The accounting policies of the associates conform to those used by the Group for like transactions and events in similar circumstances.

Interest in Joint Venture

The Group generally recognizes its interest in joint venture using proportionate consolidation. The Group combines its share in each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The joint venture is proportionately consolidated until the date when the Group ceases to have joint control over the joint venture.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO) and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	3 - 43
Refinery and plant equipment	5 - 16
Service stations and other equipment	1 1/2 - 10
Machinery and equipment	3 - 40
Telecommunications equipment	3 - 25
Transportation equipment	5 - 10
Tools and small equipment	2 - 5
Office equipment, furniture and fixtures	2 - 10
Molds	2 - 5
Leasehold improvements	5 - 50 or term of the lease, whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no

further depreciation and amortization are recognized in profit or loss.
An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Investment Properties
Investment properties consist of properties held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties, except for land, are measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Machinery and equipment	3 - 40
Tools and small equipment	2 - 5

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.
Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Computer software and licenses	2 - 8
Service concession rights	25
Mining rights	19 - 30
Leasehold rights	20 or term of the lease, whichever is shorter
Land use rights	25 - 50 or term of the lease, whichever is shorter

The Group assessed the useful life of trademarks and brand names, licenses and formulas and recipes to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Trademarks and brand names, licenses and formulas and recipes, with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Service Concession Arrangements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12*, Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This Interpretation applies to both: (a) infrastructure that the entities in the Group construct or acquire from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts,* and PAS 18, *Revenue,* for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have contractual obligations to fulfill as a condition of its license: (a) to maintain the infrastructure to a specified level of serviceability, or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Intangible Asset - Service Concession Rights

The Group's intangible asset - service concession rights pertains the right granted by the Republic of the Philippines (ROP) to TADHC to operate the Caticlan Airport, or the Airport (the Project, known as the Boracay Airport starting 2011) as expressly stated in the Concession Agreement (CA) (Note 35), the right to design and finance the development of the Project and operate and maintain the Airport during the concession period and the present value of the annual franchise fee, as defined in the CA, payable to the ROP over the concession period of 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by the Group as the project progresses (Note 4).

Intangible asset is carried at cost, as determined above, less accumulated amortization and any accumulated impairment losses.

The intangible asset - service concession right is amortized using the straight-line method over the remaining concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

An intangible asset is derecognized on disposal or when no further economic benefits are expected from use or disposal.

Gain or loss from derecognition of an intangible asset - service concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in profit or loss for the period.

Intangible Asset - Mining Rights

Mining rights that are acquired by the Group and have finite lives are measured at costs less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

Amortization of mining rights is recognized in profit or loss on a straight-line basis over the estimated useful lives. The estimated useful life of mining right is the period from commercial operations to the end of the operating contract. Amortization method and useful life are reviewed at each reporting date and adjusted as appropriate.

Deferred Exploration and Development Costs

Deferred exploration and development costs comprise expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mineral rights, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment under mine development costs.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, investment properties, deferred containers, biological assets - net of current portion, other intangible assets with finite useful lives and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Trademarks and brandnames, licenses and formulas and recipes with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cylinder Deposits

The liquefied petroleum gas cylinders remain the property of the Group and are loaned to dealers upon payment by the latter of an equivalent 100% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities - others" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is credited directly to profit or loss.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and those specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Infrastructure restoration obligation (IRO) represents the present value of the Group's obligation to keep the rehabilitated and upgraded Airport at a serviceability level acceptable to the ROP through continuous maintenance and restoration prior to turnover to the ROP at the end of the concession period.

Share Capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Treasury Shares

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of

the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sales. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery and the amount of revenue can be measured reliably.

Power. Revenue from power generation is recognized in the period actual capacity is generated and transmitted to the customers, net of related discounts.

Service Revenue from Telecommunications. Revenue from telecommunications includes the value of all telecommunications services provided and are recognized when earned and are stated net of the share of other telecommunications administrations, if any, under existing correspondence and interconnection agreements.

Inbound revenue, included as part of the "Sales" account in the consolidated statements of income, represents settlements received from telecommunications providers who sent traffic to the Group's network. Any uncollected revenue is included as part of "Trade and other receivables" account in the consolidated statements of financial position. Inbound revenue is based on agreed payment accounting rates with other carriers.

Interconnection charges are based on rates agreed with other carriers and any unpaid amounts are included as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Both the inbound revenue and interconnection charges are accrued based on actual volume of traffic monitored by the Group from the switch. Adjustments are made on the recorded amount for discrepancies between the traffic volume based on the Group's records and the records of the other carriers. These adjustments are recognized as they are determined and agreed with the other carriers.

Installation fees received from landline subscribers are also credited to operating revenues. The related labor costs on installation are recognized in profit or loss.

Construction Revenue. Revenue related to the Group's recognition of intangible asset on the right to operate the Airport, which is the consideration receivable from ROP relative to the Project and which is earned and recognized (for financial reporting purposes only; it is not taxable) as the Project progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate the Airport.

The Group uses the cost to cost percentage of completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the Project up to the end of the reporting period as a percentage of total estimated cost of the Project.

Construction costs are recognized when incurred or, initially, as CIP with respect to those that relate to the upgrade component of the Project which is yet to start. The cost included in CIP, that relate to the upgrade component of the Project, will be recognized as construction cost upon commencement of the upgrade.

Landing, Take-off, and Parking Fees. Revenue is recognized upon rendering of the service which is the period from landing up to take-off of aircrafts.

Terminal fees. Revenue is recognized upon receipt of fees charged to passengers on departure.

Agricultural Produce. Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

Rent. Revenue from investment properties is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease. Rent income is included as part of other income.

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized if the Group disposes of its investment in a subsidiary, associate, AFS financial assets and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized in the consolidated statements of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized in the consolidated statements of income on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Share-based Payment Transactions

The cost of Long-term Incentive Plan for Stock Options (LTIP) is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of the Parent Company. The cost of Employee Stock Purchase Plan (ESPP) is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expenses recognized for share-based payment transactions, at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in profit or loss.

Capitalized leased assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Retirement Costs

The Parent Company and majority of its subsidiaries have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains and losses, effect of asset limit and effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to the plan, past service cost is recognized immediately as an expense. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceed the greater of 10% of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The transitional liability as of January 1, 2005, the date of adoption of PAS 19, is recognized as an expense over five years from date of adoption.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service costs not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the resulting asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan, net actuarial losses of the current period and past service costs of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service costs of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service costs of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service costs of the current period are recognized immediately.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting date.

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve ("Translation reserve") in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the "Translation reserve" in the consolidated statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will

reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Income and other taxes payable" accounts in the consolidated statements of financial position.

Assets Held for Sale

Noncurrent assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, the assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment properties or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains

and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment losses.
Intangible assets, property, plant and equipment and investment properties once classified as held for sale are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

Discontinued Operations
A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated statements of income are re-presented as if the operation had been discontinued from the start of the comparative period and show the results of discontinued operation separate from the results of continuing operation.

Related Parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the Parent Company's ESPP and LTIP, respectively, which are assumed to be exercised at the date of grant.

Where the effect of the assumed conversion of shares issuable to employees and executives under the Parent Company's stock purchase and option plans would be anti-dilutive, diluted EPS is not presented.

Operating Segments
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 7 to the consolidated financial statements. The Chief Executive Officer (the "chief operating decision maker") reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8, are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's consolidated financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer (IPP) Administration Agreements with Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPP Administration Agreement is an agreement that contains a lease. SMYK also entered into leases of machinery and equipment and transportation equipment needed for business operations. In addition, Thai San Miguel Liquor Co. Ltd. (TSML) and Thai Ginebra Trading (TGT), the Group's joint ventures in Thailand entered into lease agreements with a Thai bank covering transportation equipment. The Group's management has made a judgmwent that it has substantially acquired all the risks and rewards incidental to ownership of the power plants, machinery and equipment and transportation equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, machinery and equipment and transportation equipment and finance lease liabilities at the present value of the agreed monthly payments (Notes 16 and 35).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P208,261 and P208,407 as at December 31, 2011 and 2010, respectively (Note 35). The carrying amount of power plants, machinery and equipment and transportation equipment under finance lease amounted to P203,756 and P209,301 as of

December 31, 2011 and 2010, respectively (Note 16).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P412, P267 and P609 in 2011, 2010 and 2009, respectively (Note 35).

Rent expense recognized in the consolidated statements of income amounted to P2,575, P1,812, and P2,120 in 2011, 2010 and 2009, respectively (Notes 27, 28 and 35).

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its CA with the ROP, significant judgment was applied to determine the most appropriate accounting policy to use. Management used Philippine Interpretation IFRIC 12, as guide and determined that the CA is within the scope of the interpretation since it specifically indicated that ROP will regulate what services the Group must provide and at what prices those will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the CA, will be transferred to the ROP. Reference was made to the terms of the CA in determining the consideration receivable from the ROP in exchange for the fulfillment of the Group's obligations under the CA.

Management determined that the consideration receivable is an intangible asset in the form of a license to operate the Airport; i.e. license to charge fees to users. Judgment was further exercised by management in determining the components of the cost of acquiring the right. Further reference to the terms of the CA (Note 35) was made to determine such costs and it identified the following as the components: (i) total Project cost; (ii) present value of total franchise fees over 25 years and its subsequent amortization; and, (iii) present value of IRO.

Management also exercised judgment in determining the timing and manner of recognition of these costs. Project cost is recognized as part of intangible assets as the construction progresses. The cost to cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at the end of every reporting period as opposed to the percentage of completion approach.

The present value of the IRO will be recognized as part of intangible assets upon completion of the Project and to be amortized simultaneously with the cost related to the Project because only at that time would significant maintenance of the Airport would also commence. However, since the Group has already started the maintenance of the rehabilitated Airport, the entire present value of the annual estimated costs has already been recognized in CIP - service concession arrangements and portion of which representing the actual amount incurred in the current year for the maintenance of the Airport have been recognized as part of the cost of intangible assets and also subjected to amortization.

The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Airport during the last quarter of 2010. Consequently, management has also started amortizing the related value of the intangible asset. The

corresponding obligation has likewise been recognized.

Difference in judgment with respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Recognition of Profit Margin on the Service Concession Project. The Group has not recognized any profit margin on the construction of the Project as it believes that the fair value of the intangible asset related to the Project reasonably approximates the cost of the Project. The Group also believes that the profit margin of its contractors on the rehabilitation of the existing airport and its subsequent upgrade is enough to cover any difference in the fair value and carrying amount of the intangible asset.

Classification of Redeemable Preferred Shares. Based on the features of the preferred shares, particularly mandatory redemption, that TADHC issued, management determined that the shares are in substance a financial liability. Accordingly, it was classified as part of "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 24).

Accounting for SMPI's Investment in SMPI-GSIS JVC. Under normal circumstances, the Group would account for its investment in a joint venture classified as jointly controlled entity using proportionate consolidation. In the joint venture of SMPI GSIS, however, significant judgment was exercised to determine whether SMPI's interest in the joint venture should be accounted for as jointly controlled entity under PAS 31 or as a subsidiary under PAS 27. After considering the salient provisions of the Joint Venture Agreement (JVA), particularly, with respect to the option granted by SMPI to GSIS, i.e., GSIS to sell to SMPI its whole ownership interest in SMPI-GSIS JVC (the "Put Option") at a pre-determined exercise price at different dates, management concluded that it is most appropriate to account for the investment as a subsidiary. The main factor considered by management was the potential voting rights brought about by the Put Option which gives SMPI control over the SMPI-GSIS JVC once exercised (Note 35). In 2010, although SMPI owns 52% of SMPI-GSIS JVC, the JVA clearly specified joint control of the entity but such was without due consideration to the Put Option yet; hence the SMPI-GSIS JVC was consolidated in the Group's financial statements. In 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of P399, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

Determining Fair Values of Financial Instruments. Where the fair values of financial assets and financial liabilities recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

Contingencies. The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the

estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 45).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience, and historical loss experience. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current assets.

The allowance for impairment losses amounted to P5,225 and P4,519 as of December 31, 2011 and 2010, respectively. The carrying amounts of trade and other receivables amounted to P84,472 and P75,904 as of December 31, 2011 and 2010, respectively (Note 10).

Allowance for Inventory Losses. The Group provides an allowance for inventory losses whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying amount of the inventories amounted to P65,720 and P57,442 as of December 31, 2011 and 2010, respectively (Note 11). The allowance for inventory losses amounted to P1,154 and P1,297 as of December 31, 2011 and 2010, respectively.

Fair Value of Agricultural Produce. The Group determines the fair value of its agricultural produce based on most recent market transaction price provided that there has been no significant change in economic circumstances between the date of transactions and reporting date. Costs to sell are estimated based on most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest.

Unrealized gain on fair valuation of agricultural produce included in the cost of inventories for the years ended December 31, 2011, 2010 and 2009 amounted to P69, P41 and P63, respectively (Note 11).

Financial Assets and Financial Liabilities. The Group carries certain financial assets and financial liabilities at fair value which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets

and financial liabilities would affect profit or loss and equity.

Fair values of financial assets and financial liabilities are discussed in Note 42.

Estimated Useful Lives of Investment Properties, Property, Plant and Equipment and Deferred Containers. The Group estimates the useful lives of investment properties, property, plant and equipment and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of investment properties, property, plant and equipment and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of investment properties, property, plant and equipment and deferred containers would increase recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Investment properties, net of accumulated depreciation and amortization amounted to P2,926 and P2,524 as of December 31, 2011 and 2010, respectively (Note 17). Property, plant and equipment, net of accumulated depreciation, and amortization amounted to P330,949 and P319,790 as of December 31, 2011 and 2010, respectively (Note 16). Accumulated depreciation and amortization of investment properties amounted to P1,536 and P1,258 as of December 31, 2011 and 2010, respectively (Note 17). Accumulated depreciation and amortization of property, plant and equipment amounted to P111,940 and P95,152 as of December 31, 2011 and 2010, respectively (Note 16).

Deferred containers net of accumulated amortization included under "Other noncurrent assets" account in the consolidated statements of financial position amounted to P5,035 and P4,420 as of December 31, 2011 and 2010, respectively (Note 20).

Fair Value of Investment Properties. The fair value of investment properties presented for disclosure purposes is based on market values, being the estimated amount for which the property can be exchanged between a willing buyer and seller in an arm's length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment properties amounted to P5,594 and P3,129 as of December 31, 2011 and 2010, respectively (Note 17).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P4,063 and P3,544 as of December 31, 2011 and 2010, respectively (Note 19).

Estimated Useful Lives of Intangible Asset - Service Concession Rights. The Group estimates the useful lives of intangible assets arising from service concessions based on the period over which the assets are expected to be available for use, which is 25 years. The Group has not included any renewal period on the basis of uncertainty as of the reporting date of the probability of securing renewal contract at the end of the original contract term.

Impairment of Goodwill, Trademarks and Brand Names, Licenses and Formulas and Recipes with Indefinite Useful Lives. The Group determines whether goodwill, trademarks and brand names, licenses and formulas and recipes are impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated and the value in use of the trademarks and brand names, licenses and formulas and recipes. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the trademarks and brand names, licenses and formulas and recipes and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill as of December 31, 2011 and 2010 amounted to P30,990 and P30,251, respectively (Note 19).

The combined carrying amounts of trademarks and brand names, licenses and formulas and recipes amounted to P7,344 and P7,436 as of December 31, 2011 and 2010, respectively (Note 19).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recognized at the date of acquisition at their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group's acquisitions have resulted in goodwill and other intangible assets with indefinite and finite lives. Total carrying amounts of goodwill, mining rights and licenses arising from business combinations in 2011 and 2010 amounted to P929 and P31,396, respectively (Notes 5 and 39).

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities are all in the exploratory stages as of December 31, 2011. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group had not identified any facts and circumstances which suggest that the carrying

amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2011 and 2010.
Deferred exploration and development costs included in "Other noncurrent assets - others" in the consolidated statements of financial position amounted to P103 and P41 as of December 31, 2011 and 2010, respectively (Note 20). There were no impairment losses recognized for the years ended December 31, 2011 and 2010.

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P8,233 and P7,134 as of December 31, 2011 and 2010, respectively (Note 25).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, investment properties, deferred containers, biological assets, intangible asset - service concession rights, other intangible assets with finite useful lives and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses of property, plant and equipment and investment properties amounted to P11,399 and P12,108 as of December 31, 2011 and 2010, respectively (Notes 16 and 17). The aggregate amount of investments and advances, property, plant and equipment, investment properties, deferred containers, noncurrent biological assets, intangible assets - service concession rights, other intangible assets with finite useful lives, and idle assets, amounted to P501,226 and P472,632 as of December 31, 2011 and 2010, respectively (Notes 13, 16, 17, 18, 19 and 20).

Present Value of Defined Benefit Obligation. The present value of the retirement liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 36 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to

maturity of these bonds should approximate the terms of the related retirement liability.

Other key assumptions for retirement liabilities are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement liabilities.

The Group has a net cumulative unrecognized actuarial gain amounting to P9,348 and P25,846 as of December 31, 2011 and 2010, respectively (Note 36).

Present Value of Obligation Under a Put Option. In estimating the obligation, significant assumptions were made by management, such as the period in which the option would be exercised and the discount rate appropriate to determine the present value of such obligation. Management assumed that the option will be exercised within the next 12 months from December 31, 2010. Accordingly, the Group used a risk-free rate of 3.9% based on the Group's ordinary and short-term borrowing arrangements.

Management believes that the Group's estimated obligation arising from the Put Option is reasonable; however, subsequent changes in assumptions or circumstances may potentially result in significant increase or decrease in the obligation under the Put Option. Should there be changes in assumptions or circumstances and the amount of the estimated obligation will be recognized by the Group prospectively.

As of December 31, 2010, the estimated obligation of the Group under a Put Option arrangement, amounted to P386 (Note 22). As of December 31, 2011, the put option obligation had already been settled.

Asset Retirement Obligation. The Group has an ARO arising from leased service stations and depots. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.75% to 10.17% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group also has an ARO arising from its refinery. However, such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of fair value cannot be determined. Thus, the ARO included under "Other noncurrent liabilities" account in the consolidated statements of financial position amounting to P1,061 and P815 as of December 31, 2011 and 2010, respectively, covers only the Group's leased service stations and depots (Note 24).

Present Value of Annual Franchise Fee and IRO - Service Concession Arrangements. Part of the amount recognized as intangible asset - service concession rights as of December 31, 2011 and 2010 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in construction in progress - service concession arrangements until the completion of the Project.

The present value of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate which is

believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate. The carrying amount of present value of annual franchise fee already recognized in the intangible asset and carrying amount of IRO recognized in construction in progress - service concession arrangements are presented in Notes 19 and 12. A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect on profit or loss.

Amortization of Intangible Asset - Service Concession Rights. Management used 25 years to amortize of the intangible asset - service concession rights (Note 19).

Percentage of Completion - Service Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total Project cost. The Group reviews and revises, when necessary, the estimate of Project cost as it progresses to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period (Note 12).

5. Business Combinations

Power Generation and Mining

- SMC Global

  On August 9, 2010, the Parent Company subscribed to the remaining unissued common shares of SMC Global equivalent to 75% ownership interest for P3,240.

  The Group has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

  The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P2,699
Trade and other receivables	5,578
Inventories	893
Prepaid expenses and other current assets	556
Investments and advances - net	12,824
Property, plant and equipment - net	140,260
Deferred tax assets	36
Other noncurrent assets - net	1,367
Liabilities	
Accounts payable and accrued expenses	(4,194)
Income and other taxes payable	(1,261)
Deferred tax liabilities	(225)
Other noncurrent liabilities	(148,226)
Total identifiable net assets at fair value	P10,307

The fair value of the trade and other receivables amounts to P5,578. None of the receivables has been impaired and it is expected that the full amount can be collected.

Bargain purchase gain, which was presented in 2010 as part of "Other income (charges)" account in the consolidated statements of income, was recognized as a result of the acquisition as follows:

	Note	2010
Total cash consideration transferred		P3,240
Non-controlling interest measured at proportionate interest in identifiable net assets		2,577
Total identifiable net assets at fair value		(10,307)
Bargain purchase gain	*33*	(P4,490)

Acquisition of Non-controlling Interests
On September 3 and 8, 2010, the Parent Company acquired the remaining 25% ownership in SMC Global, making it a wholly-owned subsidiary. A cash consideration of P1,080 was paid to the non-controlling interest shareholders. The carrying amount of SMC Global's net assets on the date of acquisition was P10,111, and the carrying amount of the additional interest acquired was P2,528. The difference of P1,448 between the consideration and the carrying amount of the interest acquired has been recognized in "Revaluation increment" account in the consolidated statements of changes in equity.

On July 29, 2011, the BOD and stockholders of SMC Global approved the increase in authorized capital stock from P1,000, divided into 10,000,000 shares at P100 par value per share, to P2,000, divided into 2,000,000,000 shares at P1 par value per share. Out of the increase in authorized capital stock, the Parent Company subscribed to 250,000,000 shares and paid the amount of P62.5 on August 4, 2011. The SEC approved the increase in the authorized capital stock of SMC Global on August 25, 2011.

SMEC, PanAsia, SPPC and SPDC
On May 17, 2010, the BOD of the Parent Company approved the sale of its entire 40% ownership interest in SMEC and SPDC and 100% ownership in PanAsia and SPPC. On September 21, 2010, the Parent Company and SMC Global executed a Deed of Absolute Sale of Shares whereby the former's entire interest in SMEC, PanAsia, SPPC and SPDC were sold for a total price of P7.15. Following such sale, SMEC, PanAsia, SPPC and SPDC became wholly-owned subsidiaries of SMC Global.

On June 17, 2011, the BOD of SMC Global approved the sale of its 100% ownership interest in PanAsia to MHI. On June 24, 2011, SMC Global signed a Share Purchase Agreement with MHI subject to certain closing conditions, which includes among others, the Board of Investments (BOI) approval of the transaction. The approval by the BOI was obtained on August 18, 2011.

As of December 31, 2011, SMC Global received P25 as initial payment and the balance of P600 will be paid by MHI on an installment basis up to June 30, 2016. In 2011, the Group recognized a gain of P278 for the said sale, presented as part of "Other income (charges)" account in the consolidated statement of income.

- SPDC

On February 11, 2010, SPDC's BOD approved the subscription by the Parent Company and SMC Global of 1,500 and 6,000 shares, respectively, of SPDC's remaining unissued capital stock.

On March 15, 2010, the Parent Company and SMC Global executed the Subscription Agreement setting forth the aforementioned subscription of the remaining unissued capital stock of SPDC. Prior to the subscription, the Parent Company beneficially owned the 2,500 subscribed common stock of SPDC, representing 100% ownership interest. On March 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPDC amounting to P0.1875.

With the new subscription, SMC Global owned an aggregate of 60% equity ownership interest in SPDC, while the Parent Company retained an aggregate of 40% equity ownership interest in SPDC.

Mining Companies

Daguma Agro Minerals, Inc. (DAMI)

On January 29, 2010, SMEC acquired 100% ownership interest in DAMI, a coal mining company with coal property covered by Coal Operating Contract (COC) No. 126 with the Department of Energy (DOE), dated November 19, 2002, located in Barangay Ned, Lake Sebu, South Cotabato consisting of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 95 million metric tons based on exploratory drilling conducted by DAMI and additional in-fill drilling being conducted by independent geologists which commenced last May 13, 2010.

Bonanza Energy Resources, Inc. (BERI)

On January 29, 2010, SMEC acquired BERI, a mining company with coal property covered by COC No. 138 with the DOE dated May 26, 2005. COC No. 138 is located in Maitum, Sarangani Province and Barangay Ned, Lake Sebu, South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 5 million metric tons based on initial exploratory drilling conducted by SMEC geologists in Maitum, Sarangani during the period from May to July 2010. The exploratory drilling to be conducted on 4 coal blocks of BERI located in Barangay Ned, Lake Sebu Municipality is projected to contain 30 million metric tons based on a geological setting and initial exploratory drilling conducted in Maitum.

Sultan Energy Phils. Corp. (SEPC)

On May 13, 2010, SMEC acquired 100% ownership interest in SEPC, which has a coal mining property and right over an aggregate area of 7,000 hectares, more or less composed of 7 coal blocks located in Lake Sebu, South Cotabato and Sen. Ninoy Aquino, Sultan Kudarat covered by COC No. 134 with the DOE dated February 23, 2005. SEPC has an In-situ coal resources (measured plus indicative coal resources) of about 55 million metric tons based on exploratory drilling conducted by SEPC and confirmatory drilling conducted by an independent geologist from March 13 to April 19, 2010.

The coal operating contracts met the contractual/legal criterion and qualified as intangible assets under PFRS 3.

On March 26, 2008, February 9, 2009 and December 15, 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively.

As of December 31, 2011, DAMI, SEPC and BERI are in the exploratory stages of their mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations included as part of "Other noncurrent assets" account in the consolidated statements of financial position (Note 20).

The Group had not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded recoverable amounts as of December 31, 2011.

The following summarizes the recognized amounts of assets acquired and liabilities assumed from DAMI, SEPC and BERI at the acquisition date:

	2010
Assets	
Other receivables	P1
Deferred exploration and development costs	72
Other intangible assets - mining rights	81
Liabilities	
Accounts payable and accrued expenses	(8)
Due to related parties	(47)
Total identifiable net assets at fair value	P99

Mining rights were recognized as a result of the acquisition as follows:

	Note	2010
Total cash consideration transferred		P1,818
Total identifiable net assets at fair value		(99)
Other intangible asset - mining rights	*19, 39*	P1,719

Fuel and Oil

- SRC and Petron

The Parent Company entered into an option agreement with SEA Refinery Holdings B.V. (SEA BV) (the "Option Agreement") dated December 24, 2008, as amended on March 4, 2010, pursuant to which SEA BV granted to the Parent Company an option to acquire and purchase up to 100% of its interests in SEA BV's wholly-owned subsidiary, SRC, consisting of: (i) 16,000,000 common shares of SRC, representing 40% of the outstanding common shares of SRC on or before April 30, 2010; and (ii) 24,000,000 common shares of SRC, representing 60% of the outstanding common shares of SRC on or before December 23, 2010. SRC owns 4,696,885,564 common shares of Petron (representing approximately 50.1% of the outstanding common shares of Petron). The Parent Company conducted a tender offer as a result of its intention to exercise the option to acquire 100% of SRC from SEA BV. The tender offer period ended on June 2, 2010 and a total of 184,702,538 Petron common shares tendered were crossed at the PSE on June 8, 2010, which is equivalent to

approximately 1.97% of the issued and outstanding common shares of Petron.

On June 15, 2010, the Parent Company executed the Deed of Absolute Sale for the purchase of the 16,000,000 common shares of SRC from SEA BV.

On August 31, 2010, the Parent Company purchased an additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE. Said shares comprise approximately 16.188% of the outstanding common shares of Petron.

On October 18, 2010, the Parent Company also acquired from the public a total of 530,624 common shares of Petron, representing approximately 0.006% of the outstanding common shares of Petron.

On December 15, 2010, the Parent Company exercised its option to acquire the remaining 60% of SRC from SEA BV pursuant to the Option Agreement. With the exercise of the option, the Parent Company beneficially owns approximately 68.26% of the outstanding common shares of Petron.

The Group has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P39,948
Trade and other receivables - net	26,945
Inventories	34,422
Prepaid expenses and other current assets	3,177
Investments and advances - net	2,172
Property, plant and equipment - net	34,550
Investment properties - net	121
Assets held for sale	823
Deferred tax assets	394
Other noncurrent assets - net	23,422
Liabilities	
Drafts and loans payable	(34,987)
Accounts payable and accrued expenses	(21,604)
Income and other taxes payable	(6)
Current maturities of long-term debt - net of debt issue costs	(9,193)
Long-term debt - net of current maturities and debt issue costs	(43,452)
Deferred tax liabilities	(2,312)
Other noncurrent liabilities	(2,652)
Total identifiable net assets at fair value	P51,768

The fair value of the trade and other receivables amounts to P26,945. The gross amount of trade receivables is P27,883, of which P938 is expected to be uncollectible at the acquisition date (Note 10).

Goodwill was recognized as a result of the acquisition as follows:

	Note	2010
Cash		P33,323
Equity interest held before business combination		16,720
Total consideration transferred:		50,043
Non-controlling interest measured at proportionate interest in identifiable net assets		23,750
Total identifiable net assets at fair value		(51,768)
Goodwill	*19, 39*	P22,025

Goodwill arising from the acquisition is attributable to the benefit of expected synergies with the Group's power generation and shipping businesses, revenue growth, future market development and the assembled workforce of Petron. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognized is expected to be deductible for income tax purposes.

Infrastructure

- ULC BVI

On October 28, 2010, the Parent Company, through SMHC, signed a Share Sale and Purchase Agreement (the "Agreement") with Universal LRT Corporation Limited, pursuant to the authority of the BOD of the Parent Company on March 15, 2010. Under the terms of the Agreement, SMHC acquired 51% equity interest in ULC BVI, the corporation which holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the MRT-7 Project by virtue of the CA dated June 18, 2008 with the ROP, through the Department of Transportation and Communications (DOTC) (Note 35).

Closing of the Agreement was held on November 8, 2010. As of March 28, 2012, there are certain post completion mandatory conditions under the Agreement which are subject to the satisfaction by Universal LRT Corporation Limited.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P1
Trade and other receivables - net	1
Other noncurrent assets - net	2,182
Liabilities	
Accounts payable and accrued expenses	(136)
Deferred tax liability	(1)
Total identifiable net assets at fair value	P2,047

The fair value of the trade and other receivables amounts to P1. None of the receivables has been impaired and it is expected that the full amount can be collected.

Goodwill was recognized as a result of the acquisition as follows:

	Note	2010
Total cash consideration transferred		P2,508
Non-controlling interest measured at proportionate interest in identifiable net assets		1,003
Total identifiable net assets at fair value		(2,047)
Goodwill	*19, 39*	P1,464

- TADHC

  On April 8, 2010, the Parent Company, through its wholly-owned subsidiary, SMHC, executed a Share Sale and Purchase Agreement relating to the purchase by SMHC of the rights, title and interests to a total of 2,025,000 common shares of CIADC (the "CIADC Shares"). On April 29, 2010, Deeds of Assignment of Shares were executed covering the CIADC Shares. CIADC holds the exclusive rights, obligations and privileges to finance, design, construct, operate and maintain the Boracay Airport by virtue of the CA, dated June 22, 2009, with the ROP, through the DOTC and the Civil Aviation Authority (Note 35). As of December 31, 2011, SMHC paid P855 for the acquisition of CIADC Shares. The balance of P170 is payable as follows: (i) P100, two years after the closing of the transaction; and (ii) P70, one year from the date of the previous payment.

  The current portion of the Group's outstanding payable related to the purchase as of December 31, 2011 amounting to P100, is included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P70 as of December 31, 2011, is reported as part of "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 24).

  As approved by the SEC on September 23, 2010, CIADC was renamed to Trans Aire Development Holdings Corp.

  The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Prepaid expenses and other current assets	P4
Property, plant and equipment - net	11
Other intangible assets - service concession rights	58
Liabilities	
Accounts payable and accrued expenses	(9)
Other noncurrent liabilities	(4)
Total identifiable net assets at fair value	P60

Goodwill was recognized as a result of the acquisition as follows:

	Note	2010
Cash		P675
Deferred consideration		350
Total consideration transferred		1,025
Non-controlling interest measured at proportionate interest in identifiable net assets		2
Total identifiable net assets at fair value		(60)
Goodwill	*19, 39*	P967

Telecommunications

- TCCI, PHC and PSCL

  On July 30, 2010, the Parent Company through its wholly-owned subsidiary, Vega, subscribed to unissued shares of stock of TCCI, PHC and PSCL, equivalent to 75% equity interests in each of the said companies. TCCI, PHC and PSCL, in turn, collectively own 100% of the outstanding capital stock of BellTel.

  BellTel is a grantee of a franchise to install, operate and maintain local exchange networks and Wireless Local Loop (WLL) in several areas including special economic zones, inter-exchange networks, nationwide VSAT network, international gateway facilities, and cellular mobile telecommunications network (Note 35).

  On August 1, 2010, Vega acquired the remaining 25% ownership interest in TCCI, PHC and PSCL, making TCCI, PHC and PSCL its wholly-owned subsidiaries.

  The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P68
Trade and other receivables - net	429
Prepaid expenses and other current assets	55
Property, plant and equipment - net	374
Other noncurrent assets	6
Liabilities	
Accounts payable and accrued expenses	(1,181)
Deferred tax liabilities	(1)
Other noncurrent liabilities	(256)
Total identifiable net liabilities at fair value	(P506)

The fair value of the trade and other receivables amounts to P429. The gross amount of trade receivables is P456, of which P27 is expected to be uncollectible at the acquisition date (Note 10).

License was recognized as a result of the acquisition as follows:

	Note	2010
Total cash consideration transferred		P4,715
Total identifiable net liabilities at fair value		506
Other intangible asset - license	*19, 39*	P5,221

- AGNP

  On December 30, 2010, the Parent Company through its wholly-owned subsidiary, Vega, executed a Share Purchase Agreement (the "Agreement") with ISM Communications Corporation (ISM Corp.), for the purchase of 100% of the outstanding and issued shares of stock of AGNP for P1,600. The acquisition of AGNP was authorized by the BOD of Vega during the meeting held on December 16, 2010.

  AGNP is the registered and beneficial owner of approximately 40% of ETPI. ETPI's products and services included wireless access, services for high-end internet cafes, a new data center, business application and special packages for small and medium enterprises and corporations, besides the traditional bandwidth and connectivity solutions. The acquisition of ETPI through AGNP, would complement the internet broadband service of Liberty Telecommunications Holdings, Inc. (LTHI), in which the Group holds 41.48% interest.

  Upon the signing of the Agreement, Vega paid P320 as initial payment. Under the Agreement, the outstanding balance of P1,280 is payable in two installments. The first payment amounting to 50% of the outstanding balance was paid on December 29, 2011 while the remaining balance is to be settled on December 29, 2012.

  The current portion of the Group's outstanding payable related to the purchase of AGNP shares as of December 31, 2011 and 2010 amounted to P640, included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P640 as of December 31, 2010 is reported as part of "Other noncurrent liabilities" account (Note 24) in the consolidated statements of financial position.

  Total identifiable assets at fair value on the acquisition date pertains to its investment in ETPI amounting to P1,600, which is also equal to the total consideration of the purchase made by Vega.

- ETPI

  On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, executed a Share Purchase Agreement (the "Agreement") with ISM Corp., for the purchase of 37.7% of the outstanding and issued shares of stock of ETPI for P1,508, making it a subsidiary of the Group. The acquisition of ETPI was authorized by the BOD of the Parent Company during meetings held on December 16, 2010 and September 22, 2011.

  Upon signing of the Agreement, SMESI paid P302 as initial payment. Under the Agreement, the outstanding balance of P1,206 is payable in two installments. The

first payment amounting to P98 is payable no earlier than December 31, 2012 while the remaining balance is to be settled no earlier than December 31, 2013.
The outstanding payable related to the purchase of ETPI's shares as of December 31, 2011 amounting to P1,206 is included under "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 24).

With the acquisition of the 37.7% by SMESI and of the 40% ownership by AGNP, the Parent Company obtained control and consolidated ETPI effective October 20, 2011.

From the date of acquisition, ETPI has contributed revenue of P189 and profit of P16 to the Group's financial performance.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2011
Assets	
Cash and cash equivalents	**P415**
Trade and other receivables - net	**371**
Inventories	**19**
Prepaid expenses and other current assets	**100**
Available-for-sale financial assets	**4**
Property, plant and equipment - net	**2,582**
Other noncurrent assets	**229**
Liabilities	
Accounts payable and accrued expenses	**(412)**
Income and other taxes payable	**(119)**
Deferred tax liabilities	**(91)**
Total identifiable net assets at fair value	**P3,098**

The fair value of the trade and other receivables amounts to P371. The gross amount of trade receivables is P439, of which P68 is expected to be uncollectible at the acquisition date (Note 10).

Goodwill was recognized as a result of the acquisition as follows:

	Note	2011
Cash		**P302**
Deferred consideration		**1,206**
Equity interest held before business combination	*13*	**1,625**
Total consideration transferred		**3,133**
Non-controlling interest measured at proportionate interest in identifiable net assets		**691**
Total identifiable net assets at fair value		**(3,098)**
Goodwill	*19, 39*	**P726**

Goodwill arising from the acquisitions is attributable to the benefit of expected synergies with the Group's telecommunication business, revenue growth, and future development. None of the goodwill recognized is expected to be deductible for tax purposes.

Properties

- SMPI-GSIS

  On October 31, 2007, the Parent Company through SMPI entered into a JVA with GSIS to establish the SMPI-GSIS JVC. The SMPI-GSIS JVC will hold ownership and title to the real property owned by GSIS, develop the property into a first class high-rise service apartment and manage and operate the same. The SMPI-GSIS JVC will have an authorized capital stock of P600 divided into 600,000,000 shares with a par value of P1.00 per share. The parties agreed to an equal equity participation wherein the real estate property owned by GSIS is valued at P300 while SMPI has committed to contribute P300 to the SMPI-GSIS JVC. On October 23, 2008, SMPI-GSIS JVC was incorporated.

  In 2010, the Articles of Incorporation of SMPI-GSIS JVC was amended accordingly to reflect the increase in its authorized capital stock from P600 divided into 600,000,000 shares to P625 divided into 625,000,000 shares, both with par value of P1.00 per share. SMPI then completed the acquisition of the 52% equity ownership in SMPI-GSIS JVC by assigning its 100% equity ownership in Maison 17 Properties, Inc. (MPI), one of its wholly-owned subsidiaries, plus additional cash consideration of P181, which is in accordance with the JVA. After this transaction, MPI became a wholly-owned subsidiary of SMPI-GSIS JVC.

  The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash	P13
Prepaid expenses and other current assets	10
Property, plant and equipment - net	455
Total identifiable net assets at fair value	P478

  In 2010, SMPI's ownership interest in MPI was diluted when SMPI assigned its entire interest in MPI to the SMPI-GSIS JVC. The effect of dilution in SMPI's share in MPI's net assets amounting to P52 was recognized in equity.

  The dilution loss recognized as a result of the acquisition is as follows:

	2010
Total cash consideration transferred	P181
Non-controlling interest measured at proportionate interest in identifiable net assets	349
Total identifiable net assets at fair value	(478)
Dilution loss	P52

  Under the JVA, GSIS has the option to sell to SMPI all the shares of stock of the SMPI-GSIS JVC issued in the name of GSIS and its nominees under certain terms and conditions (Note 35).

On July 5, 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of P399, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

The SMPI-GSIS JVC has not yet started commercial operations as of March 28, 2012.

Foods

- GFDCC

In September 2011, Magnolia, a wholly-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in GFDCC, a Philippine company engaged in the toll manufacturing of ice cream products. As such, GFDCC became a subsidiary and was consolidated into SMPFC through Magnolia.

From the date of acquisition, GFDCC has contributed revenue of P40 to the Group's financial performance.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2011
Assets	
Cash and cash equivalents	**P7**
Trade and other receivables - net	**25**
Prepaid expenses and other current assets	**37**
Property, plant and equipment - net	**308**
Liabilities	
Accounts payable and accrued expenses	**(22)**
Current maturities of long-term debt - net of debt issue costs	**(25)**
Long-term debt - net of current maturities and debt issue costs	**(185)**
Other noncurrent liabilities	**(46)**
Total identifiable net assets at fair value	**P99**

Goodwill was recognized as a result of the acquisition as follows:

	Note	2011
Total cash consideration transferred		**P105**
Total identifiable net assets at fair value		**(99)**
Goodwill	*19, 39*	**P6**

Others

- KCSLI

  On May 26, 2011, SMCSLC, executed an Asset and Share Purchase Agreement relating to the purchase of 100% of the issued shares of KCSLI through which SMCSLC obtained an indirect ownership over a parcel of land, certain fixed assets and foreshore leases and land rights.

  On August 18, 2011, SMCSLC incorporated MSC. MSC's primary purpose is to engage in the business of construction, building, fabrication, repair, conversion or extension of ships, boats and other kinds of vessels and marine equipment, machineries and structures including offshore rigs. MSC leases the land owned by KCSLI.

  The following summarizes the recognized amounts of assets acquired at the acquisition date:

	2011
Assets	
Cash and cash equivalents	**P5**
Property, plant and equipment - net	**821**
Total identifiable net assets at fair value	**P826**

Total identifiable assets at fair value on the acquisition date, is equal to the consideration of the purchase made by SMCSLC.

6. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in 2011 and 2010:

Beverages

- SMBIL

  On January 29, 2010, the Parent Company completed the sale of its international beer and malt-based beverage business to SMB, through the sale by San Miguel Holdings Limited (SMHL), its wholly-owned subsidiary, of the 100% of the issued and outstanding capital stock of SMBIL (SMBIL shares). The SMBIL shares were sold to SMB for a purchase price of United States dollar (US$)302 (P13,941), after adjustments in accordance with the terms of the Share Purchase Agreement entered by the Parent Company, SMHL and SMB in December 2009. As a result, SMBIL became a wholly-owned subsidiary of SMB.

- BPI

  On November 10, 2010, the Parent Company and SMB executed a Deed of Absolute Sale of Shares ("Deed") for the purchase by SMB of all the shares of the Parent Company in BPI (the "BPI Shares") at the aggregate purchase price of P6,829 ("Purchase Price"). SMB paid P6,629, corresponding to the appraised value of the 128 land titles of certain parcels of land used in the domestic beer operations of SMB ("Land") transferred in the name of BPI to the Parent Company upon execution of the Deed. The balance shall be paid by SMB to the Parent Company upon transfer of the remaining eight Land titles in the name of BPI. The BPI Shares comprise 40% of the issued and outstanding capital stock of BPI. The acquisition was financed using part of the proceeds of the bond offering of SMB conducted in 2009 (Note 23).

  SMB has the ability to govern BPI's financial and operating policies and conduct activities in order for SMB to obtain benefits from its operations. As such and in accordance with PAS 27, BPI was consolidated to SMB.

Foods

- SMPFC

  On February 2, 2010 and March 12, 2010, SMPFC's BOD and stockholders, respectively, approved the: (i) de-classification of SMPFC's common shares, (ii) increase in SMPFC's authorized capital stock by P1,000 or 100,000,000 shares at P10.00 par value, and (iii) declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

  On April 12, 2010, the SEC approved SMPFC's amendment of its Articles of Incorporation for the de-classification of common shares.

  On May 21, 2010, the SEC issued to SMPFC the Certificate for the Approval of Increase of Capital Stock from 146,000,000 common shares to 246,000,000 common shares with par value of P10.00 per share and the Certificate of Filing of Amended Articles of Incorporation.

  On July 6, 2010, the PSE approved the application of SMPFC to list additional 25,423,746 common shares, with a par value of P10.00 per share, to cover the 18% stock dividend declaration to stockholders of record as of June 30, 2010. Stock dividend distribution was made on July 26, 2010.

  On September 15, 2010, SMPFC's BOD approved, among others, the: (i) reclassification of up to 75,000,000 authorized and unissued common shares into cumulative, non-participating, non-voting and non-convertible preferred shares with par value of P10.00 per share; (ii) issuance of preferred shares with total issue size of up to P50,000, part of the proceeds of which will be used to settle SMPFC's remaining 90% balance on the acquisition of food-related brands and intellectual property rights from the Parent Company and on the purchase of the Parent Company's 51% stake in SMPFI; (iii) listing of such preferred shares at the appropriate exchanges; and (iv) amendment of SMPFC's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On November 3, 2010, SMPFC's stockholders approved, among others, the: (i) reclassification of SMPFC's 40,000,000 authorized and unissued common shares into non-voting, cumulative and non-participating preferred shares with par value of P10.00 per share; (ii) issuance of such preferred shares and the listing thereof at the appropriate exchanges; and (iii) amendment of SMPFC's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares (Amendment).

On December 23, 2010, the SEC approved the Amendment of the Articles of Incorporation of SMPFC.

On January 20, 2011, the SEC favorably considered SMPFC's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of P10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the application of SMPFC to list up to 15,000,000 preferred shares with a par value of P10.00 per share to cover the SMPFC's follow-on preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate determined by management on the dividend rate setting date.

On February 10, 2011, the SEC issued the order for the registration of SMPFC's 15,000,000 preferred shares with a par value of P10.00 per share and released the Certificate of Permit to Offer Securities for Sale.

On February 11, 2011, SMPFC's BOD approved the terms of the preferred shares offer (Terms of the Offer) and the amendment of the Articles of Incorporation of SMPFC to reflect the additional optional redemption features of the preferred shares to align with the Terms of the Offer. The stockholders of SMPFC approved the said amendment during its annual meeting on May 13, 2011.

A summary of the Terms of the Offer is set out below.

SMPFC, through the underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares at an offer price of P1,000.00 per share during the period from February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by the BOD. The preferred shares are redeemable in whole or in part, in cash, at the sole option of SMPFC, at the end of the 5th year from issuance date or on any dividend payment date thereafter, at the price equal to the issue price plus any accumulated and unpaid cash dividends. Optional redemption of the preferred shares prior to the 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events). Unless the preferred shares are redeemed by SMPFC on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On March 3, 2011, SMPFC's 15,000,000 preferred shares with par value of P10.00 per share were listed with the PSE.

On June 2, 2011, the SEC issued the Certificate of Filing of Amended Articles of

Incorporation approving the additional redemption features of the preferred shares of SMPFC.

On August 12, 2011, the BOD of the Parent Company approved the sale of a portion of its investment in the Manila Electric Company (Meralco) to SMPFC, comprising of 59,090,909 common shares or approximately 5.2% of the outstanding capital stock of Meralco as of December 31, 2010 (Note 13).

- SMMI

  In October 2010, the BOD and stockholders of SMMI authorized SMMI to raise funds of up to P5,000 to fund any expansion or any investment in new businesses by SMMI and for other general corporate purposes.

  In September 2011, the Parent Company, through SMMI, a wholly-owned subsidiary of SMPFC, incorporated GBGTC with an authorized capital stock of P2,000. GBGTC is a Philippine company with the primary purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others. In November 2011, following the approval by SEC of the incorporation of GBGTC, SMMI subscribed to 5,000,000 GBGTC shares for a total subscription value of P500 and paid an initial consideration amounting to P125. As of March 28, 2012, GBGTC has not yet started commercial operations.

- SMFI

  In January 2008, SMFI executed a Deed of Assignment assigning its 16,457,310 shares in SMMI, then a 100%-owned subsidiary of SMFI, to SMPFC effective December 28, 2007. The assignment is in accordance with SMFI's property dividend declaration of its SMMI shares in favor of SMPFC, as approved by SMFI's BOD in June 2007, subject to the necessary regulatory approvals. In December 2010, the SEC approved the declaration of SMFI's 16,457,310 shares in SMMI as property dividend in favor of SMPFC.

  In July 2010, the SEC approved the application of Monterey Foods Corporation (Monterey) for the increase in its authorized capital stock. Following SEC's approval, 22,500,000 Monterey shares of stock were issued to SMPFC in exchange for SMPFC's deposit for future stock subscription of P450 in 2008.

  In August 2010, the SEC approved the merger of Monterey into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective BOD and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective on September 1, 2010. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the BIR as of March 28, 2012.

- SMPFIL

  In July 2010, the Parent Company, through its wholly-owned subsidiary, SMFBIL, sold to SMPFIL, (a wholly-owned subsidiary of SMPFC) its 51% interest in SMPFI for US$18.6. SMPFI owns 100% of SMPFVN. Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$16.8 will be payable: (i) upon change in controlling interest of SMPFIL to any third person other than affiliate, or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first.

In May 2011, SMPFC increased its investment in SMPFIL by an amount equivalent to the 90% balance of the purchase price of SMPFVN acquired by SMPFIL from SMFBIL. Subsequently, SMPFIL paid US$16.8, the remaining balance of the purchase price of the Vietnam food business.

As approved by the State Securities Commission of Vietnam on September 30, 2011, SMPFVN was renamed to San Miguel Hormel (Vn) Co., Ltd.

- SMPFC Capital Investments, Limited (SCIL)

  In November 2010, SMPFC formed SCIL, a Cayman Islands company, as a wholly-owned subsidiary of SMPFC with an authorized capital stock of US$0.05 divided into 50,000 shares with par value of US$1.00 per share. SCIL did not engage in commercial operations until its dissolution on September 30, 2011 by virtue of the Certificate of Dissolution issued to SCIL by the Registrar of Companies of the Cayman Islands on August 3, 2011.

- Philippine Nutrition Technologies, Inc. (PNTI)

  The SMPFC's application with the SEC for the dissolution of PNTI, a joint venture between SMPFC and the Great Wall Group of Taiwan, was approved on May 27, 2010. As a result of the said dissolution, SMPFC's investment in PNTI amounting to P12 was written off against its allowance for decline in value of investment.

Telecommunications

- SMESI

  On March 28, 2011, the Parent Company incorporated SMESI, a wholly-owned subsidiary, with an initial authorized capital stock of P100 divided into 100,000,000 shares and paid-up capital of P25. On October 20, 2011, SMESI acquired 37.7% of the outstanding and issued shares of stock of ETPI (Note 5).

Power

- SMELCO

  On February 8, 2011, the Parent Company incorporated SMELCO, a wholly-owned subsidiary, with an authorized capital stock of P1,000 divided into 10,000,000 shares and paid-up capital of P250. On August 22, 2011, SMELCO was granted a Retail Electricity Suppliers (RES) license by the Energy Regulatory Commission (ERC) pursuant to Section 29 of Republic Act (RA) No. 9136 or the Electric Power Industry Reform Act of 2001. A RES license is needed to participate in retail sales and enter into off take agreements with contestable customers or those with power requirements of at least 1 Megawatt (MW) upon the implementation of Open Access and Retail Competition, which is scheduled in 2012.

  On August 31, 2011, the Parent Company sold its 100% shareholdings in SMELCO to SMC Global for P250.

Others

- MG8

  On March 16, 2011, SMCSLC incorporated MG8, a wholly-owned subsidiary, with an initial authorized capital stock of P10 divided into 100,000 shares and paid-up capital of P10.

- SMEII

  On March 23, 2011, the Parent Company incorporated SMEII, a wholly-owned subsidiary, with an initial authorized capital stock of P100 divided into 100,000,000 shares and paid-up capital of P25.

7. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined by the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are beverage, food, packaging, power generation and distribution, fuel and oil, infrastructure and telecommunications.

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

The food segment includes, among others, poultry, feeds production and selling, livestock farming, processing and selling of basic meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of flour products, premixes and flour-based products, dairy-based products, breadfill, desserts, cooking oil, importation and marketing coffee and coffee-related products and processed meats.

The packaging segment is involved in the production and marketing of the following packaging products, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The power generation and distribution segment is engaged in power generation and mining. The power generation assets supply electricity to a variety of customers, including the Meralco, electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as roads, highways, toll roads, freeways, skyways, flyovers, viaducts and interchanges.

The telecommunications segment is engaged in rendering all types of domestic and international telecommunications services.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31, 2011, 2010 and 2009																								
	Beverage			Food			Packaging			Power Generation and Distribution		Fuel and Oil		Infrastructure		Telecommunications		Others			Eliminations			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Sales																										
External sales	**P87,076**	P90,407	P82,735	**P89,549**	P80,415	P77,220	**P18,943**	P19,268	P14,258	**P70,737**	P45,636	**P269,116**	P10,383	**P116**	P9	**P238**	P38	**P -**	P -	P -	**P -**	P -	P -	**P535,775**	P246,156	P174,213
Inter-segment sales	179	139	1,067	**42**	3	15	**5,171**	4,172	5,413	**708**	65	**4,840**	246	-	-	-	-	-	-	-	**(10,940)**	(4,625)	(6,495)	-	-	-
Total sales	**P87,255**	P90,546	P83,802	**P89,591**	P80,418	P77,235	**P24,114**	P23,440	P19,671	**P71,445**	P45,701	**P273,956**	P10,629	**P116**	P9	**P238**	P38	**P -**	P -	P -	**(P10,940)**	(P4,625)	(P6,495)	**P535,775**	P246,156	P174,213
Result																										
Segment result	**P18,850**	P19,194	P14,035	**P6,142**	P5,905	P4,559	**P2,158**	P1,999	P1,562	**P16,720**	P9,568	**P14,834**	P679	**(P74)**	(P32)	**(P672)**	(P229)	**(P2,018)**	(P2,765)	(P2,769)	**P14**	P289	P2,282	**P55,954**	P34,608	P19,669
Interest expense and financing charges																								**(27,443)**	(16,578)	(7,926)
Interest income																								**4,618**	3,023	5,989
Equity in net earnings of associates																								**2,824**	6,817	2,816
Gain on sale of investments and property and equipment																								**1,046**	529	50,630
Other income (charges) - net																								**(12)**	7,095	(6,843)
Income tax expense																								**(8,483)**	(11,438)	(3,706)
Net income																								**P28,504**	P24,056	P60,629
Attributable to:																										
Equity holders of the Parent Company																								**P17,518**	P20,091	P57,799
Non-controlling interests																								**10,986**	3,965	2,830
Net income																								**P28,504**	P24,056	P60,629

For the Years Ended December 31, 2011, 2010 and 2009

	Beverage			Food			Packaging			Power Generation and Distribution		Fuel and Oil		Infrastructure		Telecommu-nications		Others			Eliminations			Consolidated		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Other Information																										
Segment assets	**P83,076**	P81,412	P76,816	**P43,612**	P43,267	P43,126	**P31,954**	P32,112	P33,689	**P260,418**	P238,591	**P172,173**	P158,984	**P3,141**	P2,642	**P9,679**	P5,881	**P227,709**	P216,157	P315,548	**(P152,050)**	(P144,272)	(P91,069)	**P679,712**	P634,774	P378,110
Investments in and advances to associates	-	-	-	**6,153**	-	-	-	-	-	**13,484**	12,931	**2,505**	804	**8,723**	1,581	**8,786**	5,125	**127,203**	132,373	39,005	-	-	-	**166,854**	152,814	39,005
Goodwill, trademarks and brand names																								**31,232**	30,491	8,547
Other assets																								**2,237**	3,764	1,200
Assets held for sale																								**2,268**	823	2,746
Deferred tax assets																								**8,233**	7,134	8,883
Consolidated total assets																								**P890,536**	P829,800	P438,491
Segment liabilities	**P21,196**	P20,945	P9,692	**P10,505**	P14,755	P23,337	**P4,732**	P5,380	P7,714	**P13,675**	P16,769	**P23,684**	P19,633	**P3,003**	P580	**P18,829**	P11,723	**P110,393**	P130,931	P96,547	**(P141,900)**	(P135,218)	(P87,690)	**P64,117**	P85,498	P49,600
Drafts and loans payable																								**82,588**	74,128	56,789
Long-term debt																								**211,420**	168,927	72,962
Finance lease liabilities																								**208,261**	208,407	30
Income and other taxes payable																								**9,041**	10,001	4,186
Dividends payable and others																								**4,174**	2,262	1,949
Liabilities held for sale																								**578**	-	-
Deferred tax liabilities																								**11,257**	13,752	12,037
Consolidated total liabilities																								**P591,436**	P562,975	P197,553
Capital expenditures	**P2,954**	P2,240	P1,399	**P598**	P599	P781	**P1,347**	P1,490	P1,010	**P620**	P586	**P18,794**	P364	**P36**	P8	**P72**	P -	**P2,005**	P3,231	P3,059	**P -**	P -	P -	**P26,426**	P8,518	P6,249
Depreciation and amortization of property, plant and equipment (Note 29)	**2,168**	2,248	2,415	**895**	906	940	**1,688**	1,611	1,533	**5,432**	2,468	**3,566**	210	**6**	-	**181**	55	**707**	379	366	-	-	-	**14,643**	7,877	5,254
Noncash items other than depreciation and amortization of property, plant and equipment	**1,271**	717	763	**1,309**	1,338	1,167	**(111)**	(30)	172	**600**	357	**161**	1,660	**4**	-	**91**	29	**1,209**	(6,875)	2,612	-	-	-	**4,534**	(2,804)	4,714
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	77	4,333	3,705	**6**	51	54	-	-	695	-	-	-	-	-	-	**45**	-	-	-	302	-	-	-	**128**	4,384	4,756

8. Assets Held for Sale

a) Petron Mega Plaza

Petron has properties consisting of office units located at Petron Mega Plaza which has a floor area of 21,216 square meters covering the 28th - 44th floors and 206 parking lots amounting to P823. On December 1, 2010, Petron's BOD approved the sale of these properties to provide cash flows for various projects. On May 2, 2011, Petron sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking lots to the International Committee of the Red Cross with a total book value of P57. In September 2011, it was reclassified back to "Investment Properties" account in view of the fact that the remaining floors are no longer held for sale and have already been tenanted.

As of December 31, 2011, the carrying amount of assets held for sale amounted to P10, which comprised of buildings for stand-alone convenience stores (Treats) and locators held by PMC.

b) SMTCL

On December 7, 2011, the Parent Company through SMFBIL, signed a Share Sale and Purchase Agreement to sell all its outstanding shares in SMTCL to Pepsi Thai Trading Co., for a purchase price of US$35. The sale was completed on February 15, 2012.

c) SMYUI

In 2011, the Parent Company through SMYPIL and Nihon Yamamura Glass Co., Ltd. (NYG), entered into a non-binding Memorandum of Understanding (MOU), wherein NYG offered to buy 51% equity interest in SMYUI. On December 2, 2011, the BOD unanimously accepted NYG's offer and approved the share sale transaction as contemplated in the MOU. The disposal was completed in January 2012.

The major classes of SMTCL and SMYUI's assets and liabilities held for sale in 2011 are as follows:

	Note	
Assets held for sale		
Cash and cash equivalents	*9*	**P86**
Trade and other receivable - net		**21**
Inventories		**53**
Prepaid expenses and other current assets		**30**
Property, plant and equipment	*16*	**1,900**
		P2,090
Liabilities directly associated with assets held for sale		
Accounts payable and accrued expenses		**P58**
Income and other taxes payable		**9**
Current maturities of long-term debt - net of debt issue costs		**341**
Other noncurrent liabilities		**170**
		P578

d) Included in the "Assets held for sale" account presented in the consolidated statement of financial position as of December 31, 2011, are building and land use rights of SMVCL in Amata Industrial Zone in Vietnam amounting to P168, which were sold to Pepsico International - Vietnam Company on February 23, 2012.

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2011**	2010
Cash in banks and on hand		**P30,125**	P17,344
Short-term investments		**98,850**	107,844
	41, 4	**P128,975**	P125,188

Cash in banks earns interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

Cash and cash equivalents included in the "Assets held for sale" account in the consolidated statement of financial position as of December 31, 2011 amounted to P86 (Note 8).

10. Trade and Other Receivables

Trade and receivables consist of:

	Note	**2011**	2010
Trade		**P44,631**	P39,112
Non-trade	*35, 40*	**31,830**	29,921
Amounts owed by related parties	*34*	**13,236**	11,390
		89,697	80,423
Less allowance for impairment losses	*4*	**5,225**	4,519
	41, 42	**P84,472**	P75,904

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

The movements in the allowance for impairment losses are as follows:

	Note	**2011**	2010
Balance at beginning of year		**P4,519**	P2,729
Charges for the year		**1,017**	697
Amounts written off		**(214)**	(257)
Acquisition of subsidiaries	*5*	**68**	965
Transferred to assets held for sale		**(12)**	-
Others - net		**(153)**	385
Balance at end of year		**P5,225**	P4,519

As of December 31, 2011 and 2010, the aging of receivables is as follows:

2011	Trade	Non-trade	Owed by Related Parties	Total
Current	**P35,387**	**P19,282**	**P13,236**	**P67,905**
Past due				
Less than 30 days	**3,280**	**546**	**-**	**3,826**
30-60 days	**1,378**	**915**	**-**	**2,293**
61-90 days	**641**	**186**	**-**	**827**
Over 90 days	**3,945**	**10,901**	**-**	**14,846**
	P44,631	**P31,830**	**P13,236**	**P89,697**

2010	Trade	Non-trade	Owed by Related Parties	Total
Current	P33,202	P18,494	P11,390	P63,086
Past due				
Less than 30 days	2,413	2,637	-	5,050
30-60 days	849	543	-	1,392
61-90 days	387	1,621	-	2,008
Over 90 days	2,261	6,626	-	8,887
	P39,112	P29,921	P11,390	P80,423

Various collaterals for trade receivables such as bank guarantees, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and extensive analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Parent Company has outstanding advances to San Miguel Corporation Retirement Plan (SMCRP) amounting to P5,755 and P3,997 as of December 31, 2011 and 2010, respectively. The advances are subject to interest of 5.75% and 6.50% in 2011 and 2010, respectively (Note 34). Interest pertaining to the said advances amounted to P174 and P82 for the years ended December 31, 2011 and 2010, respectively (Note 32).

11. Inventories

Inventories at net realizable value consist of:

	2011	2010
Finished goods and goods in process (including petroleum products)	**P46,763**	P37,402
Materials and supplies (including coal)	**17,656**	18,427
Containers	**1,301**	1,613
	P65,720	P57,442

The cost of finished goods and goods in process amounted to P46,879 and P37,637 as of December 31, 2011 and 2010, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have decreased by P379 and P715 as of December 31, 2011 and 2010, respectively.

The cost of materials and supplies, as of December 31, 2011 and 2010 amounted to P18,516 and P19,185, respectively.

Containers at deposit value amounted to P1,479 and P1,917 as of December 31, 2011 and 2010, respectively.

Finished goods and goods in process include net unrealized gain of P69, P41 and P63 on fair valuation of agricultural produce as of December 31, 2011, 2010 and 2009, respectively (Note 4). The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P753 and P416 as of December 31, 2011 and 2010, respectively, with corresponding cost at point of harvest amounting to P684 and P375, respectively.

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2011**	2010
Prepaid taxes and licenses		**P16,113**	P10,539
Raw land inventory and real estate projects		**3,925**	3,675
Construction in progress - service concession arrangements	*4*	**318**	119
Prepaid insurance		**290**	198
Prepaid rent		**287**	314
Financial assets at FVPL	*41, 42*	**194**	193
Derivative assets	*41, 42*	**121**	249
Retirement assets - current portion	*36*	**-**	221
Prepaid interest		**-**	212
Others		**1,372**	1,194
		P22,620	P16,914

"Others" consist of advances to officers and employees and prepayments for various operating expenses.

Construction in progress - service concession arrangements includes the Group's accumulated costs incurred on the design of the upgrade component of the development of the Boracay Airport, cost of a parcel of land earmarked for such upgrade and the present value of the obligation to maintain and restore the Boracay Airport prior to its transfer to the ROP at the end of the concession period, as described in Note 35. This will be transferred and recognized as cost of construction upon commencement of the construction of the new terminal and runway (Note 3). The interest expense related to the accretion of the IRO in 2011 and 2010 amounting to P4.2 and P0.9, respectively, was recognized and presented as part of "Interest expense and other financing charges" in the consolidated statements of income (Note 31).

13. Investments and Advances

Investments and advances consist of:

	Note	**2011**	2010
Investments in associates - at equity:			
Acquisition cost			
Balance at beginning of year		**P152,016**	P36,461
Additions		**9,199**	97,017
Reclassification of investment in an associate to investment in subsidiaries	*5*	**(1,600)**	-
Investments of newly acquired subsidiaries	*5*	**-**	15,383
Transfer from assets held for sale	*8*	**-**	3,159
Reclassifications and others		**(374)**	(4)
		159,241	152,016
Accumulated equity in net earnings (losses):			
Balance at beginning of year		**(217)**	1,388
Equity in net earnings during the year		**2,824**	6,817
Dividends		**(3,973)**	(2,338)
Reclassification of investment in an associate to investment in subsidiaries	*5*	**(25)**	(5,095)
Share in other comprehensive income (losses)		**645**	(422)
Accumulated equity on investments transferred from assets held for sale	*8*	**-**	(413)
Accumulated equity on investments of newly acquired subsidiaries		**-**	(154)
Balance at end of year		**(746)**	(217)
		158,495	151,799
Advances		**8,359**	1,015
		P166,854	P152,814

The carrying amounts of investments in associates are as follows:

	Country of Incorporation	2011 Percentage of Ownership	2011 Amount	2010 Percentage of Ownership	2010 Amount
Top Frontier Investment Holdings, Inc. (Top Frontier)	Philippines	**49.00**	**P90,345**	49.00	P92,480
Atlantic Aurum Investments BV (Atlantic)	Netherlands	**46.53**	**6,068**	-	-
LTHI	Philippines	**41.48**	**2,828**	41.48	3,525
Limay Energen Corp. (LEC)	Philippines	**40.00**	**1,360**	40.00	213
Bank of Commerce (BOC)	Philippines	**39.93**	**8,517**	32.77	6,253
Private Infra Dev Corporation (PIDC)	Philippines	**35.00**	**1,544**	35.00	1,581
Manila North Harbour Port Inc. (MNHPI)	Philippines	**35.00**	**704**	-	-
Meralco	Philippines	**33.19**	**46,439**	33.19	45,309
Petrochemical Asia (HK) Limited (PAHL)	Hong Kong	**33.00**	**441**	33.00	591
Northpine Land, Inc.	Philippines	**20.00**	**249**	20.00	247
ETPI	Philippines	**-**	**-**	40.00	1,600*
			P158,495		P151,799

** Reclassified to investments in subsidiaries in 2011 (Note 5).*

Following are the unaudited condensed and combined financial information of the associates:

	2011	2010	2009
Total assets	**P587,629**	P552,700	P398,354
Total liabilities	**309,418**	261,599	323,170
Revenue	**271,340**	253,289	194,795
Net income	**12,173**	19,290	8,262

a. Top Frontier

On January 6, 2010, the Parent Company acquired a 49% stake via equity infusion in Top Frontier consisting of its subscription to 2,401,960 common shares of Top Frontier from its unissued capital stock. On January 7, 2010, the Parent Company paid P48,324 as deposit for future subscription in connection with the option granted to the Parent Company to apply the same to the subscription of 2,598,040 non-voting, redeemable, participating preferred shares of Top Frontier upon the increase in its authorized capital stock, amendment of its Articles of Incorporation and Top Frontier's compliance with its obligations related to the aforementioned investment.

The application for the increase in the authorized capital stock of Top Frontier was approved by the SEC on August 6, 2010.

The stock certificates covering the investment of the Parent Company in the 2,598,040 preferred shares of Top Frontier were issued in the name of the Parent Company on October 22, 2010.

The preferred shares are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which will be payable quarterly in arrears and in cash. The dividends on the preferred shares are cumulative from and after the issue date of the preferred shares.

The preferred shares are non-voting and participating. These are redeemable in whole or in part, at the sole option of Top Frontier, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

b. Atlantic

On October 11, 2011, the Parent Company, through its wholly-owned subsidiary SMHC, entered into a Sale and Purchase Agreement of Shares with PT Matra Sarana Arsitama, a corporation organized and existing under the laws of the Republic of Indonesia, for the purchase of 16,022,041 Class B common shares, representing 46.53% of the outstanding capital stock of Atlantic for US$132 or P5,871. Atlantic has indirect equity interests in the companies holding the concessions to construct, operate and maintain the South Luzon Expressway Project.

On December 29, 2011, SMHC entered into an Option Agreement with Padma Fund L.P. (Padma), a corporation organized and existing under the laws of Cayman Island, for the option to purchase up to 53.47% of the outstanding capital stock of Atlantic, comprising of 47,369 Class A common shares and 18,364,461 Class B common shares. SMHC paid US$40 or P1,754 as option deposit for the option to purchase the shares. SMHC has the option to purchase the shares for a period of 25 calendar days from the execution of the Option Agreement or until January 23, 2012, or such date as may be agreed upon by the Parties in writing. The option deposit shall be returned upon the issuance of a written notice by SMHC confirming that the option shall not be exercised. As of December 31, 2011, the option deposit was presented as part of "Trade and other receivables" account in the consolidated statements of financial position (Note 10).

On January 26, 2012, Padma returned to SMHC the option deposit of US$40.

c. LTHI

On July 8, 2009, Vega, a wholly-owned subsidiary of the Parent Company, acquired 579,111,669 common shares of LTHI from LTHI's existing stockholders for a total consideration of P2,041.

On July 21, 2009, Vega entered into a subscription agreement with LTHI for the subscription of 587,951,737 voting, non-redeemable and participating preferred shares out of the proposed increase in the authorized capital stock of LTHI at an issue price of P3.00 per share or approximately P1,764.

The application for the increase in the authorized capital stock of LTHI was approved by the SEC on January 18, 2010.

In 2010 and 2009, Vega paid P1,029 and P735, respectively, as subscription on LTHI's preferred shares.

The transaction was completed with a stock certificate covering the said preferred shares issued in the name of Vega on May 26, 2010.

On October 5, 2010, Vega also acquired from the public a total of 64,589,000 common shares of LTHI amounting to P221.

The fair value of the Group's capital stock investment in LTHI amounted to P3,508 and P4,152 as of December 31, 2011 and 2010, respectively.

d. LEC

On August 3, 2010, Petron together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of P3,400. Out of its authorized capitalization, P850 has been subscribed, of which P213 has been paid-up by Petron. Petron owns 40% of LEC, while Two San Isidro owns the remaining 60%. In 2011, Petron infused P1,147 to LEC to fully pay its 40% equity share.

LEC was formed to build, operate and maintain a cogeneration power plant that will engage in the generation of power and steam for the primary purpose of supplying the steam and power requirements of Petron Bataan Refinery.

As of December 31, 2011 and 2010, cost of investment in LEC amounted to P1,360 and P213, respectively.

e. BOC

SMPI has made a series of acquisitions of BOC shares in 2008 and 2007 and has acquired a total of 11,749,779 shares amounting to P1,749, equivalent to 30% equity ownership interest in BOC at the end of 2008. In 2009, SMPI subscribed to additional shares of BOC for a total consideration of P1 thereby increasing its equity ownership interest from 30% to 31.23% as of December 31, 2009. SMPI's management, however, decided to sell SMPI's entire equity ownership interest in BOC and reclassified the asset as held-for-sale in the 2009 consolidated statement of financial position.

In 2010, SMPI management decided not to pursue the sale of its ownership interest in BOC with a carrying amount of P2,746 and reclassified it back to "Investments and advances" account and made further acquisitions of BOC shares.

In 2010, SMPI acquired additional 20,383,210 shares amounting to P3,562 from various stockholders of BOC. These acquisitions increased SMPI's equity ownership interest in BOC to 32.77% as of December 31, 2010. Of the total acquisition cost, P1,800 and P542 were paid by SMCRP and Parent Company, respectively, in behalf of SMPI. The amounts were already paid as of December 31, 2011.

In 2010, SMPI made advance payments to certain stockholders of BOC amounting to P221 for the acquisition of additional shares sufficient to increase its equity interest in BOC to 33.86%. These advances were presented under "Investments and advances" account in the consolidated statements of financial position as of December 31, 2011 and 2010 and were not considered in the determination of SMPI's percentage equity interest in BOC.

In 2011, SMPI agreed to acquire an additional 7.2% of the outstanding capital stock of BOC for a total consideration of P1,490, by way of Deed of Sale of Shares with Assignment of Subscription Rights from Valiant Ventures and Development Holdings, Inc. consisting of: (i) 2,800,000 outstanding and issued common shares of stock; and (ii) the subscription rights to 5,237,265 common shares of stock. The acquisition by SMPI resulted to an increase in its equity interest to 39.93% as of December 31, 2011. As of December 31, 2011, SMPI completed the payment for the additional investment.

Share in BOC's accumulated fair value gains (losses) amounted to P645 and (P201) in 2011 and 2010, respectively, and are presented as part of "Share in comprehensive income (loss) of associates" account in the consolidated statements of comprehensive income.

Certain accounting policies applied by BOC in the preparation of its financial statements are not in accordance with PFRS. In computing for the equity in net earnings (losses) and comprehensive income (losses) of BOC, SMPI made adjustments to the 2011, 2010 and 2009 audited financial statements of BOC to conform BOC's accounting policies with PFRS and make them consistent with the Group's accounting policies. The adjustments made by SMPI relate to the correction of: (a) inadequate reserves on non-performing assets, investment properties and financial assets; (b) deferral of losses on sale of non-performing loans; and (c) misstatement in the values of structured financial instruments and certain investment properties. Based on the adjusted account balances of BOC as of December 31, 2009, management determined that the carrying amount of the investment is not fully recoverable, thus, an impairment loss on the investment amounting to P163 was recognized in 2009 and is included in "Other income (charges)" account in the 2009 consolidated statement of income (Note 33). No impairment loss on the investment was recognized in 2011 and 2010.

BOC is required to meet certain ratios under Bangko Sentral ng Pilipinas (BSP) regulations to manage the risks inherent in the banking business. As of December 31, 2011, 2010 and 2009, BOC has complied with the statutory and regulatory capital requirements which were computed based on the regulatory accounting policies that differ from PFRS in some aspects. BOC's retained earnings as of December 31, 2011, 2010 and 2009 is restricted from being declared as dividend to common stockholders to the extent of the amount of cumulative cash dividend in arrears of P320 declared by BOC's BOD on December 16, 2008 in favor of stockholders of certain redeemed preferred shares. The dividend declaration is pending approval from BSP as of December 31, 2011, 2010 and 2009.

f. PIDC

On September 11, 2009, Rapid, a wholly-owned subsidiary of SMHC, acquired 35% stake in PIDC, a consortium of construction companies behind the Tarlac-Pangasinan-La Union Expressway Project. Rapid subscribed to 1,575,000 common shares of PIDC amounting to P1,575 and paid a portion of the subscription price amounting to P245 and P561 on November 30, 2010 and September 11, 2009, respectively. As of December 31, 2011 and 2010, the unpaid subscription price amounting to P769 is reported as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22).

On September 12, 2011, Rapid advanced P1,111 as deposit for future stock subscription to 1,111,228 common shares of PIDC. One of the conditions for the issuance of the subscribed shares of Rapid is the approval of the SEC of the increase in the authorized capital stock of PIDC. As of December 31, 2011, the approval by the SEC has not yet been obtained.

g. MNHPI

On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI.

As of December 31, 2011, the cost of investment in MNHPI amounted to P691.

h. Meralco

On October 27, 2008, the Parent Company entered into a sale and purchase agreement with GSIS to acquire the latter's 300,963,189 shares in Meralco for a total consideration of P27,087 plus an additional fixed term interest. On November 10, 2008, the Parent Company paid P5,417 representing down payment for said shares with the balance payable in three (3) years.

On August 9, 2010, the Parent Company's beneficial interest in Meralco increased by 6.19% upon acquisition of SMC Global, which owns 69,059,538 common shares of Meralco for a total consideration of P7,063, inclusive of transaction costs of P46.

On August 12, 2011, the BOD of the Parent Company approved the sale of a portion of its investment in Meralco to SMPFC, comprising of 59,090,909 common shares or approximately 5.2% of the outstanding capital stock of Meralco as of December 31, 2010 at P220.00 per share. The purchase price of the shares was based on the average trading price of Meralco shares for the period from January 1 to July 31, 2011, with a discount of 12%.

In January and August 2011, the Parent Company paid in full the remaining balance of its liability related to the acquisition of Meralco shares of stock from GSIS amounting to an aggregate of P21,909.

The current portion of the Group's outstanding payable related to the purchase of Meralco shares as of December 31, 2011 and 2010 amounted to P2,122 and P14,019, respectively, included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P14,253 as of December 31, 2010, is reported as part of "Other noncurrent liabilities" account (Note 24) in the consolidated statements of financial position.

In January 2011, SMC Global paid the Development Bank of the Philippines and the Social Security System P2,575, related to the acquisition of Meralco shares of stock and paid in full the remaining balance of its payable on January 31, 2012.

The fair value of the Group's investment in Meralco amounted to P90,656 and P84,365 as of December 31, 2011 and 2010, respectively.

i. PAHL

PAHL was incorporated in March 2008 in Hong Kong.

PAHL indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

On March 13, 2010, Petron acquired 182,000,000 ordinary shares representing 40% of the issued and outstanding shares of PAHL from Vantage Stride (Mauritius) Limited for P745.

In June 2010, Petron's ownership interest was reduced to 33% due to the acquisition by another investor of 102,142,858 new Class "B" ordinary shares of PAHL.

PAHL commenced operation in the first quarter of 2011.

j. Advances

IGI
In June 2009, SMPI entered into a JVA with certain individuals and corporations (collectively referred to as Co-Venturer) to transfer the title of certain properties and to develop and later operate the properties into a mixed commercial and residential estate. On July 28, 2009, as part of the terms of the JVA, IGI was incorporated with an authorized capital stock of P1,000 divided into 1,000,000,000 common shares with a par value of P1.00 per share. On the same date, the Co-Venturer subscribed to 600,000,000 common shares of IGI for P600.

Pursuant to the terms and conditions of the JVA, SMPI made cash advances in favor of the Co-Venturer amounting to P311 as of December 31, 2009. Under the Deed of Assignment, the advances will be applied as payment for SMPI's subscription of additional number of IGI shares of stock sufficient to give SMPI a 51% ownership interest in IGI. In 2010, the Deed of Assignment between SMPI and the Co-Venturer was consummated and SMPI became the parent company of IGI. Accordingly, the balance of its advances earmarked for such subscription was applied to the subscription price.

Primeria Commercio Holdings, Inc. (PCHI)
In 2009, SMPI provided US dollar-denominated non-interest bearing cash advances to PCHI, a future investee of SMPI, amounting to P794 as of December 31, 2011 and 2010. These advances will be applied against future subscriptions of SMPI to the shares of stock of PCHI.

Telecom Company
In 2011, Vega provided non-interest bearing cash advances to a telecom company, a future investee, amounting to P5,958 as of December 31, 2011.

14. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	Note	**2011**	2010
Government and other debt securities		**P924**	P1,049
Equity securities		**877**	2,292
Proprietary membership shares and others		**267**	256
	41, 42	**P2,068**	P3,597

Acquisition of Indophil Resources NL (Indophil)
On October 8, 2010, the Parent Company entered into a Share Placement Agreement with Indophil to subscribe to 48,016,960 common shares (Placement Shares) equivalent to approximately 10.1% of the currently issued common shares of Indophil, on a fully diluted basis.

Indophil is an Australian company listed in the Australian Stock Exchange, which owns a 37.5% beneficial interest in Sagittarius Mines, Inc. (SMI). SMI has the rights to the Tampakan gold and copper mine in South Cotabato.

On October 15, 2010, the Placement Shares were issued in the name of Coastal View Exploration Corporation (Coastal View), a subsidiary of SMHC. The total consideration for the purchase of the Placement Shares was Australian dollar (A$)41.3 (approximately US$40) or A$0.86 per Placement Share.

As of December 31, 2011, Coastal View's stake in Indophil has been diluted to 3.99% as a result of the additional shares issuances made by Indophil.

As of December 31, 2011 and 2010, the fair value of the investment in Indophil amounted to P862 and P2,188, respectively.

Government Securities
This account consists of investments in government securities of Petrogen and ROP9 bonds of Ovincor.

Petrogen's investments bear fixed annual interest rates ranging from 6.00% to 8.75% and 6.25% to 8.875% in 2011 and 2010, respectively.

Ovincor's ROP9 bonds which are carried at fair value with weighted average effective interest rate of 4.3% are maintained at the Bank of Bermuda and will mature in March 2015.

15. Interests in Joint Ventures

On November 23, 2004, GSMI entered into a Share Purchase Agreement (SPA) with Thai Life Group of Companies (the Seller) for the purchase of 40% of the outstanding shares of TSML, a limited company organized under the laws of Thailand. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets. On the same date, GSMI and the Seller entered into a JVA covering the ownership and operation of TSML and the joint control, rights, obligations and responsibilities of GSMI and the Seller, as stockholders. In November 2004, GSMI incorporated GSMIL and subsequently assigned its rights and obligations under the SPA and the joint venture to GSMIL, including its rights to purchase 40% ownership of the outstanding shares of TSML. On December 15, 2004, all the closing conditions for the execution of the SPA were satisfied and the purchase was effected.

In 2009 and 2010, GSMI, through GSMIL acquired additional shares to retain the 40% ownership of the outstanding shares of TSML for a total of THB260 (P366).

On June 29, 2007, GSMI incorporated GSMIHL as a wholly-owned subsidiary. GSMIHL was organized to be the holding company of TGT. TGT, which was formed as another joint venture by GSMI with its Thai counterparty, will function as the selling and distribution arm of TSML. GSMI, with GSMIHL as its holding company, purchased 40% ownership of the outstanding shares of TGT.

On August 27, 2008 and September 11, 2008, GSMI incorporated GBHL and SHL, respectively, as wholly-owned subsidiaries. GSMI subscribed to 1,000 shares of GBHL at par value of US$1.00 per share for a total subscription value of US$0.001 (P0.05) and 1,000 shares of SHL at par value of US$1.00 per share for a total subscription value of US$0.001 (P0.05). Both entities are established as holding companies for the acquisition of additional investment in TSML and TGT.

On October 14, 2008, GSMI, through SHL, acquired 24,500 shares representing 49% ownership of the outstanding shares of Siam Wine and Liquor Limited (SWL), a limited company organized under the laws of Thailand, for Thailand Baht THB2 (P2.8). On the same date, SWL acquired 1,000,000 shares representing 10% ownership of the outstanding capital stock of TSML for THB106.48 (P147). SHL's share on the share purchase is THB52.2 (P72) for 490,000 shares at THB108.68 per share representing 4.9% ownership. Accordingly, GSMI group's share in TSML increased from 40% to 44.9%.

On October 14, 2008, GSMI advanced a total amount of US$3.1 (P146.9) to GBHL. On October 10, 2008, GBHL ("Lender") entered into a loan agreement with SWL ("Borrower") for the same amount, to finance the latter's working capital requirements and purchase of additional shares in TSML and TGT.

On March 9, 2009 and December 11, 2009, SHL ("Lender") entered into a loan agreement with SWL ("Borrower") for THB15 and THB10, respectively, to subscribe to the increase in capital stock of TSML.

On February 25, April 8 and December 7, 2010, the Lender entered into a loan agreement with the Borrower for a total of THB40 to subscribe to the increase in capital stock of TSML.

The Group's share in the assets, liabilities, income and expenses of TSML as of and for the years ended December 31, 2011, 2010, and 2009 which is included in the Group's consolidated financial statements is shown below:

	2011	2010	2009
Current assets	**P484**	P516	P339
Noncurrent assets	**806**	894	894
Current liabilities	**425**	436	409
Noncurrent liabilities	**269**	309	415
Revenue	**452**	657	317
Cost of sales	**600**	817	462
Operating expenses	**85**	76	68
Other income	**4**	12	1
Net loss	**229**	224	212

The Group's share in the cash flows of TSML for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Net cash flows used in operating activities	**(P209)**	(P373)	(P204)
Net cash flows provided by investing activities	**87**	-	17
Net cash flows used in financing activities	**(40)**	(106)	(111)

On October 14, 2008, SWL acquired 5,000 shares representing 10% ownership of the outstanding capital stock of TGT for THB0.5 (P0.7). SHL's share on the share purchase is THB0.245 (P0.3) for 2,450 shares at THB100.00 per share representing 4.9% ownership. Accordingly, GSMI group's share in TGT increased from 40% to 44.9%.

The Group's share in the assets, liabilities, income and expenses of TGT as of and for the years ended December 31, 2011, 2010 and 2009 which is included in the Group's consolidated financial statements is shown below:

	2011	2010	2009
Current assets	**P65**	P51	P102
Noncurrent assets	**3**	14	30
Current liabilities	**14**	15	20
Noncurrent liabilities	**-**	2	16
Revenue	**171**	232	230
Cost of sales	**2**	17	56
Operating expenses	**83**	111	96
Other income	**1**	1	2
Net income	**87**	105	80

The Group's share in the cash flows of TGT for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Net cash flows provided by operating activities	**P70**	P159	P109
Net cash flows provided by investing activities	**12**	15	14
Net cash flows used in financing activities	**(2)**	(14)	(13)

16. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Machinery and Equipment	Telecommunications Equipment	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Cost:														
December 31, 2009	P10,627	P24,406	P -	P -	P -	P78,891	P -	P3,305	P2,354	P2,542	P657	P921	P5,674	P129,377
Additions	437	561	568	-	364	3,073	-	3,170	285	129	267	73	(409)	8,518
Disposals/reclassifications/ acquisition of subsidiaries	4,136	7,642	214,331	37,286	4,955	4,338	1,002	2,148	(334)	1,532	(219)	243	838	277,898
Currency translation adjustments	77	(385)	-	-	-	(539)	-	(8)	22	(9)	(3)	-	(6)	(851)
December 31, 2010	15,277	32,224	214,899	37,286	5,319	85,763	1,002	8,615	2,327	4,194	702	1,237	6,097	414,942
Additions	1,121	1,201	596	524	831	4,394	39	2,308	277	461	227	224	14,223	26,426
Disposals/reclassifications/ acquisition of subsidiaries	285	(177)	(1,176)	-	(80)	(2,182)	6,353	(41)	(70)	207	(120)	90	682	3,771
Transfer to assets held for sale	(202)	(729)	-	-	-	(1,615)	-	(3)	(8)	(52)	-	-	(4)	(2,613)
Currency translation adjustments	(73)	143	-	-	-	304	-	1	(19)	(4)	-	-	11	363
December 31, 2011	**16,408**	**32,662**	**214,319**	**37,810**	**6,070**	**86,664**	**7,394**	**10,880**	**2,507**	**4,806**	**809**	**1,551**	**21,009**	**442,889**
Accumulated depreciation and amortization:														
December 31, 2009	1,154	6,731	-	-	-	40,884	-	1,987	1,668	2,178	511	372	-	55,485
Additions	109	745	2,464	86	42	3,575	55	240	168	161	157	75	-	7,877
Disposals/reclassifications/ acquisition of subsidiaries	1,197	3,358	3,147	16,459	3,700	2,392	623	170	(203)	1,252	(125)	107	-	32,077
Currency translation adjustments	2	(102)	-	-	-	(199)	-	(8)	58	(6)	(33)	1	-	(287)
December 31, 2010	2,462	10,732	5,611	16,545	3,742	46,652	678	2,389	1,691	3,585	510	555	-	95,152
Additions	158	1,056	5,427	2,027	504	3,790	166	668	219	304	203	121	-	14,643
Disposals/reclassifications/ acquisition of subsidiaries	(5)	385	(410)	7	(25)	(1,412)	4,562	(110)	(81)	(110)	(76)	(22)	-	2,703
Transfer to assets held for sale	-	(94)	-	-	-	(415)	-	-	(2)	(51)	-	-	-	(562)
Currency translation adjustments	(3)	21	-	-	-	5	-	-	(17)	(4)	1	1	-	4
December 31, 2011	**2,612**	**12,100**	**10,628**	**18,579**	**4,221**	**48,620**	**5,406**	**2,947**	**1,810**	**3,724**	**638**	**655**	**-**	**111,940**

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Machinery and Equipment	Telecommunications Equipment	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Accumulated impairment losses:														
December 31, 2009	P208	P2,313	P -	P -	P -	P5,410	P -	P6	P13	P20	P3	P -	P -	P7,973
Additions for the year	-	1,574	-	-	-	2,248	-	6	-	20	-	-	-	3,848
Disposals/reclassifications/ acquisition of subsidiaries	204	(5)	-	-	-	(138)	-	-	7	2	(2)	-	-	68
Currency translation adjustments	-	(53)	-	-	-	(117)	-	-	-	(1)	(1)	-	-	(172)
December 31, 2010	412	3,829	-	-	-	7,403	-	12	20	41	-	-	-	11,717
Additions for the year	-	6	-	-	-	52	45	-	-	-	-	-	-	103
Disposals/reclassifications/ acquisition of subsidiaries	(27)	(149)	-	-	-	(685)	-	-	(1)	-	-	-	-	(862)
Transfer to assets held for sale	-	-	-	-	-	(46)	-	-	-	-	-	-	-	(46)
Currency translation adjustments	-	126	-	-	-	283	-	1	1	-	-	-	-	411
December 31, 2011	**385**	**3,812**	**-**	**-**	**-**	**7,007**	**45**	**13**	**20**	**41**	**-**	**-**	**-**	**11,323**
Net book value:														
December 31, 2010	P12,403	P17,663	P209,288	P20,741	P1,577	P31,708	P324	P6,214	P616	P568	P192	P682	P6,097	P308,073
December 31, 2011	**P13,411**	**P16,750**	**P203,691**	**P19,231**	**P1,849**	**P31,037**	**P1,943**	**P7,920**	**P677**	**P1,041**	**P171**	**P896**	**P21,009**	**P319,626**

Depreciation, amortization and impairment losses recognized in profit or loss amounted to P14,746, P11,725 and P8,900 in 2011, 2010 and 2009, respectively (Notes 29 and 33). These amounts include annual amortization of capitalized interest amounting to P13, P14 and P13 in 2011, 2010 and 2009, respectively.

The Group has interest amounting to P219 and P15 which were capitalized in 2011 and 2010, respectively. The capitalization rate used to determine the amount of interest eligible for capitalization were 6.76% and 4.97% in 2011 and 5.73% in 2010. As of December 31, 2011 and 2010, the unamortized capitalized borrowing costs amounted to P314 and P108, respectively.

The carrying amount of power plants, machinery and equipment and transportation equipment under finance lease amounted to P203,756 and P209,301 as of December 31, 2011 and 2010, respectively (Notes 4 and 35).

On January 18, 2010, the physical possession of the Limay Power Plant was turned over and transferred to PanAsia. The Limay Power Plant started commercial operations on February 16, 2010.

In July 2010, with the consent of PSALM, PanAsia's option to acquire the land was assigned to PCPI. Accordingly, PCPI assumed all the rights and obligations under the original contract between PanAsia and PSALM. On September 30, 2010, PCPI exercised the option and acquired ownership of the land.

On August 18, 2011, SMC Global sold its 100% ownership interest in PanAsia to MHI.

On August 25, 2011, SMVCL sold its machinery and equipment in Amata Industrial Zone, Vietnam for US$19 and recognized a gain amounting to P273 included as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.

Land and land improvements include a 144-hectare property in Sumilao, Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs amounted to P37.

To settle the land dispute, a Memorandum of Agreement (MOA) was executed between SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in the last quarter of 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court (SC) and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal of the cases pending with the SC and the OP for their concurrence. Pursuant to the Joint Manifestation and Motion for Dismissal dated March 3, 2011 filed by SMFI and NQSR Management and Development Corporation, the original owner of the Sumilao property, the SC and the OP, in a Resolution dated March 15, 2011 and in an Order dated April 6, 2011, respectively, dismissed the appeal of MAPALAD on the DAR's denial of their petition for the revocation of the conversion order.

The cost of farm improvements, buildings, machinery and equipment and construction in progress incurred for SMFI's (formerly Monterey) hog farm expansion project situated in Sumilao amounted to P906 and P889 as of 2011 and 2010, respectively.

17. Investment Properties

The movements in investment properties are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Tools and Small Equipment	Construction in Progress	Total
Cost:						
December 31, 2009	P1,841	P629	P1,013	P9	P -	P3,492
Additions/reclassifications	289	28	2	-	-	319
Disposals	(3)	(39)	-	-	-	(42)
Currency translation adjustments	31	(18)	-	-	-	13
December 31, 2010	2,158	600	1,015	9	-	3,782
Additions/reclassifications	403	995	2	-	398	1,798
Disposals	(1,012)	(70)	-	-	-	(1,082)
Currency translation adjustments	(36)	-	-	-	-	(36)
December 31, 2011	**1,513**	**1,525**	**1,017**	**9**	**398**	**4,462**
Accumulated depreciation and amortization:						
December 31, 2009	81	223	916	9	-	1,229
Additions	8	22	13	-	-	43
Disposals/reclassifications	-	(6)	-	-	-	(6)
Currency translation adjustments	(2)	(6)	-	-	-	(8)
December 31, 2010	87	233	929	9	-	1,258
Additions	11	102	7	-	-	120
Disposals/reclassifications	2	168	(12)	-	-	158
December 31, 2011	**100**	**503**	**924**	**9**	**-**	**1,536**
Accumulated impairment losses:						
December 31, 2009	349	47	-	-	-	396
Disposals/reclassifications	(6)	(11)	-	-	-	(17)
Currency translation adjustments	13	(1)	-	-	-	12
December 31, 2010	356	35	-	-	-	391
Disposals/reclassifications	(304)	-	-	-	-	(304)
Currency translation adjustments	(11)	-	-	-	-	(11)
December 31, 2011	**41**	**35**	**-**	**-**	**-**	**76**
Net book value:						
December 31, 2010	P1,715	P332	P86	P -	P -	P2,133
December 31, 2011	**P1,372**	**P987**	**P93**	**P -**	**P398**	**P2,850**

No impairment loss was recognized in 2011 and 2010.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment properties that generated income in 2011, 2010 and 2009 .

On June 10, 2011, SMBTL sold its Bangpho property in Bang Sue District, Bangkok Metropolis for THB815 (P1,050). The property's carrying amount is THB506 (P706). The Group recognized a gain of P344 for the said sale, presented as part of "Gain on sale of investments and property and equipment" account in the consolidated statement of income.

Estimated fair values of investment properties amounted to P5,594 and P3,129 as of December 31, 2011 and 2010, respectively.

18. Biological Assets

Biological assets consist of poultry, hogs and cattle as follows:

	2011	2010
Current:		
Growing stocks	**P3,228**	P2,559
Goods in process	**896**	708
	4,124	3,267
Noncurrent:		
Breeding stocks - net	**1,812**	1,479
	P5,936	P4,746

The amortization of breeding stocks recognized in profit or loss amounted to P1,186, P1,081 and P909 in 2011, 2010 and 2009, respectively (Note 29).

Growing stocks pertain to growing broilers, hogs and cattle and goods in process pertain to hatching eggs and carcass.

The movements in biological assets are as follows:

	2011	2010
Gross:		
Balance at beginning of year	**P5,010**	P4,598
Increase (decrease) due to:		
Production	**17,159**	11,308
Purchases	**11,687**	13,101
Mortality	**(477)**	(414)
Sales	**(6,087)**	(4,693)
Harvest	**(19,989)**	(17,884)
Reclassifications	**(1,010)**	-
Currency translation adjustments	**2**	(1,006)
Balance at end of year	**6,295**	5,010
Accumulated amortization:		
Balance at beginning of year	**264**	226
Additions	**1,186**	1,081
Disposals	**(81)**	(1,043)
Reclassifications	**(1,010)**	-
Balance at end of year	**359**	264
Net book value	**P5,936**	P4,746

The Group harvested approximately 420.9 million and 392.2 million kilograms of grown broilers in 2011 and 2010, respectively, and 0.88 million and 0.35 million heads of marketable hogs and cattle in 2011 and 2010, respectively.

19. Goodwill and Other Intangible Assets

The movements in goodwill are as follows:

	Note	**2011**	2010
Balance at beginning of year		**P30,251**	P6,408
Additions	*5, 39*	**732**	24,456
Impairment	*33*	**-**	(461)
Currency translation adjustments and others		**7**	(152)
Balance at end of year		**P30,990**	P30,251

The movements in other intangible assets with indefinite useful lives are as follows:

	Note	**Trademarks and Brand Names**	**Licenses**	**Formulas and Recipes**	**Total**
Cost:					
December 31, 2009		P2,272	P -	P58	P2,330
Additions and acquisition of subsidiaries	*5*	-	5,221	-	5,221
Disposals and reclassifications		(1,839)	1,917	-	78
Currency translation adjustments		(3)	-	-	(3)
December 31, 2010		430	7,138	58	7,626
Currency translation adjustments		2	(94)	-	(92)
December 31, 2011		**432**	**7,044**	**58**	**7,534**
Accumulated impairment losses:					
December 31, 2009		133	-	-	133
Additions	*33*	64	-	-	64
Currency translation adjustments		(7)	-	-	(7)
December 31, 2010 and 2011		**190**	**-**	**-**	**190**
Net book value:					
December 31, 2010		P240	P7,138	P58	P7,436
December 31, 2011		**P242**	**P7,044**	**P58**	**P7,344**

The movements in other intangible assets with finite useful lives are as follows:

	Note	Service Concession Rights	Licenses	Mining Rights	Land Use Rights	Others	Total
Cost:							
December 31, 2009		P -	P139	P -	P1,890	P689	P2,718
Additions and acquisition of subsidiaries	*5*	91	-	1,800	-	69	1,960
Disposals and reclassifications		-	62	-	-	3	65
Currency translation adjustments		-	2	-	(73)	(3)	(74)
December 31, 2010		91	203	1,800	1,817	758	4,669
Additions and acquisition of subsidiaries		111	34	197	3	362	707
Disposals and reclassifications		1	-	-	(118)	19	(98)
Currency translation adjustments		-	(2)	-	25	1	24
December 31, 2011		**203**	**235**	**1,997**	**1,727**	**1,140**	**5,302**
Accumulated amortization and impairment losses:							
December 31, 2009		-	52	-	641	592	1,285
Additions and acquisition of subsidiaries	*33*	1	12	-	(202)	51	(138)
Disposals and reclassifications		-	(3)	-	-	11	8
Currency translation adjustments		-	1	-	(29)	(2)	(30)
December 31, 2010		1	62	-	410	652	1,125
Additions and acquisition of subsidiaries		9	8	-	46	54	117
Disposals and reclassifications		1	(1)	-	(22)	12	(10)
Currency translation adjustments		-	-	-	7	-	7
December 31, 2011		**11**	**69**	**-**	**441**	**718**	**1,239**
Net book value:							
December 31, 2010		P90	P141	P1,800	P1,407	P106	P3,544
December 31, 2011		**P192**	**P166**	**P1,997**	**P1,286**	**P422**	**P4,063**

Intangible asset-service concession rights represent the present value of the annual franchise fee payable to the ROP over 25 years discounted using 9% internal borrowing rate, net of accumulated amortization (Notes 4, 12 and 24).

Mining rights and licenses with finite lives and licenses, goodwill, trademarks and brand names with indefinite lives acquired through business combinations have been allocated to individual cash-generating units, for impairment testing as follows:

	2011			2010		
	Goodwill	**Licenses, Trademarks and Brand Names**	**Mining Rights**	Goodwill	Licenses, Trademarks and Brand Names	Mining Rights
Fuel and oil	**P22,025**	**P -**	**P -**	P22,025	P -	P -
Food	**2,942**	**229**	**-**	2,936	227	-
Packaging	**2,026**	**-**	**-**	2,026	-	-
Beverage	**772**	**1,836**	**-**	772	1,930	-
Power generation and distribution	**-**	**-**	**1,997**	-	-	1,800
Infrastructure	**2,438**	**-**	**-**	2,431	-	-
Telecommunications	**726**	**5,221**	**-**	-	5,221	-
Others	**61**	**-**	**-**	61	-	-
Total	**P30,990**	**P7,286**	**P1,997**	P30,251	P7,378	P1,800

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 6% to 14% in 2011 and 2010. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

Impairment loss on goodwill amounting to P461 and P33 was recognized and included as part of "Other income (charges)" account in the consolidated statements of income in 2010 and 2009, respectively. No impairment losses were recognized in 2011 (Note 33).

The recoverable amount of the trademarks and brand names has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rate used range is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 8% to 14.5% and 8.9% to 18% in 2011 and 2010, respectively.

Management assessed that impairment loss in the value of trademarks and brand names amounting to P64 was recognized and included as part of "Other income (charges)" account in the consolidated statement of income in 2010. No impairment losses were recognized in 2011 and 2009 (Note 33).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins*. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

- *Discount Rates*. The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.

- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

20. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2011**	2010
Noncurrent receivables and deposits - net	*40, 41, 42*	**P27,471**	P24,783
Deferred containers - net	*4*	**5,035**	4,420
Project development costs	*5*	**2,218**	2,186
Retirement assets	*36*	**299**	147
Others		**3,494**	2,265
		P38,517	P33,801

Noncurrent receivables and deposits include advances to Petron Corporation Employee Retirement Plan (PCERP) amounting to P23,247 and P22,435, respectively, and deposits to Meralco amounting to P80 and P87, respectively, as of December 31, 2011 and 2010 (Note 34).

Project development costs consist of expenditures related to the development of the MRT 7 Project (Note 35) which are capitalized. These include manpower costs, engineering service costs, financing fees, technology development and consultancy service costs, overhead costs and other related project costs.

"Others" include noncurrent prepaid rent and insurance, catalysts, deferred exploration and development costs and idle assets.

Idle assets included under "Others" amounted to P986 and P169 as of December 31, 2011 and 2010, respectively (Note 33).

21. Drafts and Loans Payable

Drafts and loans payable consist of:

	Note	**2011**	2010
Parent Company			
Peso-denominated		**P15,133**	P22,422
Subsidiaries			
Peso-denominated		**63,577**	48,214
Foreign currency-denominated		**3,878**	3,492
	41, 42	**P82,588**	P74,128

Drafts and loans payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.10% to 5.13%, 3.05% to 4.50% and 3.10% to 6.79% in 2011, 2010 and 2009, respectively. Interest rates for foreign currency-denominated loans range from 1.5% to 20%, 1.8% to 16.5% and 1.32% to 12.08% in 2011, 2010 and 2009, respectively.

Drafts and loans payable of the Group are not subject to covenants and warranties.

22. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2011**	2010
Trade		**P39,398**	P34,591
Non-trade		**12,638**	11,671
Payables on the purchase of shares of stock	*5, 13*	**2,862**	14,839
Subscriptions payable	*13, 34*	**769**	1,290
Amounts owed to related parties	*34*	**326**	2,555
Retirement liabilities	*36*	**85**	503
Obligation under a put option	*4, 35*	**-**	386
Others		**5,551**	3,939
	41, 42	**P61,629**	P69,774

Derivative liabilities included under "Others" amounted to P118 and P71 as of December 31, 2011 and 2010, respectively (Notes 41 and 42).

Non-trade payables include freight payable, contract growers/breeders' fee, guarantee deposits, utilities, rent and other expenses payable to third parties, as supported by invoices, which were not paid in the month in which they are incurred.

The current portion of IRO included in "Non-trade" amounted to P2 as of December 31, 2011 and 2010 (Note 35).

Others include interest payable and accruals for payroll, materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

23. Long-term Debt

Long-term debt consists of:

	2011	2010
Parent Company		
Unsecured term notes:		
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (a)	**P43,011**	P42,810
Fixed interest rate with maturities up to 2014 (b)	**25,754**	-
Peso-denominated:		
Floating interest rate based on PDST-F plus margin, with maturities up to 2012, 2014 and 2015 (c)	**9,445**	10,838
	78,210	53,648
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 8.25%, 8.875% and 10.5% maturing in 2012, 2014 and 2019, respectively (d)	**38,534**	38,425
Foreign currency-denominated:		
Fixed interest rate of 7% maturing in 2016 (e)	**13,012**	-
Unsecured term notes:		
Peso-denominated:		
Fixed interest rate of 7% maturing in 2017 (f)	**19,803**	19,779
Fixed interest rate of 8.88%, 8.14% and 9.33% maturing in 2011, 2014 and 2016, respectively (g)	**9,840**	16,162
Fixed interest rate of 6.3212% and 7.1827% maturing in 2018 and 2021 (h)	**3,563**	-
Fixed interest rate of 6.50% and 7.25% maturing in 2012 and 2014, respectively (i)	**2,220**	2,217
Fixed interest rate of 6.175% and 6.145% maturing in 2016 (j)	**1,494**	-
Fixed interest rate of 7.89% and 7.25% maturing in 2015 (k)	**1,495**	1,493
Fixed interest rate of 5.4885% maturing in 2015 (l)	**794**	793
Fixed interest rate of 6.73% maturing in 2012 (m)	**154**	767
Floating interest rate based on PDST-F plus margin, with maturities up to 2015 (l)	**3,673**	3,668
Floating interest rate based on PDST-F plus margin, with maturities up to 2011 and 2014 (n)	**1,200**	2,466
Floating interest rate based on PDST-F plus margin, with maturities up to 2014 (o)	**204**	-
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (p)	**12,906**	12,840
Floating interest rate based on LIBOR plus margin, with maturities up to 2015 (q)	**11,889**	15,229
Floating interest rate based on LIBOR plus margin, with maturities up to 2014 (r)	**8,713**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2016 (s)	**3,419**	-
Floating interest rate based on VNIBOR and THBFIX plus margin, with maturities up to 2014 (t)	**297**	1,440
	133,210	115,279
	211,420	168,927
Less current maturities	**19,453**	12,549
	P191,967	P156,378

a. The amount represents drawdown by the Parent Company in 2010 from the US$1,000 loan facility. The drawdown was used to refinance its existing financial indebtedness and for general working capital purposes.

   Unamortized debt issue costs related to these loans amounted to P829 and P1,030 as of December 31, 2011 and 2010, respectively.

b. The amount represents the Parent Company's US$600 Exchangeable Bonds (the "Bonds") issued on May 5, 2011. The Bonds bear interest at the rate of 2.00% per annum, payable semi-annually in arrears every 5th of May and November of each year, with the first interest payment made on November 5, 2011. Unless the Bonds have been previously redeemed, repurchased, cancelled or exchanged, the Parent Company will redeem the Bonds at its principal amount on May 5, 2014.

   The Bonds are exchangeable for common shares from the treasury stock of the Parent Company (Note 26). The number of common shares to be delivered in exchange of a Bond will be determined by dividing the principal amount of the Bond to be exchanged (translated into Philippine Peso at the fixed rate of P43.34=US$1.00) by the initial exchange price of P137.50 per share, subject to adjustment in certain circumstances.

   The Bonds were listed in the Singapore Exchange Securities Trading Limited on May 5, 2011.

   In November 2011, a total of US$2 (P87) was exchanged for 765,451 common shares of the Parent Company at an exchange price of P113.24 per share (Note 26).

   Unamortized bond issue costs as of December 31, 2011 amounted to P462.

c. The amount represents drawdown by the Parent Company in 2010 and 2009 for general financing and corporate requirements. Unamortized debt issue costs related to these loans amounted to P5 and P12 as of December 31, 2011 and 2010, respectively.

d. The amount represents SMB's peso-denominated fixed rate bonds (Bonds) worth P38,800 which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 17, 2009 and are listed on the Philippine Dealing & Exchange Corp. for trading.

   The Bonds were issued in three (3) series: Series A Bonds with a fixed interest rate of 8.25% per annum; Series B Bonds with a fixed interest rate of 8.875% per annum; and Series C Bonds with a fixed interest rate of 10.50% per annum.

   Proceeds from the issuance of the Bonds were used to finance SMB's acquisition of the interest of the Parent Company in IBI and in BPI. Unamortized debt issue costs related to these bonds amounted to P167 and P276 as of December 31, 2011 and 2010, respectively.

e. The amount represents US$300, 7%, 5-year bond issued by SMC Global in 2011 under the Regulations of the US Securities Act of 1933, as amended. The unsecured bond issue is listed in the Singapore Exchange Securities Trading Limited. Unamortized bond issue costs as of December 31, 2011 amounted to P140.

f. The amount represents P20,000 peso-denominated notes issued by Petron in 2010. The principal and interest will be translated into and paid in US dollars based on the average representative market rate at the applicable rate calculation date at the time of each payment. The notes are payable semi-annually in arrears on May 10 and November 10 of each year. The notes will mature on November 10, 2017. Unamortized debt issue cost related to this note amounted to P197 and P222 as of December 31, 2011 and 2010, respectively.

g. The amount represents fixed rate corporate notes issued by Petron amounting to P6,300 in 2006 and P5,200 and P4,800 in 2009. The P6,300 fixed rate corporate note was used to finance the construction of its Petro Fluidized Catalytic Cracker Unit and Propylene Recovery Unit and for other general financing purposes. The note has matured and was fully paid on August 2, 2011. The P5,200 five-year notes bear a fixed rate of 8.14% per annum with one-time payment of principal in June 2014. The P4,800 seven-year notes bear a fixed rate of 9.33% per annum with principal payments of P48 per year commencing in June 2010 and a one-time payment of P4,512 in June 2016. Unamortized debt issue cost related to these notes amounted to P64 and P89 as of December 31, 2011 and 2010, respectively.

h. The amount represents Fixed Rate Corporate Notes (FXCNs) issued by Petron in 2011 consisting of Series A Notes amounting to P690 having a maturity of 7 years from the issue date and Series B notes amounting to P2,910 having a maturity of 10 years from the issue date. The notes are subject to fixed interest coupons of 6.3212% per annum for the Series A notes and 7.1827% per annum for the Series B notes. The net proceeds from the issuance were used for general corporate requirements. Unamortized debt issue cost related to these notes amounted to P37 as of December 31, 2011.

i. The amount represents syndicated loans obtained by SMYAC in 2007 which were used for capital expenditures. Unamortized debt issue costs related to these loans amounted to P4 and P8 as of December 31, 2011 and 2010, respectively.

j. The amount represents drawdown by SMCSLC in 2011, from a local bank, used for working capital requirements. Unamortized debt issue costs related to this loan amounted to P6 as of December 31, 2011.

k. The amount represents drawdown by GSMI in 2010, from a local bank, used for working capital requirements. Unamortized debt issue costs related to these loans amounted to P5 and P7 as of December 31, 2011 and 2010, respectively.

l. The amount represents corporate notes which SMFI offered for sale and subscription to the public. These are Philippine peso-denominated fixed rate and floating rate corporate notes with principal amount of P800 and P3,700, respectively. Both types of notes have a term of 5 years and 1 day beginning on December 10, 2010 and ending on December 11, 2015. The fixed rate note bears interest rate of 5.4885% per annum, while the floating rate note bears interest rate based on 3-month PDST-F plus an agreed margin. Proceeds from the issuance of the notes are intended to fund any expansion or any investment in new businesses by SMFI and for other general corporate financing purposes. Unamortized debt issue costs related to these bonds amounted to P33 and P39 as of December 31, 2011 and 2010, respectively.

m. The amount represents a club loan agreement entered into by Petron with Metropolitan Bank and Trust Company and Citibank amounting to P1,000 each in 2007. The loan was fully paid on January 31, 2012.

n. The amount includes a loan agreement entered into by Petron with Land Bank of the Philippines in 2006 amounting to P2,000, used for capital expenditures. The loan bears interest calculated based on the prevailing 3-month MART (now PDST-F) rate plus a fixed spread. The loan has been fully paid on November 29, 2011.

   The amount also includes a three-year term facility agreement entered into by Petron with Development Bank of the Philippines in 2010 amounting to P1,800. The loan is subject to quarterly repricing and the principal amount is amortized in twelve quarterly installments of 150 starting March 2011 up to 2014. The loan was obtained to finance Petron's general corporate requirements.

o. The amount represents the consolidation of GFDCC's balance of P210 in 2011. The unsecured loan facility was entered into by GFDCC with BOC in 2009 and 2010. Proceeds of the loan were used to finance GFDCC's capital expenditures.

p. The amount represents an unsecured loan facility agreement entered into by SMB in 2010 and 2011 with an aggregate amount of US$300, used to finance SMB's acquisition of the international beer and malt-based beverages business from the Parent Company, through SMB's purchase of SMH's shares in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL. Interest rate for the foreign currency-denominated loan of SMB ranges from 2.33% to 2.41% and 2.35% to 2.54% in 2011 and 2010, respectively. Unamortized debt issue costs related to this loan facility amounted to P246 and P312 as of December 31, 2011 and 2010, respectively.

q. The amount represents drawdown by Petron in 2011 and 2010 from the US$355 loan facility for general corporate purposes and refinancing of peso-denominated debts. Floating interest rate for the loan is 1, 3 or 6-month LIBOR plus a spread of 2.15%. Principal repayment is in 9 equal semi-annual installments of US$39 beginning June 1, 2011. Unamortized debt issue costs related to this loan facility amounted to P216 and P334 as of December 31, 2011 and 2010, respectively.

r. The amount represents the US$200, syndicated 3-year medium term loan facility which SMC Global has drawn on September 30, 2011. Pursuant to the Facility Agreement signed on March 31, 2011, the amount of the loan drawn will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the interest period. The facility agreement has a final maturity date of September 2014. Unamortized debt issue costs related to the loan amounted to P55 as of December 31, 2011.

s. The amount represents the US$480 term loan facility signed and executed by Petron on September 30, 2011. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a spread of 2.35%. The loan proceeds will be used to finance the capital expenditure requirements of Refinery Master Plan Phase 2 (RMP-2) Project. The first drawdown of US$80 was made on November 25, 2011. The balance of US$400 will be available for drawdown until March 30, 2012. Unamortized debt issue costs related to the loan amounted to P88 as of December 31, 2011.

t. The amount includes loan obtained by SMFBIL's subsidiaries, which was used to finance their capital expenditures. It also includes the 44.9% share of the loan of TSML in 2011 and 2010 to finance its plant constructions and start up operations. Unamortized debt issue costs related to these loans amounted to P1 as of December 31, 2011 and 2010.

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

In 2011, SMB obtained the approval from the lenders of the US$300 Term Facility to amend the financial covenant from a minimum current ratio of 1:1 to a minimum interest coverage ratio of 4.75:1. In 2012, SMB also obtained the consent of bondholders representing 76.92% of the aggregate principal amount of the Bonds to effect the same change in the terms and conditions of the Bonds.

As of December 31, 2011 and 2010, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	Note	**2011**	2010
Balance at beginning of year		**P2,334**	P1,738
Additions and reclassification		**974**	2,404
Amortization	*31*	**(753)**	(1,808)
Balance at end of year		**P2,555**	P2,334

Repayment Schedule
As of December 31, 2011, the annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2012	P19,642	P189	P19,453
2013	5,503	151	5,352
2014	69,927	765	69,162
2015	72,476	1,145	71,331
2016	20,197	261	19,936
2017 and thereafter	26,230	44	26,186
Total	**P213,975**	**P2,555**	**P211,420**

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 41.

24. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	**2011**	2010
Payables on the purchase of shares of stock	*5, 13*	**P1,276**	P15,063
ARO	*4*	**1,061**	815
Retirement liabilities	*36*	**1,054**	132
Obligation to the Philippine Government - service concession agreement	*4, 19, 35*	**76**	77
IRO	*4, 12, 35*	**46**	45
Redeemable preferred shares	*4*	**12**	12
Cash bonds, cylinder deposits and others		**984**	1,016
	41, 42	**P4,509**	P17,160

Redeemable preferred shares represent the preferred shares of TADHC. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., One Year Philippine Dealing System Treasury Reference Rate PDST-F). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the ten-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

25. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2011	2010
Allowance for impairment losses on trade and other receivables and inventory	**P1,913**	P1,745
NOLCO	**1,371**	392
MCIT	**65**	434
Undistributed net earnings of foreign subsidiaries	**(7,669)**	(10,137)
Unrealized intercompany charges and others	**1,296**	948
	(P3,024)	(P6,618)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2011**	2010
Deferred tax assets	*4*	**P8,233**	P7,134
Deferred tax liabilities		**(11,257)**	(13,752)
		(P3,024)	(P6,618)

The undistributed earnings of foreign subsidiaries and cumulative translation adjustments for which deferred tax liabilities have not been recognized totaled P4,976 and P4,091 as of December 31, 2011 and 2010, respectively.

As of December 31, 2011, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2009	December 31, 2012	P1,392	P -
2010	December 31, 2013	1,151	-
2011	December 31, 2014	2,027	65
		P4,570	**P65**

The components of income tax expense are shown below:

	2011	2010	2009
Current	**P12,240**	P11,517	P10,254
Deferred	**(3,757)**	(79)	(6,548)
	P8,483	P11,438	P3,706

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**(3.75)**	(2.56)	(2.79)
Equity in net earnings of associates	**(2.29)**	(5.76)	(1.31)
Gain on sale of investments subject to final or capital gains tax	**(0.23)**	-	(23.52)
Gains on derivatives	**(0.15)**	(0.56)	(0.45)
Others, mainly income subject to different tax rates - net	**(0.65)**	11.10	3.83
Effective income tax rate	**22.93%**	32.22%	5.76%

26. Equity

a. On July 23, 2009, during the Parent Company's annual stockholders' meeting, the stockholders approved amendments to the Parent Company's Articles of Incorporation providing for the reclassification of the common shares comprising the authorized capital stock of P22,500. The authorized capital stock of the Parent Company was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares and 1,110,000,000 Series "1" preferred shares, and defined the terms and features of the Series "1" preferred shares. The preferred shares are peso-denominated, perpetual, cumulative and non-voting with an issue price of P75.00 per share and a dividend rate of 8% per annum computed in reference to the issue price. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

Also, on July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one (1) common share for one (1) Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the Parent Company's BOD approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

On July 27, 2010, the Parent Company's BOD approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share.

b. *Capital Stock*

Common Stock

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company are considered as common shares without distinction, as approved by the SEC. Both shall be available for foreign investors, subject to the foreign ownership limit.

As of December 31, 2011, the Parent Company has a total of 39,883 common stockholders.

The movements in the number of issued and outstanding shares of common stock are as follows:

	2011	2010
Balance at beginning of year	**3,268,594,254**	3,229,944,942
Issuances during the year	**10,740,321**	38,649,312
Issued shares at end of year	**3,279,334,575**	3,268,594,254
Less treasury shares	**910,303,273**	938,648,724
Issued and outstanding shares at end of year	**2,369,031,302**	2,329,945,530

	2009
Class "A"	
Balance at beginning of year	1,975,940,615
Issuances during the year	4,652,540
Issued shares at end of year	1,980,593,155
Less treasury shares	530,959,512
Issued and outstanding shares at end of year	1,449,633,643
Class "B"	
Balance at beginning of year	1,246,527,833
Issuances during the year	2,823,954
Issued shares at end of year	1,249,351,787
Less treasury shares	407,689,212
Issued and outstanding shares at end of year	841,662,575

Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the Parent Company's BOD at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period. Unless the Series "1" preferred shares are redeemed by the Parent Company, the dividend rate will be adjusted at the end of the fifth year after the date of issue.

Series "1" preferred shares are non-voting except as provided for under the Corporation Code. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On October 3, 2011 and December 8, 2010, the Parent Company listed 97,333,000 and 873,173,353 Series "1" preferred shares worth P7,300 and P65,488, respectively.

As of December 31, 2011 and 2010, the Parent Company has 970,506,353 outstanding Series "1" preferred shares.

As of December 31, 2011, the Parent Company has a total of 954 preferred stockholders.

c. *Treasury Shares*

The movements in the number of treasury shares are as follows:

	Note	**2011**	2010
Balance at beginning of year		**938,648,724**	938,648,724
Reissuance of treasury shares during the year		**(27,580,000)**	-
Conversion of exchangeable bonds	*23*	**(765,451)**	-
Balance at end of year		**910,303,273**	938,648,724

	2009
Class "A"	
Balance at beginning of year	54,662,760
Acquisition through exchange of common shares to preferred shares during the year	476,296,752
Balance at end of year	530,959,512
Class "B"	
Balance at beginning of year	10,812,611
Acquisition through exchange of common shares to preferred shares during the year	396,876,601
Balance at end of year	407,689,212

Treasury shares, totaling 65,475,371 Class "A" and "B" common shares, are stated at acquisition cost, while 873,173,353 Class "A" and "B" common shares were acquired through the exchange of common shares to preferred shares on a one-for-one basis at P75.00 per share.

1. Out of the total treasury shares, 25,450,000 common shares (15,274,484 Class "A" common shares and 10,175,516 Class "B" common shares), with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the Parent Company shares under an agreement executed on March 26, 1986.

   Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

   On September 14, 2000, the SC upheld a Sandiganbayan resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

   On October 10, 2000, the Parent Company filed a motion for reconsideration with the SC to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

   On April 17, 2001, the SC denied the motion for reconsideration.

   On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by the Parent Company. The

financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized the Parent Company's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

On July 23, 2009, the stockholders of the Parent Company approved the amendment of the Articles of Incorporation to issue Series "1" preferred shares, and the offer to exchange common shares to Series "1" preferred shares. The PCGG, with the approval of the SC in its Resolution dated September 17, 2009, converted the sequestered common shares in the Parent Company in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series "1" preferred shares. On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series "1" preferred shares of the Parent Company, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series "1" preferred shares are remitted to the escrow account established with UCPB.

On June 30, 2011, the PCGG filed with the SC relating to an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, the Parent Company filed a Comment on the Urgent Motion in compliance with the Supreme Court's Resolution dated December 13, 2011 which was received by the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares.

2. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from treasury stock of the Parent Company and 82,740,000 common shares of Top Frontier. In addition, Top Frontier sold to ATR Kim Eng Capital Partners, Inc., BDO Capital & Investment Corporation and SB Capital Investment Corporation an additional 27,580,000 Offer Shares. The Parent Company likewise granted Credit Suisse (Singapore) Pte., Standard Chartered Securities (Singapore) Pte. Limited, Goldman Sachs (Singapore) Pte., and UBS AG an option, exercisable in whole or in part for thirty (30) days from the date of allotment of Offer Shares in the international offer, to procure purchasers for up to 7,880,000 additional Common Shares, solely to cover over-allotments under the Offer, if any. The 7,880,000 common shares which were not utilized were reverted to treasury shares. The Offer Shares were priced at P110.00 per share on April 20, 2011.

   Also on May 5, 2011, US$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the Singapore Stock Exchange. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds will be exchangeable for common shares from the treasury stock of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into Common Shares is P137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011, 612,361 common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US$600 exchangeable bonds of the Parent Company. As of December 31, 2011, US$2 (P87) worth of exchangeable bonds were already exchanged to equity into common shares (Note 23).

d. *Unappropriated Retained Earnings*

The Group's unappropriated retained earnings includes its accumulated equity in net earnings of subsidiaries and associates amounting to P44,000, P55,565 and P46,209 in 2011, 2010 and 2009, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The Parent Company's unappropriated retained earnings as of December 31, 2011 and 2010 is restricted in the amount of P67,441 and P69,541, respectively, representing the cost of shares held in treasury.

e. *Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P18,650, P201 and P15 in 2011, 2010 and 2009, respectively, to finance future capital expenditure projects. Reversal of appropriations in 2011, 2010 and 2009 amounted to P6, P27 and P40, respectively.

27. Cost of Sales

Cost of sales consist of:

	Note	**2011**	2010	2009
Inventories		**P320,381**	P102,166	P75,051
Fuel and oil		**41,945**	17,504	2,170
Taxes and licenses		**30,219**	23,343	21,515
Depreciation, amortization and impairment	*29*	**12,625**	7,287	4,994
Contracted services		**6,592**	5,929	4,682
Freight, trucking and handling		**5,563**	5,504	4,392
Communications, light and water		**5,252**	4,585	3,662
Personnel	*30*	**4,532**	3,827	3,802
Repairs and maintenance		**2,255**	1,962	1,827
Rent	*4, 35*	**879**	517	455
Others		**2,078**	1,305	1,745
		P432,321	P173,929	P124,295

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2011	2010	2009
Selling	**P24,222**	P18,239	P12,905
Administrative	**23,278**	19,380	17,344
	P47,500	P37,619	P30,249

Selling expenses consist of:

	Note	**2011**	2010	2009
Freight, trucking and handling		**P6,665**	P5,922	P2,021
Personnel	*30*	**5,844**	4,180	3,635
Advertising and promotions		**5,528**	4,977	4,980
Rent	*4, 35*	**1,650**	1,200	1,060
Depreciation, amortization and impairment	*29*	**1,434**	419	221
Supplies		**897**	326	251
Taxes and licenses		**484**	271	249
Communications, light and water		**347**	193	218
Professional fees		**313**	131	45
Others		**1,060**	620	225
		P24,222	P18,239	P12,905

Administrative expenses consist of:

	Note	**2011**	2010	2009
Personnel	*30*	**P10,965**	P8,090	P7,385
Depreciation, amortization and impairment	*29*	**3,387**	2,403	2,110
Professional fees		**2,083**	1,802	2,383
Taxes and licenses		**1,197**	803	673
Advertising and promotion		**1,178**	1,201	822
Repairs and maintenance		**690**	681	952
Communications, light and water		**627**	715	644
Supplies		**436**	755	711
Freight, trucking and handling		**343**	513	270
Research and development		**146**	333	212
Rent	*4, 35*	**46**	95	605
Others	*40*	**2,180**	1,989	577
		P23,278	P19,380	P17,344

"Others" consist of entertainment and amusement, gas and oil, and other operating and administrative expenses.

29. Depreciation, Amortization and Impairment

Depreciation, amortization and impairment are distributed as follows:

	Note	**2011**	2010	2009
Cost of sales:				
Property, plant and equipment	*7, 16*	**P11,436**	P6,192	P3,852
Deferred containers, biological assets and others	*18, 20*	**1,189**	1,095	1,142
	27	**12,625**	7,287	4,994
Selling and administrative expenses:				
Property, plant and equipment	*7, 16*	**3,207**	1,685	1,402
Deferred containers and others	*20, 33*	**1,614**	1,137	929
	28	**4,821**	2,822	2,331
		P17,446	P10,109	P7,325

"Others" include amortization of computer software, land use rights, licenses and investment properties.

30. Personnel Expenses

Personnel expenses consist of:

	Note	**2011**	2010	2009
Salaries and wages		**P10,086**	P7,997	P7,205
Retirement costs	*36*	**1,019**	285	594
Other employee benefits		**10,236**	7,815	7,023
		P21,341	P16,097	P14,822

Personnel expenses are distributed as follows:

	Note	**2011**	2010	2009
Cost of sales	*27*	**P4,532**	P3,827	P3,802
Selling expenses	*28*	**5,844**	4,180	3,635
Administrative expenses	*28*	**10,965**	8,090	7,385
		P21,341	P16,097	P14,822

31. Interest Expense and Other Financing Charges

	2011	2010	2009
Interest expense	**P25,698**	P13,870	P6,780
Other financing charges	**1,745**	2,708	1,146
	P27,443	P16,578	P7,926

Amortization of debt issue costs in 2011, 2010 and 2009 included in other financing charges amounted to P753, P1,808 and P575, respectively (Note 23).

Interest expense on drafts and loans payable and long-term debt are as follows:

	Note	**2011**	2010	2009
Drafts and loans payable	*21*	**P7,392**	P3,035	P2,916
Long-term debt and finance lease liabilities	*23, 35*	**18,306**	10,835	3,864
		P25,698	P13,870	P6,780

32. Interest Income

Interest income consist of:

	Note	**2011**	2010	2009
Interest from short-term investments, cash in banks and others		**P3,545**	P2,899	P5,350
Interest on amounts owed by related parties	*10, 20*	**1,073**	124	639
		P4,618	P3,023	P5,989

33. Other Income (Charges)

Other income (charges) consist of:

	Note	**2011**	2010	2009
Gains on derivatives - net	*42*	**P182**	P660	P962
Foreign exchange gains (losses)		**(823)**	6,097	(3,364)
Loss on impairment of goodwill, trademark and brand name, property, plant and equipment and idle assets (a, b, c)	*16, 19, 20*	**(36)**	(4,233)	(4,756)
Gain on acquisition of a subsidiary	*5, 39*	**-**	4,490	-
Others (b, d, e)		**665**	81	315
		(P12)	P7,095	(P6,843)

a. In 2011, 2010 and 2009, the Group recognized impairment loss on noncurrent assets of SMBHK and San Miguel (Guangdong) Brewery Company Limited (SMGB). Over the past three years, the Group's business performance of SMBHK and SMGB had been adversely affected by factors including economic downturns, fierce market competition, counterfeit products and poor weather conditions.

SMBHK
In 2010, the recoverable amount of the SMBHK cash-generating unit (CGU) has been determined using the value in use calculation derived on the cash flow projections based on the business forecasts approved by management covering a period of five years on which cash flows beyond the covered periods are extrapolated using a steady growth rate of 2%. This growth rate does not exceed the long-term average growth rate for Hong Kong.

Key assumptions used for value in use calculation are as follows:

	2011	2010
Sales volume growth rate	**1.1 - 12.4%**	1.7 - 12.6%
Gross contribution rate	**38 - 41%**	40 - 43%
Pre-tax discount rate	**9.75%**	9.85%

In 2011, the Group's results in Hong Kong were fairly consistent with the forecasts made in 2010. Based on the Group's assessment of the recoverable amounts of the Hong Kong CGU as of December 31, 2011, additional impairment loss or a reversal of previously recorded impairment loss is no longer necessary.

SMGB
In 2010, the estimates of recoverable amount of the SMGB CGU were based on the assets' fair values less costs to sell, determined by reference to the observable market prices for similar assets. The assessment was made by LCH (Asia-Pacific) Surveyor Limited, an independent firm of surveyors who are members of the Hong Kong Institute of Surveyors which was engaged by the Group.

In 2009, however, the estimated recoverable amount of the mainland China CGU was determined using value in use calculation. This calculation uses the discounted value of the projected cash flows to be generated over the remaining useful life of the CGU. Cash flows beyond the six-year period were extrapolated using a steady growth rate of 4%.

Key assumptions used for value in use calculation are as follows:

	2009
Sales volume growth rate	5.5 - 7.3%
Gross contribution rate	39 - 40%
Pre-tax discount rate	13.17%

Management determined the growth rates and gross contribution rates based on past experiences, future expected market trends and an intermediate holding company's import plan of beer brewed by the Group.

Based on the Group's assessment of the recoverable amounts of the CGUs to which these assets belong, the carrying amounts of the assets in the CGUs were written down by P30 and P4,333, as of December 31, 2011 and 2010, respectively, presented as follows:

	Note	**2011**	2010	2009
Selling and administrative expenses	*28*	**P -**	P151	P -
Other charges		**30**	4,182	3,705
		P30	P4,333	P3,705

In 2010, a reversal of an impairment loss was made with respect to land use rights, as there has been a favorable change in the estimates used to determine the recoverable amount.

b. In 2009, the Group recognized impairment loss on land and idle assets amounting to P46 and P8, respectively.

   In 2010, the Group recognized impairment loss on idle assets amounting to P51 and reversed the Group's 2009 impairment loss on land amounting to P46, computed as the difference between the carrying amount of the assets and their fair value based on reports by qualified property appraisers, less costs to sell.

c. In 2009, the Group reduced the carrying amount of certain assets of SMPPC by a total of P694 after the latter ceased its commercial operations on July 27, 2009.

d. On January 11, 2011, SMPI entered into a contract with the Philippine Foundation of Blessed Mary Mother of the Poor, Inc. (the "Foundation"), a non-profit religious organization, for the donation of a 33-hectare parcel of land located in Alfonso, Cavite (the "Donated Property"). The land title of the Donated Property was transferred in the name of the Foundation on April 28, 2011.

   In accordance with the Deed of Donation, the Donated Property shall be used and devoted exclusively by the Foundation for the construction, operation and maintenance of its project, the Montemaria Oratory of the Blessed Virgin Mary (the "Montemaria Project"). The Montemaria Project will consist of a Shrine of the Blessed Virgin Mary, churches and chapels, Way of the Cross and such other structures and facilities for Roman Catholic religious purposes, and socio-civic and non-profit activities and program of the Foundation.

   Further, the Deed of Donation requires that the Montemaria Project must be at least 50% completed by 2015 and fully completed by 2020. If the Foundation will not be able to comply with this requirement, the Donated Property will revert back to SMPI. As of December 31, 2011, the Foundation has not yet started with the Montemaria Project.

   On February 8, 2012, SMPI received a letter from the Foundation conveying its intention of returning portion of the Donated Property. SMPI's BOD is yet to decide on the appropriate action for the said request.

e. "Others" consist of PSALM monthly fees reduction, rent income, commission income, dividend income from AFS financial assets, changes in fair value of financial assets at FVPL, gain on settlement of ARO and insurance claims.

34. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders and associates in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

	Relationship with Related Parties	Year	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
Meralco	Associate	**2011**	**P32,871**	**P494**	**P4,166**	**P60**
		2010	17,103	490	4,635	43
		2009	-	692	140	32
SMEC	Associate	2009	-	-	315	-
PAHL	Associate	**2011**	**-**	**-**	**701**	**-**
LTHI	Associate	**2011**	**47**	**-**	**433**	-
		2010	-	-	145	-
BOC	Associate	**2011**	**31**	**-**	**13**	**-**
		2010	29	-	4	521
PIDC	Associate	**2011**	**95**	**-**	**13**	**-**
Top Frontier	Associate	**2011**	**-**	**-**	**2,592**	**-**
		2010	-	-	2,543	-
Atlantic	Associate	**2011**	**-**	**-**	**537**	**-**
LEC	Associate	**2011**	**-**	**1,393**	**-**	**-**
MNHPI	Associate	**2011**	**-**	**-**	**6**	**-**
Kirin Holdings Company, Limited and subsidiaries	Shareholder in a subsidiary	**2011**	**19**	**18**	**4**	**-**
		2010	11	105	2	-
		2009	4	33	2	7
Hormel Netherlands, BV	Shareholder in a subsidiary	**2011**	**-**	**-**	**19**	**-**
		2010	-	-	11	-
		2009	**-**	**-**	6	**-**
Super Coffee Corporation Pte. Ltd.	Shareholder in a subsidiary	**2011**	**-**	**-**	**-**	**61**
		2010	-	-	**-**	18
		2009	**-**	**-**	**-**	19
TSML	JVC	**2011**	**-**	**-**	**118**	**-**
SMCRP	Retirement plan	**2011**	**-**	**-**	**5,755**	**-**
		2010	**-**	**-**	3,997	1,800
		2009	**-**	**-**	2,785	**-**
PCERP	Retirement plan	**2011**	**-**	**-**	**23,247**	**-**
		2010	**-**	**-**	22,435	-
GSMI Retirement Plan	Retirement plan	**2011**	**-**	**-**	**137**	**-**
		2010	-	-	137	-
Others	Others	**2011**	**1**	**76**	**4**	**205**
		2010	3	-	3	173
		2011	**P33,064**	**P1,981**	**P37,745**	**P326**
		2010	P17,146	P595	P33,912	P2,555
		2009	P4	P725	P3,248	P58

a. Amounts owed by related parties consist of trade and non-trade receivables, share in expenses and cash advances.

b. Amounts owed to related parties consist of trade payables, professional fees and cash advances.

c. The Parent Company has advances to SMCRP amounting to P5,755 and P3,997 as of December 31, 2011 and 2010, respectively, included as part of "Trade and other receivables" account in the consolidated statements of financial position (Note 10).

d. As of December 31, 2011 and 2010, Petron has outstanding advances to PCERP for some investment opportunities (Note 20).

e. SMPI has fully paid its advances from SMCRP as of December 31, 2011 amounting to P1,800 which is included as part of "Accounts payable and accrued expenses" account as of December 31, 2010. SMPI used the proceeds of the advances mainly for the acquisition of additional BOC shares (Note 22).

f. As of December 31, 2010, SMPI has unpaid subscription to BOC amounting to P521, arising from the acquisition of additional 20,383,210 shares in 2010, presented as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22).

g. As of December 31, 2011, GFDCC has an outstanding loan from BOC amounting to P204, included as part of "Long-term debt" account (Note 23).

h. The compensation of key management personnel of the Group, by benefit type, follows:

	2011	2010	2009
Short-term employee benefits	**P475**	P408	P378
Retirement costs (benefits)	**(52)**	(147)	37
Share-based payments	**29**	31	56
	P452	P292	P471

Some of the personnel performing key management functions in certain subsidiaries are employed by the Parent Company. This is covered by a management agreement executed by and between the Parent Company and the subsidiaries. The salaries and benefits of these personnel are billed to the subsidiaries through management fees, with details as follows:

	Note	**2011**	2010	2009
Short-term employee benefits		**P7**	P30	P46
Retirement costs	*36*	**-**	-	1
Share-based payments	*40*	**25**	24	43
	28, 30	**P32**	P54	P90

35. Significant Agreements and Lease Commitments

Significant Agreements:

Power

Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the following power plants, the Group was declared the winning bidder through the following subsidiaries:

Subsidiary	Power Plant	Contracted Capacity	Location	Date Awarded	Effective Date
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	2 x 500 MW	Sual, Pangasinan Province	September 1, 2009	November 6, 2009
SPDC	San Roque Multi-Purpose Hydroelectric Power Plant (San Roque Power Plant)	345 MW	San Roque, Pangasinan Province	December 28, 2009	January 26, 2010
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	1,200 MW	Ilijan, Batangas City	May 5, 2010	June 26, 2010

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of RA No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the Agreement and further confirms that for so long as it remains the IPP Counterparty it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

SMEC
On November 6, 2009, SMEC assumed the administration of the Contracted Capacity of the Sual Power Plant in accordance with the provisions of the IPPA Agreement for the Contracted Capacity of the Sual Power Plant with Execution Date of September 8, 2009. SMEC started commercial operations on November 6, 2009.

SPDC
On January 26, 2010, SPDC assumed the administration of the Contracted Capacity of the San Roque Power Plant in accordance with the provisions of the IPPA Agreement for the Contracted Capacity of the San Roque Power Plant with Execution Date of December 29, 2009. SPDC started commercial operations on January 26, 2010.

SPPC
On June 26, 2010, SPPC assumed the administration of the Contracted Capacity of the Ilijan Power Plant in accordance with the provisions of the IPPA Agreement for the Contracted Capacity of the Ilijan Power Plant with Execution Date of May 11, 2010. SPPC started commercial operations on June 26, 2010.

The IPPA Agreements include, among others, the following common salient rights and obligations:

i. The right and obligation to manage and control the contracted capacity of the power plant for its own account and at its own cost and risks;

ii. The right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. The right to receive a transfer of the power plant in case of buy-out or termination of the Agreement for no consideration;

iv. The right to receive an assignment of NPC interest to existing short-term bilateral power supply contracts;

v. The obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. Maintain the performance bond in full force and effect with a qualified bank; and

vii. The obligation to pay PSALM the monthly payments and generation fees in respect of all electricity generated from the capacity, net of outages for SMEC.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. SMEC, SPDC and SPPC opened with their respective banks performance bonds denominated in US$ amounting to US$58, US$20 and US$60, respectively, with expiration dates of November 3, 2011, January 25, 2011 and June 16, 2011, respectively. SMEC, SPDC and SPPC renewed their performance bonds which will expire on November 3, 2012, January 25, 2012 and June 26, 2012, respectively.

In view of the nature of the IPPA Agreements, the arrangement has been accounted for as finance lease.

Market Participation Agreements (MPA)
SMEC, SPDC and SPPC have entered into MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by ERC.

The Group purchases power from WESM during periods when the power generated from power plants are not sufficient to meet customers' power requirements.

Power Supply Agreements
SMEC and SPPC have Power Supply Agreements with various counterparties to supply or sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by both parties.

The customers are billed based on the time-of-use per kilowatt hour (TOU/kWh). However, as stipulated in the contracts, each customer has to pay the minimum charge based on the contracted power using the basic energy charge and adjustments if customer has not fully taken or failed to consume the contracted power. For the years ended December 31, 2011 and 2010, all customers are above their minimum contracted power requirements.

Coal Supply Agreement
SMEC entered into a Supply Agreement for Steaming Coal with PT Bumi Resources Tbk's subsidiary PT Kaltim Prima Coal through Topcoal Trading Corporation for the coal requirements of the Sual Power Plant from October 1, 2009 to September 30, 2010. Under the agreement, the parties shall negotiate and agree on the contract price of the coal at least 30 days prior to the delivery. On August 18, 2011, the parties renewed the contract until September 30, 2012, which may be further extended upon written agreement by the parties.

Fuel and Oil

Supply Agreement
Petron have a term contract to purchase its crude oil requirements from Arabian American Oil Company ("Saudi Aramco") based on Saudi Aramco's standard far east selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron for such purchases are shown as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22). The contract was extended until October 27, 2012.

Fuel Supply Contract with NPC and PSALM
Petron entered into various fuel supply contracts with NPC and PSALM. Under these contracts, Petron supplies the bunker fuel and diesel fuel oil requirements of selected NPC plants and PSALM plants, and NPC-supplied IPP plants.

Infrastructure

Concession Agreement

- TADHC

  In 2009, the ROP awarded TADHC the Project through a Notice of Award (NOA) issued on May 15, 2009. The Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

On June 22, 2009, TADHC entered into a CA with the ROP, through the DOTC and Civil Aviation Authority of the Philippines. Based on the CA, TADHC has been granted with the concession of the Project which includes the extension or expansion of the Boracay Airport. Subject to existing law, the CA also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years, and to collect the fees, rentals and other charges as may be agreed from time to time based on the Parametric Formula as defined in the CA.

The following are the salient features of the CA:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.

2. As concessionaire, TADHC shall have full responsibility in all aspects of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP an Operations and Maintenace Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2011 and 2010, TADHC has yet to pay the OMPS since it is payable only after the completion of the construction of the Project.

3. Immediately upon receiving the Notice to Commerce Implementation (NCI) and provided all conditions precedent in the CA are fulfilled and waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.

4. TADHC shall finance the Project cost, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to third party loans. TADHC's estimated capital commitment to develop the Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC does not have any outstanding third party loans as of December 31, 2011 and 2010.

5. TADHC shall post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC to develop the Project. This performance security shall be partially released by the ROP from time to time to the extent of the percentage of completion of the Project. TADHC has paid P1 premium both in 2011 and 2010, for the Work Performance Security. The unamortized portion of the premium is presented as part of the "Prepaid expenses and other current assets" account in the consolidated statements of financial position as of December 31, 2011 and 2010 (Note 12).

6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the airport was turned over to TADHC on October 16, 2010.

After the fulfillment of all contractual and legal requirements, the CA became effective on December 7, 2009. The NCI issued to TADHC by the DOTC was accepted by TADHC on December 18, 2009. The CA may be renewed or extended for another 25 years upon written agreement of the parties hereto through the execution of a renewal or extension contract.

In accordance with the license granted by the ROP, as expressly indicated in the CA, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011, but has not started the construction of the new terminal and extension of the runway as of December 31, 2011, pending completion of the acquisition of the right of way.

- ULC BVI

In 2008, the ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT Line 7 Project (the "MRT 7 Project") through a NOA issued on January 31, 2008. The MRT Project is proposed to be an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage (BGTOM) scheme which is a modified Build-Transfer-Operate (BTO) arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into a CA (MRT 7 Agreement) with the ROP, through the DOTC, for a 25-year concession period, subject to extensions as may be provided for under the CA and by law. Based on the CA, ULC BVI has been granted the right to finance, construct, Operate and Maintain (O&M) the proposed MRT Line 7, which consists of 44-kilometer of road and rail transportation from the Bocaue exit on the North Luzon Expressway to LRT 1 and Metro Rail Transit 3 at North Avenue - Epifanio delos Santos Avenue.

The following are the salient features of the CA:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the CA, ULC BVI's estimated capital commitment to develop the MRT 7 Project amounts to US$1,235.60. ULC BVI shall endeavor to have signed the financing agreements not later than 18 months from the signing of the CA.

2. ULC BVI shall post a Performance Security for Construction and O&M in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the MRT 7 Project. This performance security for O&M shall be reduced every year of the concession period to the amounts as specified in the CA.

3. In the event that the MRT 7 Project is not completed by the end of the grace period, which is 100 calendar days following the project completion target as defined in the CA, ULC BVI shall pay the ROP liquidated damages of US$0.1 for every calendar day of delay.

4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the CA. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.

5. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30:70 basis.

6. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.

7. The ROP grants the ULC BVI exclusive and irrevocable commercial development rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the CA until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the development rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the development rights.

The Group has determined that the provisions of Philippine Interpretation IFRIC 12 apply to this CA and will be accounted for under the financial asset model. As of March 28, 2012, construction of the MRT 7 Project has not yet started.

Telecommunications

Franchise with National Telecommunications Commission (NTC)

- BellTel

  In 1994, the Philippine Congress passed RA No. 7692 which granted a franchise to BellTel to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

  On October 28, 1997, the NTC, under NTC Case No. 94-229, granted a Provisional Authority (PA) to BellTel, valid for eighteen (18) months, or until April 27, 1999, to install, operate and maintain the following telecommunication services, to wit:

  - international gateway facility;
  - inter-exchange carrier facility;
  - VSAT system nationwide;
  - telephone systems in the selected cities and municipalities in the Luzon area;
  - WLL telephone systems in the cities of Muntinlupa, Las Piñas, Pasig, Mandaluyong, Makati, Pasay, Parañaque, Taguig and Marikina; and in the municipalities of Pateros and San Juan; and
  - telephone systems in all economic zones identified under RA No. 7916.

Since then, this PA had been extended several times, the latest extension of which is valid until December 22, 2010 as contained in NTC's order dated September 19, 2009. BellTel applied for an extension of the PA on January 28, 2011. On March 5, 2012, NTC approved the extension of the PA for another three years, expiring on March 5, 2015.

In an Order dated October 19, 2007 (CCC Case No. 94-223), the NTC granted BellTel a PA, valid for 18 months or until April 19, 2009, to install, operate and maintain a Mobile Telecommunication Network as set forth in the said Order. This PA was later extended for a period of three (3) years or until April 17, 2012 as per NTC Order dated August 14, 2009.

- ETPI

  On October 3, 2002, RA No. 9172 entitled "An Act Renewing and Amending the Franchise Granted to ETPI (Eastern Extension Australia and China Telegraph Company Limited) under RA No. 808, as Amended" extended for another twenty-five years ETPI's legislative franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, throughout the Philippines and between the Philippines and other countries and territories, wire and/or wireless telecommunications systems, including but not limited to mobile, cellular, paging, fiber optic, multi-channel distribution system, local multi-point distribution system, satellite transmit and receive systems, switches, and their value-added services such as, but not limited to, transmission of voice, data, facsimile, control signs, audio and video, information services bureau and all other telecommunications systems technologies as are at present available or will be made available through technological advances or innovations in the future; and construct, acquire, lease and operate or manage transmitting and receiving stations, lines, cables or systems, as is, or are, convenient or essential to efficiently carry out the purpose of the franchise.

- TTPI

  TTPI has an approved congressional franchise granted under RA No. 7671, as amended by RA No. 7674, to install, operate and maintain telecommunications systems throughout the Philippines.

  On September 25, 1996, the NTC granted TTPI a PA to install, operate and maintain Local Exchange Carrier (LEC) services in the provinces of Batanes, Cagayan, Isabela, Kalinga, Apayao, Nueva Vizcaya, Ifugao and Quirino and the cities of Manila and Caloocan as well as the municipality of Navotas in order to commence compliance with the requirements of Executive Order No. 109 (s. 1993), which required TTPI to put up a minimum of 300,000 LEC lines. TTPI is allowed to deploy Public Calling Offices in municipalities and barangays within its authorized service area in lieu of rolling out LEC lines.

  On January 18, 2006, the NTC granted TTPI a Certificate of Public Convenience and Necessity (CPCN) to install, operate and maintain LEC services in the cities of Manila and Caloocan, as well as in the provinces of Cagayan, Isabela, Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino. In addition, in a letter dated August 14, 2006, the NTC confirmed that TTPI has already completely served the remaining areas it needs to serve under the PA of September 25, 1996. On January 8, 2010, TTPI was granted a CPCN to install, operate and maintain LEC services in the municipality of Navotas and the provinces of Cagayan, Isabela, Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

On September 25, 1996, October 16, 2006 and December 23, 2008, NTC issued separate PA in favor of TTPI to install, operate and maintain LEC services in the remaining cities and municipalities of Metro Manila, in the provinces of Cavite, Laguna, Batangas, Rizal and Quezon (CALABARZON) and in the provinces of Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

Properties

SMPI-GSIS Put Option
The Put Option between SMPI and GSIS can be exercised within a period of 10 years. The option exercise price is equivalent to P300 plus interest.

Any dividends declared and paid to stockholders prior to the exercise of the Put Option by GSIS will be deducted from interest provided above upon exercise of the option. As of December 31, 2010, the carrying amount of the obligation related to the Put Option amounts to P386 and is presented under "Accounts payable and accrued expenses" account in the 2010 consolidated statement of financial position (Note 22).

On July 5, 2011, GSIS exercised its option by executing a Deed of Absolute Sale over all of its shares of stock representing 48% equity in the SMPI-GSIS JVC in favor of SMPI, for a consideration of P399, making SMPI-GSIS JVC a wholly-owned subsidiary of SMPI.

Lease Commitments:

a. Finance Leases

Group as Lessee

i. IPPA Agreements

The IPPA Agreements are with the conformity of NPC, a government-owned and controlled corporation created by virtue of RA No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees the terms of the Agreement and further confirms that for so long as it remains the IPP Counterparty it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively.

The IPPA Agreements provide the Group with a right to receive a transfer of the power station in case of buyout or termination.

In accounting for the Group's IPPA Agreements with PSALM, the Group's management has made a judgment that the IPPA Agreement is an agreement that contains a finance lease. The Group's management has also made a judgment that it has substantially acquired all the risks and rewards incidental to ownership of the power plants. Accordingly, the Group recognized the capitalized asset and related liability of P203,691 and P208,187 in 2011 and P209,288 and P208,394 in 2010, respectively, (equivalent to the present value of the minimum lease payments using the Group's incremental borrowing rates for US dollar and Philippine peso payments) as "Property, plant and equipment" and "Finance lease liabilities" in the consolidated statements of financial position.

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPDC	3.30%	7.90%
SPPC	3.85%	8.05%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as "Interest expense" in the consolidated statements of income (Note 31). Interest expense in 2011 and 2010 amounted to P11,531 and P5,299, respectively.

The future minimum lease payments for each of the following periods are as follows:

2011

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$193**	**P8,438**	**P9,212**	**P17,650**
More than one year and not later than five years	**918**	**40,263**	**43,971**	**84,234**
Later than five years	**2,191**	**96,035**	**104,951**	**200,986**
	3,302	**144,736**	**158,134**	**302,870**
Less: Future finance charges on finance lease liabilities	**730**	**31,985**	**62,698**	**94,683**
Present values of finance lease liabilities	**US$2,572**	**P112,751**	**P95,436**	**P208,187**

2010

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$129	P5,671	P6,109	P11,780
More than one year and not later than five years	861	37,731	41,203	78,934
Later than five years	2,486	108,981	114,966	223,947
	3,476	152,383	162,278	314,661
Less: Future finance charges on finance lease liabilities	897	32,888	73,379	106,267
Present values of finance lease liabilities	US$2,579	P119,495	P88,899	P208,394

The present values of minimum lease payments for each of the following periods are as follows:

2011

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$176**	**P7,721**	**P7,643**	**P15,364**
More than one year and not later than five years	**764**	**33,486**	**29,945**	**63,431**
Later than five years	**1,632**	**71,544**	**57,848**	**129,392**
	US$2,572	**P112,751**	**P95,436**	**P208,187**

2010

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$123	P5,406	P5,529	P10,935
More than one year and not later than five years	743	32,566	30,316	62,882
Later than five years	1,713	81,523	53,054	134,577
	US$2,579	P119,495	P88,899	P208,394

ii. Machinery and Equipment

The Group's finance leases cover machinery and equipment needed for business operations. The agreements do not allow subleasing. As of December 31, 2011, the net carrying amount of the leased equipment was P64 (Note 16).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2011

	Minimum Lease Payable	**Interest**	**Principal**
Within one year	P25	P1	P24
After one year but not more than 2 years	53	3	50
	P78	P4	P74

iii. Transportation Equipment

The Group's finance leases also cover transportation equipment needed for business operations. These agreements do not allow subleasing. Some leases provide the Group with the option to purchase the equipment at a beneficial price. As of December 31, 2011 and 2010, the net carrying amount of leased transportation equipment was P1 and P13, respectively. As of December 31, 2011, the minimum lease payable due within one year amounted to P0.4.

The Group's minimum lease payments of the finance lease liabilities relating to transportation equipment is as follows:

2010

	Minimum Lease Payable	Interest	Principal
Within one year	P14	P3	P11
After one year but not more than 2 years	3	1	2
	P17	P4	P13

b. Operating Leases

Group as Lessor
The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 17). The non-cancellable leases have remaining terms of between three to fourteen years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

As of December 31, 2011, 2010 and 2009, the future minimum lease receipts under non-cancellable operating leases are as follows:

	2011	2010	2009
Within one year	**P311**	P370	P78
After one year but not more than five years	**318**	541	62
After five years	**45**	52	-
	P674	P963	P140

Rent income recognized in profit or loss amounted to P412, P267 and P609 in 2011, 2010 and 2009, respectively (Note 4).

Group as Lessee
The Group leases a number of office, warehouse and factory facilities under operating leases. The leases typically run for a period of one to sixteen years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

As of December 31, 2011, 2010 and 2009, non-cancellable operating lease rentals are payable as follows:

	2011	2010	2009
Within one year	**P885**	P875	P35
After one year but not more than five years	**2,551**	2,424	109
More than five years	**7,486**	7,196	409
	P10,922	P10,495	P553

Rent expense recognized in profit or loss amounted to P2,575, P1,812 and P2,120 in 2011, 2010 and 2009, respectively (Notes 4, 27 and 28).

36. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2011. Valuations are obtained on a periodic basis.

Retirement costs (benefits) charged by the Parent Company to operations amounted to (P212), (P371) and P65 in 2011, 2010 and 2009, respectively, while those charged by the subsidiaries amounted to P1,231, P656 and P529 in 2011, 2010 and 2009, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service costs.

The components of retirement costs recognized in profit or loss in 2011, 2010 and 2009 and the amounts recognized in the consolidated statements of financial position as of December 31, 2011 and 2010 are as follows:

	2011	2010	2009
Current service cost	**P922**	P652	P486
Interest cost	**1,303**	1,082	992
Expected return on plan assets	**(3,951)**	(1,170)	(868)
Net actuarial loss (gain)	**2,754**	(282)	(64)
Effect of curtailment	**(9)**	3	(24)
Amortization of transitional liability	**-**	-	66
Past service costs	**-**	-	6
Net retirement costs	**P1,019**	P285	P594
Actual return on plan assets	**(P14,056)**	P25,621	P6,099

The retirement costs are recognized in the following line items in the consolidated statements of income:

	Note	**2011**	2010	2009
Cost of sales	*27*	**P143**	P143	P123
Selling and administrative expenses	*28*	**876**	142	471
	30	**P1,019**	P285	P594

The reconciliation of the assets and liabilities recognized in the consolidated statements of financial position is as follows:

	Note	**2011**	2010
Present value of defined benefit obligation		**P20,700**	P18,386
Fair value of plan assets		**29,208**	43,964
		(8,508)	(25,578)
Unrecognized actuarial gain	*4*	**9,348**	25,846
Unrecognized past service costs		**-**	(1)
Net retirement liabilities		**P840**	P267

Net retirement assets and liabilities in 2011 are included as part of "Other noncurrent assets" account amounting to P299 (Note 20) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P85 and P1,054, respectively (Notes 22 and 24).

Net retirement assets and liabilities in 2010 are included as part of "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts amounting to P221 and P147, respectively (Notes 12 and 20), and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P503 and P132, respectively (Notes 22 and 24).

The movements in the present value of defined benefit obligation are as follows:

	2011	2010
Balance at beginning of year	**P18,386**	P12,362
Benefit obligation of newly acquired subsidiaries	**170**	4,528
Interest cost	**1,303**	1,082
Current service cost	**922**	652
Benefits paid	**(1,312)**	(2,324)
Actuarial losses	**1,245**	1,919
Effect of curtailment	**(10)**	163
Translation adjustments	**(4)**	4
Balance at end of year	**P20,700**	P18,386

The movements in the fair value of the plan assets are as follows:

	2011	2010
Balance at beginning of year	**P43,964**	P15,178
Plan assets of newly acquired subsidiaries	**255**	4,742
Expected return	**3,951**	1,170
Contributions by employer	**318**	698
Benefits paid	**(1,271)**	(2,324)
Effect of curtailment	**-**	41
Actuarial gains (losses)	**(18,007)**	24,451
Translation adjustments	**(2)**	8
Balance at end of year	**P29,208**	P43,964

Plan assets consist of the following:

	In Percentages	
	2011	2010
Stock trading portfolio	**9**	5
Fixed income portfolio	**27**	25
Others	**64**	70

As of December 31, 2011 and 2010, the plan assets include 8,511,667 and 551,670 common shares, respectively, of the Parent Company with fair market value per share of P116.70 and P163.80, respectively.

As of December 31, 2011 and 2010, the plan assets include 86,145,265 and 85,751,165 preferred shares, respectively, of the Parent Company with fair market value per share of P77.5 and P87, respectively.

SMCRP's 39.94% and 38.19% investment in shares of stock of BOC as of December 31, 2011 and 2010, respectively, is included in the above list of plan assets under "Others."

The overall expected rate of return is determined based on historical performance of investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2011	2010
Discount rate	**1.5 - 6.3**	2.9 - 8.5
Salary increase rate	**2.5 - 7.0**	2.5 - 9.0
Expected return on plan assets	**5.0 - 9.0**	5.0 - 10.0

The historical information for the current and previous four annual periods is as follows:

	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	**P20,700**	P18,386	P12,362	P11,080	P11,332
Fair value of plan assets	**29,208**	43,964	15,178	10,232	10,726
Deficit (excess) in the plan	**(8,508)**	(25,578)	(2,816)	848	606
Experience adjustments on plan liabilities	**1,492**	(132)	927	6	933

The Group expects to contribute P1,019 to its defined benefit plans in 2012.

37. Cash Dividends

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P1.05 per share and P6.75 per share in 2011 and 2010, respectively.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P6.00 per share in 2011 and 2010.

On January 20, 2012, the Parent Company's BOD declared cash dividend at P0.35 per share, payable on February 20, 2012 to all common shareholders as of February 6, 2012.

38. Basic and Diluted Earnings Per Share

Basic and Diluted EPS is computed as follows:

	Note	**2011**	2010	2009
Income attributable to equity holders of the Parent Company		**P17,518**	P20,091	P57,799
Dividends on preferred shares for the period	*37*	**(5,823)**	(5,823)	(1,281)
Net income attributable to common shareholders of the Parent Company (a)		**P11,695**	P14,268	P56,518
Weighted average number of common shares outstanding (in millions) - basic (b)		**2,353**	2,310	2,942
Effect of dilution- common	*40*	**16**	14	17
Weighted average number of common shares outstanding (in millions) - diluted (c)		**2,369**	2,324	2,959
Earnings per common share attributable to equity holders of the Parent Company				
Basic (a/b)		**P4.97**	P6.18	P19.21
Diluted (a/c)		**4.94**	6.14	19.10

39. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets and certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2011	2010	2009
Trade and other receivables	**(P7,689)**	P12,241	P558
Inventories	**(10,129)**	2,178	1,085
Prepaid expenses and other current assets	**(5,670)**	(3,686)	(874)
Drafts payable	**15**	107	-
Accounts payable and accrued expenses	**6,869**	7,581	6,393
Income and other taxes payable and others	**816**	(5,310)	(8,345)
	(P15,788)	P13,111	(P1,183)

b. Acquisition of subsidiaries (Note 5)

	Note	**2011**	2010	2009
Cash and cash equivalents		**P463**	P42,729	P193
Trade and other receivables - net		**437**	32,953	1,243
Inventories		**19**	35,315	664
Prepaid expenses and other current assets		**137**	4,599	23
Assets held for sale		**-**	823	-
Investments and advances - net		**278**	16,092	-
Property, plant and equipment - net		**3,711**	175,650	1,430
Investment properties - net		**-**	121	-
Other intangible assets - net		**-**	7,097	20
Deferred tax assets		**-**	430	72
Other noncurrent assets - net		**229**	25,619	-
Drafts and loans payable		**-**	(34,987)	(839)
Accounts payable and accrued expenses		**(450)**	(28,114)	(2,076)
Income and other taxes payable		**(119)**	(1,267)	-
Current maturities of long-term debt - net of debt issue costs		**(25)**	(9,193)	-
Long-term debt - net of current maturities and debt issue costs		**(185)**	(43,452)	-
Deferred tax liabilities		**(91)**	(2,539)	(40)
Other noncurrent liabilities		**(1,779)**	(151,777)	(88)
Non-controlling interests		**(691)**	(25,518)	(211)
Net assets		**1,934**	44,581	391
Cash and cash equivalents		**(463)**	(42,729)	(193)
Goodwill in subsidiaries	*5, 19*	**732**	24,456	1,296
Investment at equity		**(1,625)**	(1,444)	-
Other intangible assets		**197**	-	-
Revaluation increment		**-**	(1,396)	-
Gain on acquisition of a subsidiary	*5, 33*	**-**	(4,490)	-
Net cash flows		**P775**	P18,978	P1,494

40. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date. The current portion of subscriptions receivable as of December 31, 2011 and 2010 amounted to P286 and P170, respectively, presented as part of "Non-trade" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10). The noncurrent portion of P1,343 and P1,002 as of December 31, 2011 and 2010, respectively, is reported as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account in the consolidated statements of financial position (Note 20).

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP.

The table below shows the number and weighted average exercise prices of grants:

	2011	
	Number of Shares	**Weighted Average Exercise Price**
Subscribed during the year	**8,754,400**	**P95.11**
Cancelled during the year Class "A"	**(408,150)**	**65.98**
Cancelled during the year Class "B"	**(1,100)**	**70.50**

	2010		2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Class "A"				
Subscribed during the year	24,323,050	P60.31	2,189,450	P42.46
Cancelled during the year	(173,250)	59.09	(248,100)	50.62
Class "B"				
Subscribed during the year	1,272,800	58.39	2,688,750	44.92
Cancelled during the year	(11,600)	50.45	(383,700)	60.18

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company shall be considered as common shares without distinction.

The average market price of the common shares granted in 2011 was P111.90 per share.

The average market prices of the shares granted were P70.96 and P49.95 per share in 2010 and 2009, respectively, for Class "A" common shares and P68.69 and P52.84 per share in 2010 and 2009, respectively, for Class "B" common shares.

The average remaining contractual life of the ESPP was 0.61, 1.55 and 1.41 years as of December 31, 2011, 2010 and 2009, respectively, for Class "A" common shares and 0.15, 0.83 and 1.66 years as of December 31, 2011, 2010 and 2009, respectively, for Class "B" common shares.

The average remaining contractual life of the ESPP subscribed in 2011 was 0.58 years.

LTIP

The Parent Company also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its 10-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

On June 25, 2009, the Parent Company approved the grant of stock options to 755 executives consisting of 5,766,585 shares based on the closing price of the Parent Company's share, computed in accordance with the provisions of LTIP. Also on December 16, 2010, the Parent Company approved the grant of stock options to 732 executives consisting of 2,402,081 shares.

Options to purchase 16,039,416 shares and 14,038,733 shares in 2011 and 2010, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 3,023,807 shares and 13,685,122 shares in 2011 and 2010, respectively.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average exercise price under the LTIP is shown below:

	2011	
	Number of Share Stock Options	**Weighted Average Exercise Price**
Class "A"		
Balance at beginning of year	**15,541,940**	**P66.36**
Exercised during the year	**(1,496,639)**	**53.67**
Expired during the year	**(411,849)**	**55.34**
Balance at end of year	**13,633,452**	**68.09**
Class "B"		
Balance at beginning of year	**7,228,736**	**P69.66**
Exercised during the year	**(898,532)**	**64.73**
Expired during the year	**(216,787)**	**66.06**
Balance at end of year	**6,113,417**	**70.52**

	2010		2009	
	Number of Share Stock Options	Weighted Average Exercise Price	Number of Share Stock Options	Weighted Average Exercise Price
Class "A"				
Balance at beginning of year	22,054,784	P57.39	20,203,940	P56.71
Granted during the year	2,402,081	120.33	4,922,958	58.05
Exercised during the year	(8,734,635)	58.74	(2,711,190)	52.61
Expired during the year	(180,290)	56.94	(360,924)	62.58
Balance at end of year	15,541,940	66.36	22,054,784	57.39
Class "B"				
Balance at beginning of year	11,998,933	P70.21	11,911,370	P69.94
Granted during the year	-	-	843,627	58.05
Exercised during the year	(4,503,677)	70.83	(518,904)	41.30
Expired during the year	(266,520)	74.39	(237,160)	84.71
Balance at end of year	7,228,736	69.66	11,998,933	70.21

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and considered as common shares without distinction. However, as at December 31, 2011, 2010 and 2009, the number of the outstanding share stock options and related weighted average exercise price under LTIP were presented as Class "A" and Class "B" common shares to recognize the average exercise price of stock options granted prior to August 26, 2010.

The fair value of equity-settled share options granted is estimated as at the date of grant using Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The inputs to the model used to measure the fair value of the shares granted in 2010 and 2009 are as follows:

	2010 Grant	2009 Grant	
		Class "A"	Class "B"
Dividend yield	1.16%	2.41%	2.41%
Expected volatility	52%	53%	43%
Historical volatility	52%	53%	43%
Risk-free interest rate	2.36% to 5.49%	5.15% to 7.76%	5.15% to 7.76%
Expected life option	1 to 8 years	1 to 8 years	1 to 8 years
Weighted average share price	120.33	58.05	58.05

The weighted average fair value of options granted in 2010 was P42.40.

The range of exercise prices for options outstanding was P40.50 to P65.00 as of December 31, 2011 and 2010.

The average remaining contractual life of the LTIP was 0.72, 1.05 and 1.11 years as of December 31, 2011, 2010 and 2009, respectively, for Class "A" common shares and 0.11, 0.83 and 0.63 years as of December 31, 2011, 2010 and 2009, respectively, for Class "B" common shares.

Share-based payment charged to operations, included under "Administrative expenses - others" account, amounted to P303, P315 and P236 in 2011, 2010 and 2009, respectively.

41. Financial Risk Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

The Group's principal non-trade related financial instruments include cash and cash equivalents, AFS financial assets, financial assets at FVPL, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The Group's outstanding derivative instruments such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the Group's operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the BOD on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's long-term borrowings and investment securities. Investments acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the Group's operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;
- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P962 and P910 in 2011 and 2010, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at December 31, 2011 and 2010, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2011	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed rate							
Philippine peso-denominated	**P15,040**	**P513**	**P29,284**	**P1,270**	**P6,048**	**P26,230**	**P78,385**
Interest rate	**6.3212% - 9.33%**	**6.3212% - 9.33%**	**6.3212% - 9.33%**	**5.4895% - 9.33%**	**6.145% - 9.33%**	**6.3212% - 10.5%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**26,216**	**-**	**13,152**	**-**	**39,368**
Interest rate			**2%**		**7%**		
Floating rate							
Philippine peso-denominated	**1,025**	**875**	**1,104**	**11,550**	**-**	**-**	**14,554**
Interest rate	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**			
Foreign currency-denominated (expressed in Philippine peso)	**3,577**	**4,115**	**13,323**	**59,656**	**997**	**-**	**81,668**
Interest rate	**LIBOR and THBFIX + margin**	**LIBOR and THBFIX + margin**	**LIBOR and THBFIX + margin**	**LIBOR + margin**	**LIBOR + margin**		
	P19,642	**P5,503**	**P69,927**	**P72,476**	**P20,197**	**P26,230**	**P213,975**

December 31, 2010	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed rate							
Philippine peso-denominated	P6,963	P15,004	P476	P29,249	P1,234	P27,322	P80,248
Interest rate	6.73% - 9.33%	6.5% - 9.33%	7.25% - 9.33%	7.25% - 9.33%	5.4885% - 9.33%	7% - 10.5%	
Floating rate							
Philippine peso-denominated	1,667	2,000	1,000	800	11,550	-	17,017
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin		
Foreign currency-denominated (expressed in Philippine peso)	4,092	4,080	3,583	3,520	58,721	-	73,996
Interest rate	LIBOR, THBFIX and VNIBOR + margin	LIBOR, THBFIX and VNIBOR + margin	LIBOR and THBFIX + margin	LIBOR and THBFIX + margin	LIBOR + margin		
	P12,722	P21,084	P5,059	P33,569	P71,505	P27,322	P171,261

Foreign Currency Risk

The Group's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The Group's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents is as follows:

	2011		2010	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,386**	**P60,759**	US$1,456	P63,825
Trade and other receivables	**567**	**24,879**	281	12,318
AFS financial assets	**20**	**862**	50	2,188
Noncurrent receivables	**44**	**1,918**	20	867
	2,017	**88,418**	1,807	79,198
Liabilities				
Drafts and loans payable	**88**	**3,878**	139	6,079
Accounts payable and accrued expenses	**661**	**28,990**	955	41,872
Long-term debt (including current maturities)	**2,761**	**121,036**	1,688	73,996
Finance lease liabilities	**2,574**	**112,751**	2,550	111,803
Other noncurrent liabilities	**10**	**434**	10	430
	6,094	**267,089**	5,342	234,180
Net foreign currency-denominated monetary liabilities	**(US$4,077)**	**(P178,671)**	(US$3,535)	(P154,982)

The Group reported net foreign exchange gains (losses) amounting to (P823), P6,097 and (P3,364) in 2011, 2010 and 2009, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
December 31, 2009	46.20
December 31, 2010	43.84
December 31, 2011	43.84

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses;
- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in foreign exchange gains or losses of the hedged item and the hedging instrument.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of December 31, 2011 and 2010:

2011	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	**(P1,219)**	**(P1,020)**	**P1,219**	**P1,020**
Trade and other receivables	**(199)**	**(508)**	**199**	**508**
AFS financial assets	**-**	**(20)**	**-**	**20**
Noncurrent receivables	**(25)**	**(36)**	**25**	**36**
	(1,443)	**(1,584)**	**1,443**	**1,584**
Drafts and loans payable	**6**	**86**	**(6)**	**(86)**
Accounts payable and accrued expenses	**322**	**563**	**(322)**	**(563)**
Long-term debt (including current maturities)	**2,761**	**1,933**	**(2,761)**	**(1,933)**
Finance lease liabilities	**2,572**	**1,800**	**(2,572)**	**(1,800)**
Other noncurrent liabilities	**7**	**8**	**(7)**	**(8)**
	5,668	**4,390**	**(5,668)**	**(4,390)**
	P4,225	**P2,806**	**(P4,225)**	**(P2,806)**

2010	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,328)	(P1,064)	P1,328	P1,064
Trade and other receivables	(114)	(250)	114	250
AFS financial assets	-	(50)	-	50
Noncurrent receivables	(1)	(20)	1	20
	(1,443)	(1,384)	1,443	1,384
Drafts and loans payable	7	151	(7)	(151)
Accounts payable and accrued expenses	839	682	(839)	(682)
Long-term debt (including current maturities)	1,665	1,189	(1,665)	(1,189)
Finance lease liabilities	2,550	3,630	(2,550)	(3,630)
Other noncurrent liabilities	7	8	(7)	(8)
	5,068	5,660	(5,068)	(5,660)
	P3,625	P4,276	(P3,625)	(P4,276)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

The Parent Company enters into commodity derivative transactions on behalf of its subsidiaries and affiliates to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2011 and 2010.

2011

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P128,975**	**P128,975**	**P128,975**	**P -**	**P -**	**P -**
Trade and other receivables - net	**84,472**	**84,472**	**84,472**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**121**	**121**	**121**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**194**	**194**	**194**	**-**	**-**	**-**
AFS financial assets	**2,068**	**2,068**	**-**	**2,068**	**-**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**27,471**	**27,471**	**-**	**27,471**	**-**	**-**
Financial Liabilities						
Drafts and loans payable	**82,588**	**83,078**	**83,078**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**61,424**	**61,424**	**61,424**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**118**	**118**	**118**	**-**	**-**	**-**
Long-term debt (including current maturities)	**211,420**	**252,614**	**30,092**	**15,206**	**177,748**	**29,568**
Finance lease liabilities (including current portion)	**208,261**	**295,587**	**17,675**	**28,483**	**48,443**	**200,986**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**2,348**	**2,348**	**-**	**2,348**	**-**	**-**

2010

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P125,188	P125,188	P125,188	P -	P -	P -
Trade and other receivables - net	75,904	75,904	75,904	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	249	249	249	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	193	193	193	-	-	-
AFS financial assets	3,597	3,597	-	3,597	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	24,783	24,783	-	24,783	-	-
Financial Liabilities						
Drafts and loans payable	74,128	75,057	75,057	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	69,198	69,198	69,198	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	71	71	71	-	-	-
Long-term debt (including current maturities)	168,927	209,335	22,250	28,947	126,378	31,760
Finance lease liabilities (including current portion)	208,407	314,678	11,794	18,479	60,458	223,947
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	16,168	16,168	-	16,168	-	-

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Group recognizes impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as of December 31, 2011 and 2010, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	Note	**2011**	2010
Cash and cash equivalents	*9*	**P128,975**	P125,188
Trade and other receivables - net	*10*	**84,472**	75,904
Derivative assets	*12*	**121**	249
Financial assets at FVPL	*12*	**194**	193
AFS financial assets	*14*	**2,068**	3,597
Noncurrent receivables and deposits - net	*20*	**27,471**	24,783
		P243,301	P229,914

The credit risk for cash and cash equivalents, derivative assets, financial assets at FVPL and AFS financial assets is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below.

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken in all dressing plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder value.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and cumulative translation adjustments are excluded from capital for purposes of capital management.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The Group, except for BOC which is subject to certain capitalization requirements by the BSP, is not subject to externally imposed capital requirements.

42. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31, 2011 and 2010:

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P128,975**	**P128,975**	P125,188	P125,188
Trade and other receivables - net	**84,472**	**84,472**	75,904	75,904
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**121**	**121**	249	249
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**194**	**194**	193	193
AFS financial assets	**2,068**	**2,068**	3,597	3,597
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**27,471**	**27,471**	24,783	24,783
Financial Liabilities				
Drafts and loans payable	**82,588**	**82,588**	74,128	74,128
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**61,424**	**61,424**	69,198	69,198
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**118**	**118**	71	71
Long-term debt (including current maturities)	**211,420**	**228,523**	168,927	182,030
Finance lease liabilities (including current portion)	**208,261**	**208,261**	208,407	208,407
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**2,348**	**2,348**	16,168	15,764

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables and Noncurrent Receivables and Deposits. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Drafts and Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of drafts and loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of December 31, 2011 and 2010, discount rates used for Philippine peso-denominated loans range from 1.7% to 5.4% and 1.3% to 5.7%, respectively. The discount rates used for foreign currency-denominated loans range from 0.3% to 1.0% as of December 31, 2011. The Group has no foreign currency-denominated fixed-rate loans as of December 31, 2010. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of commodity and currency derivatives entered into by the Group.

Currency Forwards

As of December 31, 2011 and 2010, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$220 and US$110, respectively, and with various maturities in 2012 and 2011. As of December 31, 2011 and 2010, the net positive (negative) fair value of these currency forwards amounted to P40 and (P8), respectively.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2012 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of December 31, 2011 and 2010 is 845 and 450 metric tons, respectively. As of December 31, 2011 and 2010, the net positive (negative) fair value of these swaps amounted to (P13) and P16, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2012 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps as of December 31, 2011 and 2010 is 1.8 and 1.5 million barrels, respectively. As of December 31, 2011 and 2010, the negative fair value of these swaps amounted to P147 and P32, respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of December 31, 2011 and 2010 of 47,083 and 49,532 metric tons, respectively. These options can be exercised at various calculation dates in 2012 and 2011 with specified quantities on each calculation date. As of December 31, 2011 and 2010, the net positive (negative) fair value of these options amounted to (P5) and P54, respectively.

As of December 31, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 7,439 metric tons. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of December 31, 2011, the negative fair value of these options amounted to P5. There were no outstanding options on the purchase of soybean meal as of December 31, 2010.

As of December 31, 2011 and 2010, the Group has outstanding commodity options covering its crude oil requirements with notional quantity of 1.3 and 2.8 million barrels, respectively. These call and put options can be exercised at various calculation dates in 2012 and 2011 with specified quantities on each calculation date. The net negative fair value of these options as of December 31, 2011 and 2010 amounted to P47 and P234, respectively.

Embedded Derivatives
The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

Embedded Currency Forwards
As of December 31, 2011 and 2010, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$201 and US$244, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2011 and 2010, the net positive (negative) fair value of these embedded currency forwards amounted to (P2) and P127, respectively.

Embedded Currency Options
As of December 31, 2011 and 2010, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$24 and US$26, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. As of December 31, 2011 and 2010, the net negative fair value of these embedded currency options amounted to P11.

For the years ended December 31, 2011, 2010 and 2009, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P182, P660 and P962, respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance at beginning of year	**P178**	P91
Net change in fair value of non-accounting hedges	**182**	660
	360	751
Less fair value of settled instruments	**357**	573
Balance at end of year	**P3**	P178

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2011 and 2010. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

2011

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P2**	**P119**	**P121**
Financial assets at FVPL	**194**	**-**	**194**
AFS financial assets	**1,069**	**999**	**2,068**
Financial Liabilities			
Derivative liabilities	**10**	**108**	**118**

2010

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P3	P246	P249
Financial assets at FVPL	193	-	193
AFS financial assets	2,477	1,120	3,597
Financial Liabilities			
Derivative liabilities	-	71	71

As of December 31, 2011 and 2010, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

43. Registration with the BOI

- SMC Global

  SMEC, SPDC, SPPC and PanAsia are registered with the BOI as administrator/operator of their respective power plant on a pioneer status with non-pioneer incentives and were granted an Income Tax Holiday (ITH) for four years without extension beginning August 1, 2010, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plant. On August 26, 2011, the Parent Company sold its 100% ownership in PanAsia to MHI (Note 5).

- SMPFC

  SMFI
  SMFI was registered with the BOI on a non-pioneer status as a New Producer of Animal Feeds for its Mariveles, Bataan plant and as a New Producer of Chicken (Dressed) for its Orion, Bataan farm in August 2006 and July 2007, respectively.

  Under the terms of SMFI's BOI registration and subject to certain requirements as provided in the Omnibus Investments Code of 1987, SMFI is entitled to incentives which included, among others, ITH for a period of four (4) years from January 2007 for Animal Feeds and from October 2007 for Dressed Chicken. This can be extended to a maximum of 8 years provided certain conditions are met.

  SMFI's (formerly Monterey) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192 in accordance with the provisions of the Omnibus Investment Code of 1987 on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which include, among others, ITH for a period of six (6) years, extendable under certain conditions to eight (8) years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

  PF-Hormel
  The existing registration of PF-Hormel with the BOI was made on May 18, 2006 in accordance with the provisions of the Omnibus Investments Code of 1987 as a new producer of processed meat products on a non-pioneer status. Under the terms of this new registration, PF-Hormel is entitled to certain tax incentives, including ITH for four years from July 2007, or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration.

PF-Hormel's new registered activity with the BOI commenced commercial operations in July 2007 and began to avail tax incentives since then.

- Petron

  Mixed Xylene, Benzene, Toluene (BTX) and Propylene Recovery Units
  On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (EO 226) as: (1) a non-pioneer, new export producer status of Mixed Xylene; (2) a pioneer, new export producer status of Benzene and Toluene; and (3) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 70% of the production of the mentioned petrochemical products every year except for the produced propylene.

  As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

  a. ITH: (1) for four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron's highest attained production volume for the last three years; (2) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for BTX; and (3) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene;

  b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations;

  c. Simplification of custom procedures;

  d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Customs rules and regulations provided firm exports at least 70% of production output;

  e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten-year period from date of registration;

  f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond;

  g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% production; and

  h. Petron may qualify to import capital equipment, spare parts, and accessories at zero percent (one percent for propylene) duty from date of registration up to June 5, 2006 pursuant to EO No. 313 and its Implementing Rules and Regulations.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for five years without extensions or bonus year from December 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling;

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts;

c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart;

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity;

e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse;

f. Exemption from real property tax on production equipment or machinery; and

g. Exemption from contractor's tax.

Grease Manufacturing Plant

In December 2005, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization of the firm's Grease Manufacturing Plant in Pandacan, Manila. The BOI is extending the following major incentives:

a. ITH for a period of five years without extension or bonus year from March 2006 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to base figure of 845 metric tons of grease product representing Petron's highest attained sales volume prior to rehabilitation;

b. Minimum duty of 3% and VAT on imported capital equipment and accompanying spare parts;

c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the 3% duty imposed on the imported counterpart;

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity;

e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse;

f. Exemption from real property tax on production equipment or machinery; and

g. Exemption from contractor's tax.

70 MW Coal-Fired Power Plant (Limay, Bataan)

On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (EO No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid;

b. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond; and

c. Petron may qualify to import capital equipment, spare parts and accessories at zero percent (0%) duty from date of registration up to June 16, 2011 pursuant to EO No. 528 and its Implementing Rules and Regulations.

Refinery Master Plan Phase 2 (RMP-2) Project

On June 3, 2011, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based in the formula of the ITH rate of exemption;

b. Minimum duty of 3% and VAT on imported capital equipment and accompanying spare parts;

c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity;

d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the 3% duty imposed on the imported counterpart;

e. Exemption from real property tax on production equipment or machinery; and

f. Exemption from contractor's tax.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

- SMYAC

SMYAC is registered with the BOI as a new domestic producer of glass containers for the new production facility (Phase I) and as expanding producer of glass containers for the expansion of the existing production facility (Phase II), both on a non-pioneer status under the Omnibus Investments Code of 1987.

As a registered enterprise, SMYAC is entitled to the following benefits:

a. ITH;

   i. Phase I - for a period of four (4) years from February 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than March 23, 2005, the date of registration; and

   ii. Phase II - for a period of three (3) years from August 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than March 23, 2005.

b. For the first five years from the date of registration, SMYAC shall be allowed an additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI;

c. Employment of foreign nationals;

d. Tax credit for taxes or duties paid on raw materials and supplies and semi-manufactured products used for its export products and forming parts thereof;

e. Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies;

f. Access to CBMW subject to Customs rules and regulations, provided SMYAC exports at least 70% of production output;

g. Exemption from wharfage dues, any export tax, duties, imports and fees for a ten-year period from the date of registration;

h. Importation of consigned equipment for a period of ten years from date of registration;

i. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% of production; and

j. May qualify to import capital requirement, spare parts and accessories at one percent duty rate from date of registration up to June 5, 2006 pursuant to EO No. 313 and its implementing Rules and Regulations.

SMYAC's entitlement for ITH for Phase I expired in August 2010 while the entitlement for ITH for Phase II with an expiration date on November 2010 was extended until November 2012.

44. Events After the Reporting Date

- On August 12, 2011, the BOD of the Parent Company approved the investment in the oil refining and marketing business in Malaysia through the acquisition of 65% of Esso Malaysia Berhad (EMB) and its wholly-owned associate businesses ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB). On August 17, 2011, the share purchase agreement was signed between the Parent Company and Exxon Mobil International Holdings Inc., wherein the Parent Company has the right to assign its interest in the investment to any of its subsidiaries.

  On January 11, 2012, the Executive Committee of Petron approved Petron's investment in the ExxonMobil downstream business in Malaysia.

  On January 20, 2012, the Parent Company approved the assignment of the share purchase agreement to Petron Oil and Gas International Sdn Bhd (Petron International), an indirect wholly-owned subsidiary of Petron.

  On March 16, 2012, Petron International served on the BOD of EMB a notice of mandatory take-over offer (the "Notice") to acquire all the remaining 94,500,000 shares representing approximately 35% of the total voting shares of EMB. The cash offer price is Malaysian Ringgit 3.59 per share, subject to adjustments as specified in the Notice and subsequently disclosed by EMB to the Malaysian Stock Exchange.

  The mandatory take-over offer was required under the laws of Malaysia governing listed corporations and resulted from the acquisition by Petron International of 175,500,000 EMB shares, representing approximately 65% of the voting shares of EMB.

- On January 24, 2012, PCERP sold 695,300,000 common shares of Petron at a price of P11.00 per share through the facilities of the PSE.

- On January 27, 2012, GSMI acquired 100% of the outstanding capital stock of East Pacific Star Bottlers Philippines, Inc. for P200.

- At the March 14, 2011 and June 7, 2011 meeting of the Parent Company's BOD and stockholders, respectively, the amendments to the Articles of Incorporation and By-Laws of the Parent Company were approved as follows:

  a. that the Parent Company's corporate term be extended for another fifty (50) years from August 21, 2013; and

  b. that the date of the annual regular meeting of the stockholders be changed from second Tuesday of May to second Tuesday of June.

  The SEC approved on March 16, 2012, the amendment of the Articles of Incorporation and By-Laws of the Parent Company.

- Pursuant to the approvals of the board of directors of SMB on October 11, 2011, February 7, 2012 and March 13, 2012, SMB offered for subscription of fixed rate peso-denominated bonds with an aggregate principal amount of P20,000 (the "Bonds") on March 19 to 23, 2012 (the "Offer"). The Bonds will be issued on April 2, 2012 ("Issue Date") at the issue price of 100.00% of face value in three series: Series D Bonds, Series E Bonds, and Series F Bonds. The Series D Bonds shall have a term beginning on the Issue Date and ending five years and one day

from the Issue Date or on April 3, 2017, with a fixed interest rate equivalent to 6.05% per annum. The Series E Bonds shall have a term beginning on the Issue Date and ending seven years from the Issue Date or on April 2, 2019, with fixed interest rate equivalent to 5.93% per annum. The Series F Bonds shall have a term beginning on the Issue Date and ending ten years from the Issue Date or on April 2, 2022, with a fixed interest rate equivalent to 6.60% per annum. Interest in Series D Bonds, Series E Bonds and Series F Bonds shall be payable semi-annually in arrears on April 2 and October 2 of each year, or the subsequent business day without adjustment if such interest payment date is not a business day, while the Bonds are outstanding, provided that the first interest payment date for the Series D Bonds shall be on October 3, 2012 (or the subsequent business day if such date is not a business day).

Proceeds of the Offer will be used to support SMB's redemption of the fixed rate bonds issued by SMB in 2009 maturing on April 3, 2012 and the partial prepayment of the Company's US$300 term facility.

45. Other Matters

a. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

- Deficiency Excise Tax

  On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053.

  In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

  The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

  On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

  On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy." The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a

Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of March 28, 2012, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA En Banc and is pending review.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P781, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied, and the Commissioner is presently taking steps to elevate the decision to CTA En Banc for review.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; and on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400. All of these cases are undergoing trial.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron's use of P659 worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron is contesting the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the SC. A Resolution was issued by the SC (1st Division) on September 13, 2010 denying with finality the Commissioner of Internal Revenue's motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a P284 assessment against Petron for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In August 2006, the CTA denied Petron's petition, ordering it to pay the BIR P580 representing the P284 unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine SC nullified the assessment against Petron and declared Petron as a valid transferee of the TCCs. The BIR filed a motion for reconsideration which remains pending as of March 28, 2012.

In May 2002, the BIR issued a P254 assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In May 2007, the CTA second division denied Petron's petition, ordering Petron to pay the BIR P601 representing Petron's P254 unpaid deficiency excise taxes for the taxable years 1995 to 1998, and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA *en banc,* which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending.

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to P911.

- Pandacan Terminal Operations

  In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a MOU with the City of Manila and DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, Petron filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

  The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("Ordinance 8119"), which applied to the entire City of Manila. Ordinance 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the "February 13 Resolution"), the SC also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their relocation plans to the RTC.

In May 2009, Manila City Mayor approved Ordinance No. 8187 ("Ordinance 8187"), which repealed Ordinance 8027 and Ordinance 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending.

- Oil Spill Incident in Guimaras

  On August 11, 2006, M/T Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of M/T Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

- Bataan Real Property Tax Cases

  Petron has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of P86.4 covering Petron's isomerization and gas oil hydrotreater facilities which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law per the BOI Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for P17 relating to the leased foreshore area on which the pier of Petron's Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of P2,168

allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron's non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Petron timely contested the assessments by filing appeals with the Local Board of Assessment Appeals ("LBAA"), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of Petron, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by Petron, the Central Board of Assessment Appeals ("CBAA"), in August 2008, remanded the case to the LBAA for factual determination, effectively granting Petron's appeal and reversing the LBAA's dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of P1,731 made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

b. *Top Frontier*

On November 27, 2009, Top Frontier acquired 857,115,914 common shares of the issued and outstanding common shares of the Parent Company for a total of P64,284. To acquire an additional 327,000,000 Class "B" common shares of the Parent Company under the SPA with Q-Tech Alliance Holdings Inc. (Q-Tech), Top Frontier conducted a tender offer before such acquisition pursuant to the 35% threshold under the mandatory provisions of the Securities Regulation Code.

On April 8, 2010, such tender offer closed and a total of 47,700,679 Class "A" and 31,759,499 Class "B" common shares were tendered for P75.00 per share, for a total consideration of P5,959. Such tendered shares were crossed in the PSE on April 13, 2010 together with the 327,000,000 common shares acquired from Q-Tech under the SPA.

Following the tender offer, Top Frontier acquired in the open market a total of 1,942,906 common shares for P75.00 per share.

The SPA with Q-Tech also provides a grant of call option to Top Frontier for the purchase of 301,666,675 Class "B" common shares of the Parent Company at P70.00 per share. The call option may be exercised by Top Frontier until March 31, 2011 or such later date as may be mutually agreed upon by the parties in writing. On March 8, 2011, Top Frontier has notified Q-Tech of its intention to exercise the call option within the period specified in the SPA. On March 16, 2011, Top Frontier exercised its option to purchase from Q-Tech a 12.9% equity interest in the Parent Company which increased Top Frontier's equity interest in the Parent Company's issued and outstanding common shares of stock to 67.2%.

Top Frontier entered into an Option Agreement with 44 Corporations in 2009 wherein Top Frontier has exclusive right to acquire 476,722,639 Class "A" and 16,652,544 Class "B" common shares of the Parent Company at P75.00 per share for which Top Frontier paid an amount of US$200 as advances. The call option may be exercised by Top Frontier until November 12, 2012. Any further extension of the term of the option period shall require the written consent and approval of both parties.

As discussed in Note 26, the Parent Company completed the secondary offering of its common shares which includes 110,320,000 shares of stock held by Top Frontier. The Offer Shares were priced at P110.00 per share on April 20, 2011.

On December 1, 2011, Top Frontier sold 9,000,000 SMC common shares transacted through the PSE.

As of December 31, 2011 and 2010, Top Frontier had total shareholdings of 1,447,865,673 and 1,265,518,998 common shares of the Parent Company, respectively. Out of the 1,447,865,673 common shares of the Parent Company held by Top Frontier as of December 31, 2011, 225,987,648 shares are lodged in the Philippine Depository and Trust Company.

c. *Commitments*

Amount authorized but not yet disbursed for capital projects as of December 31, 2011 is approximately P25,250.

d. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

e. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of P43.84 in 2011 and 2010 for consolidated statements of financial position accounts; and average rates of P43.31, P45.12 and P47.64 in 2011, 2010 and 2009, respectively, for income and expense accounts.

46. Events After the Date of Auditor's Report but Before the Date the Consolidated Financial Statements are Issued

a. *Investment in ExxonMobil*

On March 30, 2012, Petron International completed the acquisition of 65% of EMB, 100% of EMMSB, and 100% of EMBSB for an aggregate purchase price of US$577.3.

b. *Investment in Trustmark Holdings Corporation(Trustmark) and Zuma Holdings and Management Corporation (Zuma)*

On March 28, 2012, the BOD of the Parent Company approved its investment, through SMEII, in the Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (Air Phil). On April 3, 2012, the Parent Company, through SMEII, and the Lucio Tan Group signed investment agreements whereby SMEII agreed to subscribe to unissued common shares constituting 49% of the outstanding capital stock of Trustmark and Zuma, the holding companies of PAL and Air Phil, respectively. The investment will result in the Parent Company indirectly owning a minority stake in PAL and Air Phil.

COVER SHEET

P	W	-	2	7	7						

S.E.C. Registration Number

S	A	N		M	I	G	U	E	L		C	O	R	P	O	R	A	T	I	O	N		A	N	D				

S	U	B	S	I	D	I	A	R	I	E	S																			

(Company's Full Name)

N	o	.		4	0		S	a	n		M	i	g	u	e	l		A	v	e	n	u	e						

M	a	n	d	a	l	u	y	o	n	g		C	i	t	y														

(Business Address : No. Street Company / Town / Province)

Bella O. Navarra

Contact Person

632-3000

Company Telephone Number

1	2

Month

3	1

Day

Compliance for CFD

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

ANNEX "C"

SAN MIGUEL CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2011

A -	FINANCIAL ASSETS	
B -	AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES AND PRINCIPAL STOCKHOLDERS (OTHER THAN ASSOCIATES)	NOT APPLICABLE
C -	AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D -	INTANGIBLE ASSETS AND OTHER ASSETS	
E -	LONG -TERM DEBT	
F -	INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE
G -	GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
H -	CAPITAL STOCK	

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Branches · Subic · Cebu · Bacolod · Iloilo

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Stockholders and Board of Directors
San Miguel Corporation and Subsidiaries
No. 40 San Miguel Avenue
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation and Subsidiaries (the "Group") as at and for each of the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated March 28, 2012, except as to Note 46, which is as of April 3, 2012.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

The supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

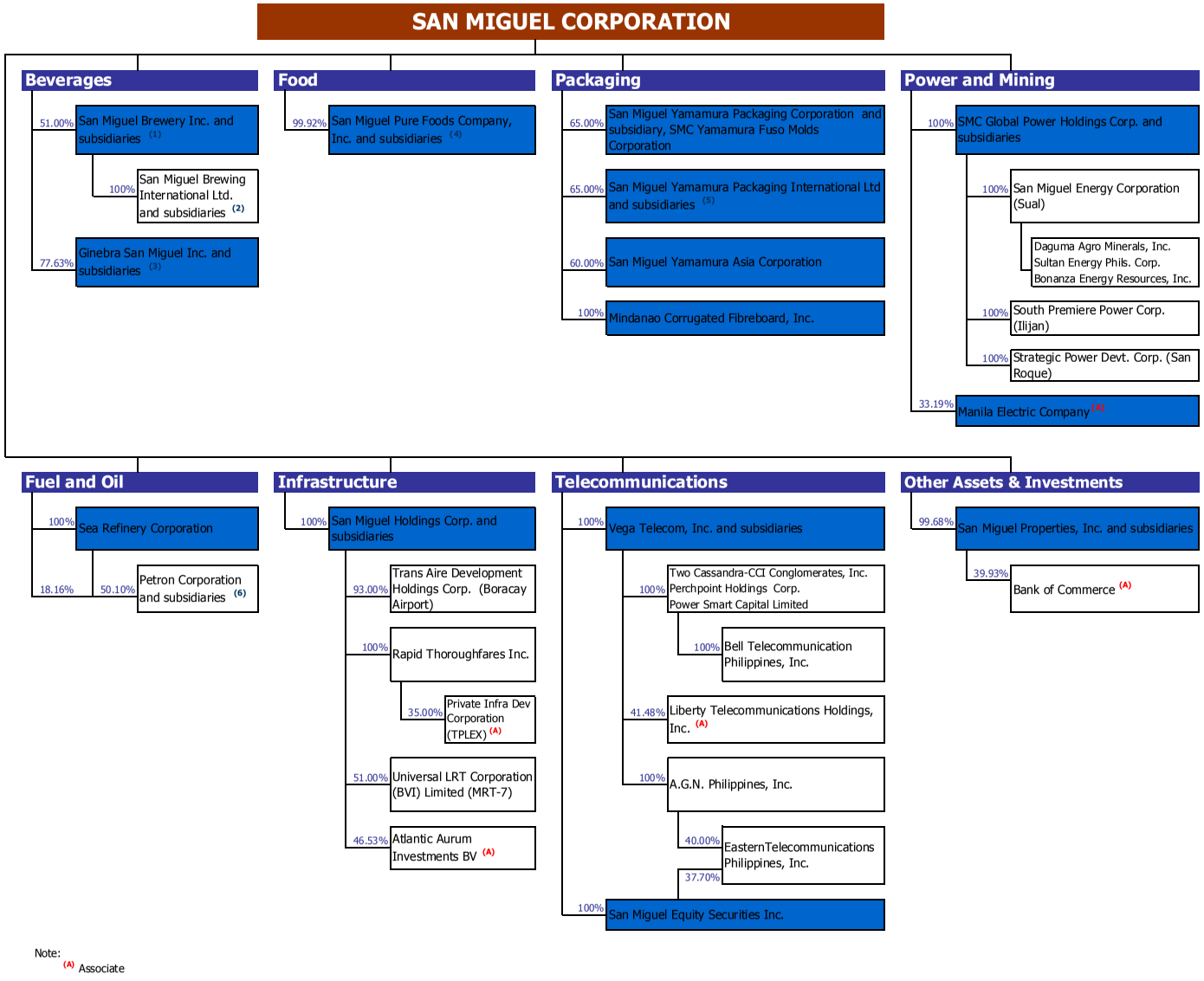
WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-3, Group A, valid until January 4, 2015
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3174023MA
Issued January 2, 2012 at Makati City

March 28, 2012, except as to Note 46, which is as of April 3, 2012
Makati City, Metro Manila

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, Group A, valid until December 31, 2013
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Group A, valid until December 17, 2014

SMC and its Major Subsidiaries and Associates



Note:
(A) Associate

Subsidiaries:

1. San Miguel Brewery Inc. subsidiaries include Iconic Beverages, Inc., Brewery Properties Inc. and subsidiary, Brewery Landholdings, Inc. and San Miguel Brewing International Ltd. and subsidiaries

2. San Miguel Brewing International Ltd. subsidiaries include San Miguel Brewery Hong Kong Limited and subsidiaries, PT Delta Djakarta Tbk and subsidiary, San Miguel (Baoding) Brewery Co. Ltd., San Miguel Brewery Vietnam Ltd., San Miguel Beer (Thailand) Ltd. and San Miguel Marketing Thailand Ltd.

3. Ginebra San Miguel, Inc. subsidiaries include Distileria Bago, Inc., Ginebra San Miguel International, Ltd., Ginebra San Miguel International Holdings Ltd., Global Beverage Holdings Ltd. and Siam Holdings Ltd.

4. San Miguel Pure Foods Company, Inc. subsidiaries include San Miguel Foods, Inc., San Miguel Mills, Inc. and subsidiary, Golden Bay Grain Terminal Corporation, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries including Golden Food and Dairy Creamery Corporation, San Miguel Super Coffeemix Co., Inc., P.T. San Miguel Pure Foods Indonesia, San Miguel Pure Foods International, Limited and subsidiary, San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Hormel (Vn) Co. Ltd.

5. San Miguel Yamamura Packaging International Limited subsidiaries include San Miguel Yamamura Phu Tho Packaging Co. Ltd., Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Co. Ltd., PT San Miguel Yamamura Utama Indoplas, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Plastic Films Sdn. Bhd. and San Miguel Yamamura Knox Pty. Ltd. and subsidiaries

6. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation, Petron Singapore Trading Pte. Ltd., New Ventures Realty Corporation and subsidiary, Las Lucas Construction & Development Corporation

San Miguel Corporation and Subsidiaries
Schedule of Philippine Financial Reporting Standards
December 31, 2011

Standards	"Adopted", "Not Adopted" or "Not Applicable"
Philippine Financial Reporting Standards (PFRSs)	
PFRS 1 First-time Adoption of Philippine Financial Reporting Standards	Not Applicable
PFRS 2 Share-based Payment	Adopted
PFRS 3 Business Combinations	Adopted
PFRS 4 Insurance Contracts	Not Applicable
PFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Adopted
PFRS 6 Exploration for and Evaluation of Mineral Resources	Adopted
PFRS 7 Financial Instruments: Disclosures	Adopted
PFRS 8 Operating Segments	Adopted
Philippine Accounting Standards (PASs)	
PAS 1 Presentation of Financial Statements	Adopted
PAS 2 Inventories	Adopted
PAS 7 Statement of Cash Flows	Adopted
PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Adopted
PAS 10 Events after the Reporting Period	Adopted
PAS 11 Construction Contracts	Adopted
PAS 12 Income Taxes	Adopted
PAS 16 Property, Plant and Equipment	Adopted
PAS 17 Leases	Adopted
PAS 18 Revenue	Adopted
PAS 19 Employee Benefits	Adopted
PAS 20 Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable
PAS 21 The Effects of Changes in Foreign Exchange Rates	Adopted
PAS 23 Borrowing Costs	Adopted
PAS 24 Related Party Disclosures	Adopted
PAS 26 Accounting and Reporting by Retirement Benefit Plans	Adopted
PAS 27 Consolidated and Separate Financial Statements	Adopted
PAS 28 Investments in Associates	Adopted
PAS 29 Financial Reporting in Hyperinflationary Economies	Not Applicable
PAS 31 Interests in Joint Venture	Adopted
PAS 32 Financial Instruments: Presentation	Adopted
PAS 33 Earnings per Share	Adopted
PAS 34 Interim Financial Reporting	Adopted
PAS 36 Impairment of Assets	Adopted
PAS 37 Provisions, Contingent Liabilities and Contingent Assets	Adopted
PAS 38 Intangible Assets	Adopted
PAS 39 Financial Instruments: Recognition and Measurement	Adopted
PAS 40 Investment Property	Adopted
PAS 41 Agriculture	Adopted

Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC)	
Philippine Interpretation IFRIC -1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	Not Applicable
Philippine Interpretation IFRIC - 2 Members' Share in Co-operative Entities and Similar Instruments	Not Applicable
Philippine Interpretation IFRIC - 4 Determining whether an Arrangement contains a Lease	Adopted
Philippine Interpretation IFRIC - 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Adopted
Philippine Interpretation IFRIC - 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable
Philippine Interpretation IFRIC - 7 Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	Not Applicable
Philippine Interpretation IFRIC - 10 Interim Financial Reporting and Impairment	Adopted
Philippine Interpretation IFRIC - 12 Service Concession Arrangements	Adopted
Philippine Interpretation IFRIC - 13 Customer Loyalty Programmes	Adopted
Philippine Interpretation IFRIC - 14, Prepayments of a Minimum Funding Requirement	Adopted
Philippine Interpretation IFRIC - 16 Hedges of a Net Investment in a Foreign Operation	Adopted
Philippine Interpretation IFRIC - 17 Distributions of Non-cash Assets to Owners	Adopted
Philippine Interpretation IFRIC - 18 Transfers of Assets from Customers	Not Applicable
Philippine Interpretation IFRIC - 19 Extinguishing Financial Liabilities with Equity Instruments	Adopted

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2011
(Amounts in Millions)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2011	Income Received and Accrued
Cash and cash equivalents	-	₱ 128,975	₱ 128,975	₱ 3,290
Trade and other receivables - net	-	84,472	84,472	365
Derivative assets	-	121	121	182**
Financial assets at FVPL	-	194	194	1
Available for sale financial assets	*	2,068	2,068	47
Noncurrent receivables and deposits - net		27,471	27,471	928
	-	₱ 243,301	₱ 243,301	₱ 4,813

See attachment to Schedule A - Available for Sale Financial Assets

** *This represents net marked-to-market gains/losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as of year-end.*

See Notes 41 and 42 of the Notes to Consolidated Financial Statements

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - AVAILABLE FOR SALE FINANCIAL ASSETS
DECEMBER 31, 2011
(Amounts in Millions, Except No. of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Valued Based on Market Quotation at End of Reporting Period (a)
Available for Sale Financial Assets		
San Miguel Corporation		
Alabang Country Club	7	₱ 12
Ansor International	3,334	-
Apo Golf & Country Club	3	-
Baguio Country Club	1	1
Bancom Group Inc	999,546	-
Batulao Village Club	-	-
Calatagan Golf Club	1	-
Camp John Hay	2	1
Canlubang Golf Club	3	1
Capitol Hills Golf & Country Club	1	-
Casino Espanol de Manila	2	-
Cebu Country Club	1	2
Celebrity Sports Plaza	3	-
Club Filipino	8	1
Continental Potash	7,909	-
Evercrest	2	-
Export & Industry Bank	940,560,000	-
Green Valley Club - Baguio	1	-
Greenfield Tennis Club	3	-
Iloilo Golf Club	1	-
Inter island Broadcasting Corp	4,458,928	-
Landgolf Inc	2	-
Makati Executive Center	1	-
Makati Sports Club	11	3
Manila Bankers Life	250,000	1
Manila Electric Company	100,331	1
Manila Golf & Country Club	3	81
Manila Polo Club	2	14
Manila Southwoods Golf & Country Club	1	1
Medical Doctors Inc.	83,379	13
Merchant Investment	41,660	-
Metropolitan Club	2	-
Metropolitan Theater	198	-
Mimosa Golf & Country Club	3	2
Monserrat Trading	1,000	-
Motor Services	52,500	-
Naga Telephone Co.	220	-
Negros Occidental Golf club	6	₱ -
Norcem Philippines	80,000	-
Orchard Golf & Country Club	5	1
Pacific Club Corporate	1	-
Pantranco South Express	340,992	-
People's Press	1,500	-
Phil. Columbian Club	3	-
Phil. Dealing Sytem Holding Corp.	250,000	25
Phil. International Fair	500	-
Phil. Long Distance Tel. Co	230,594	2
Phil. Overseas Resources	10,000	-
Pilipino Telephone	600	-
Professional Services Inc	11,250	5
Puerto Azul Golf Club	3	-
Quezon City Sports Club	1	-
Sta Elena Properties	7	5
Sta Elena Golf Club	1	2
Sta Lucia Realty Golf Club	2	1
Subic Bay Yacht Club	1	-
Tagaytay Highland Golf and Country Club	2	2
Tagaytay Midlands Country Club	1	1
The Country Club - Canlubang	2	-
Universal Leisure Club	1	-
Valle Verde Golf Club	53	7
Valley Golf Club Inc.	2	1
Victorias Country Club	1	-

(a) if the cost of investment is less than P500,000, the amount column will show zero.

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Valued Based on Market Quotation at End of Reporting Period (a)
San Miguel Holdings Corp.		
Indophil Resources NL	48,016,960	862
Petron Corporation		
Aboitiz Power Bonds	40,000,000	23
Government Security - PIID 0516 C107	-	74
Globe Bonds	50,220,000	28
Government Security - PIBD 0514 A673 (FXTN 5-67)	100,000,000	53
Government Security - PIBD 0713 C348 (FXTN 7-43)	100,000,000	54
Government Security - PIBD 0511 C622	106,000,000	-
Government Security - PIID 0311 G065	240,000,000	-
ROP Bonds	27,012,000	692
San Miguel International Ltd.		
Others	-	16
San Miguel Brewery Inc.		
Royal Orchid International Golf Club	1	2
Guangzhou Luhu Golf Club	1	2
HSBC Holdings	20,400	7
Pacific Club Kowloon	1	6
Hongkong Arts Centre Ltd.	1	-
The American Club Hong Kong	1	8
Hong Kong Football Club	1	6
Canadian International School of Hong Kong	1	1
Discovery Bay Golf Club	1	7
San Miguel Properties Inc.		
Apo Golf & Country Club	1 ₱	1
Mimosa Golf & Country Club	4	1
Sta. Elena Golf & Country Club	1	-
Metro Club	1	-
Phil. Long Distance Tel Co	12,200	1
Meralco	273,118	8
Italia Country Club	89	5
Riviera Golf Course and Country Club	1	5
Tagaytay Midlands Country Club	1	2
Pacific Central Properties, Inc.		
Corporate Investment Phils Inc	200,000	-
Herald Publications	410	-
San Miguel Rengo Packaging Corp		
Phil Long Distance Tel.	5,200	-
Evercrest Golf & Country Club	1	-
Orchard Golf & Country Club	1	1
Apo Golf & Country Club	1	-
Anchor Brokerage Corporation		
Phil. Long Distance Tel. Co.	50	-
Export & Industry Bank	766,000	-
San Miguel Yamamura Asia		
Manila Southwoods Golf & Country Club	1	-
Orchard Golf and Country Club	1	-
Evercrest Golf & Country Club	1	1
San Miguel Yamamura Packaging Corporation		
Canlubang Golf & Country Club	1	1
Manila Southwoods	1	-
Orchard Golf & Country Club	1	-
Puerto Azul	1	1
Manila Southwoods Golf and Country Club	1	-
Orchard Golf and Country Club	1	-
Philippine Longdistance Tel. Co.	1,800	-
Riviera Golf Club	1	-

(a) if the cost of investment is less than P500,000, the amount column will show zero.

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Valued Based on Market Quotation at End of Reporting Period (a)
San Miguel Purefoods Company, Inc.		
Club Filipino	1	₱ -
Club Strata, Inc.	1	-
Makati Sports Club, Inc.	1	1
Philippine Long Distance Tel. Co.	1	1
Valle Verde Country Club	1	-
Capitol Hills Golf and Country Club, Inc.	1	-
Alabang Country Club	1	1
Golf Club Bogor Raya	1	-
Insta Food	1	1
Manila Southwoods Golf & Country Club	1	-
Sta Elena Golf Club	1	2
Manila Electric Co.	1	1
Tagaytay Highland Golf and Country Club	1	1
Club Filipino	1	-
Piltel	11,100	-
Royal Tagaytay Country Club	1	-
Orchard Golf and Country Club	1	-
Endless Vacation Club Phils. Inc.	2	-
Phil. Assoc. of Hod Raisers	14,388	-
Philippine Long Distance Tel. Co.	9,290	1
Makati Sports Club, Inc.	1	-
Casino Espanol	1	-
Vega Telecom Holdings, Inc.		
Makati Sport Club	2	1
MERALCO - SIP	2,831	-
Other Telecom Companies	840,000	4
Total Available for Sale Financial Assets		**₱ 2,068**

(a) if the cost of investment is less than P500,000, the amount column will show zero.

See Notes 14, 41 and 42 of the Notes to Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CURRENCY TRANSLATION ADJUSTMENTS/ RECLASSIFICATIONS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN-OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Corporation	₱ 77,541	₱ 43,452	₱ (29,186)	₱ -	₱ 91,807	₱ 47,825	₱ 43,982	₱ 91,807
San Miguel International Limited and Subsidiaries	48,978	-	(6,591)	-	42,387	42,387	-	42,387
San Miguel Yamamura Packaging Corporation and Subsidiary	1,389	4,045	(4,440)	-	994	992	2	994
Petron Corporation and Subsidiaries	1,817	5,063	(6,143)	-	737	737	-	737
San Miguel Yamamura Asia Corporation	258	4,032	(3,600)	-	690	602	88	690
SMC Shipping and Lighterage Corporation	740	3,762	(3,902)	-	600	600	-	600
San Miguel Properties, Inc. and Subsidiaries	35	526	(159)	-	402	402	-	402
SMITS, Inc. and Subsidiary	313	866	(809)	-	370	369	1	370
San Miguel Brewery Inc. and Subsidiaries	128	6,869	(6,826)	-	171	137	34	171
ArchEn Technologies Inc.	60	471	(375)	-	156	156	-	156
Ginebra San Miguel, Inc. and Subsidiaries	232	268	(357)	-	143	143	-	143
San Miguel Pure Foods Company, Inc. and Subsidiaries	221	4,030	(4,116)	-	135	135	-	135
Challenger Aero Air Corp.	7	509	(393)	-	123	123	-	123
San Miguel Holdings Corp. and Subsidiaries	68	12	(6)	-	74	74	-	74
SMC Global Power Holdings Corp. and Subsidiaries	125	713	(770)	-	68	66	2	68
Mindanao Corrugated Fibreboard, Inc.	17	107	(99)	-	25	25	-	25
Others	22	80	(86)	-	16	16	-	16
	₱ 131,951	**₱ 74,805**	**₱ (67,858)**	**₱ -**	**₱ 138,898**	**₱ 94,789**	**₱ 44,109**	**₱ 138,898**

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2011
(Amounts in Millions)

Part A - Goodwill and Other Intangible Assets

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Disposal/ Reclass to other Accounts	Charged to Costs and Expenses	Currency Translation Adjustments	Ending Balance
Goodwill	₱ 30,251	₱ 732	₱ 7	₱ -	₱ -	₱ 30,990
Trademarks and Other Intangibles						
Cost:						
Trademarks and brand names	₱ 430	₱ -	₱ -	₱ -	₱ 2	₱ 432
Licenses	7,341	34	-	-	(96)	7,279
Service consession rights	91	111	1	-	-	203
Mining rights	1,800	197	-	-	-	1,997
Formulas and recipes	58	-	-	-	-	58
Land use rights	1,817	3	(118)	-	25	1,727
Others	758	362	19	-	1	1,140
	12,295	707	(98)	-	(68)	12,836
Accumulated Amortization and Impairment Losses:						
Trademarks and brand names	₱ 190	₱ -	₱ -	₱ -	₱ -	₱ 190
Licenses	62	-	(1)	8	-	69
Service consession rights	1	-	1	9	-	11
Land use rights	410	-	(22)	46	7	441
Others	652	-	12	54	-	718
	1,315	-	(10)	117	7	1,429
Net Book Value:	**₱ 10,980**	**₱ 707**	**₱ (88)**	**₱ (117)**	**₱ (75)**	**₱ 11,407**

See Notes 4, 5, 19 and 39 of the Notes to Consolidated Financial Statements

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2011
(Amounts in Millions)

Part B - Other Noncurrent Assets

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Charged to Costs and Expenses	Reclassifications/ (Disposal)	Currency Translation Adjustments	Ending Balance
Noncurrent receivables and deposits	₱ 24,783	₱ 1	₱ (156)	₱ 2,843	₱ -	₱ 27,471
Deferred containers expense - net of accumulated amortization	4,420	1,762	(1,065)	(80)	(2)	5,035
Others - net	4,598	555	(5)	860	3	6,011
	₱ 33,801	**₱ 2,318**	**₱ (1,226)**	**₱ 3,623**	**₱ 1**	**₱ 38,517**

See Notes 4, 5, 20, 36, 41 and 42 of the Notes to Consolidated Financial Statements

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2011
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Non Current Transaction Cost	Amount Shown as Long-term	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Parent Company													
Unsecured term notes:													
Peso denominated:													
Floating	Landbank of the Philippines	₱ 1,600	₱ 400	₱ (1)	₱ 399	₱ 1,200	₱ (4)	₱ 1,196	₱ 1,595	PDST-F for 3 months plus margin	Amortized	Quarterly	November-14
Floating	Banco De Oro Unibank, Inc.	7,850	-	-	-	7,850	-	7,850	7,850	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
		9,450	400	(1)	399	9,050	(4)	9,046	9,445				
Foreign currency - denominated													
Fixed	Bank of New York Mellon	26,216	-	-	-	26,216	(462)	25,754	25,754	2%	Bullet	Semi Annual	May-14
Floating	Standard Chartered Bank	43,840	-	-	-	43,840	(829)	43,011	43,011	LIBOR plus agreed margin	Bullet	Quarterly	July-15
		70,056	-	-	-	70,056	(1,291)	68,765	68,765				
Subsidiaries													
Unsecured term notes:													
Peso denominated:													
SM Brewery													
Fixed	Philippine Depository & Trust Corp.	13,590	13,590	(13)	13,577	-	-	-	13,577	8.25%	Bullet	Semi-annual	April-12
	Philippine Depository & Trust Corp.	22,301	-	-	-	22,301	(129)	22,172	22,172	8.875%	Bullet	Semi-annual	April-14
	Philippine Depository & Trust Corp.	2,810	-	-	-	2,810	(25)	2,785	2,785	10.50%	Bullet	Semi-annual	April-19
		38,701	13,590	(13)	13,577	25,111	(154)	24,957	38,534				
Petron													
	MBTC/Maybank/Insular Life/Mega Int'l												
Fixed	Commercial Bank/Robinsons Savings Bank	154	154		154	-		-	154	6.73%	Amortized	Quarterly	January-12
Fixed	Rizal Commercial Banking Corporation	3,600	36	(3)	33	3,564	(34)	3,530	3,563	6.3212% and 7.1827%	Amortized	Semi-annual	October-18 and October-21
Fixed	BPI Asset Management and Trust Group	5,200	-	(11)	(11)	5,200	(18)	5,182	5,171	8.14%	Bullet	Semi-annual	June-14
Fixed	BPI Asset Management and Trust Group	4,704	48	(7)	41	4,656	(28)	4,628	4,669	9.33%	Amortized	Semi-annual	June-16
Fixed	Deutsche Bank AG, Hongkong Branch	20,000	-	(27)	(27)	20,000	(170)	19,830	19,803	7.00%	Bullet	Semi-annual	November-17
		33,658	238	(48)	190	33,420	(250)	33,170	33,360				
SMY Asia													
Fixed	HSBC	955	955		955	-	-	-	955	6.50%	Bullet	Semi-annual	March-12
Fixed	HSBC	1,269	-	(1)	(1)	1,269	(3)	1,266	1,265	7.25%	Bullet	Semi-annual	March-14
		2,224	955	(1)	954	1,269	(3)	1,266	2,220				
GSMI													
Fixed	Security Bank Corporation	300	86		86	214		214	300	7.89%	Amortized	Semi-annual	May-15
Fixed	Security Bank Corporation	1,200	171	(1)	170	1,029	(4)	1,025	1,195	7.25%	Amortized	Semi-annual	May-15
		1,500	257	(1)	256	1,243	(4)	1,239	1,495				
SMCSLC													
Fixed	Security Bank Corporation	1,250			-	1,250	(6)	1,244	1,244	6.175%	Bullet	Quarterly	May-16
Fixed	Security Bank Corporation	250			-	250	-	250	250	6.145%	Bullet	Quarterly	May-16
		1,500	-	-	-	1,500	(6)	1,494	1,494				
SMPFC													
Fixed	China Banking Corporation	230	-	-	-	230	-	230	230	5.4885%	Bullet	Quarterly	December-15
	China Banking Corporation - Trust Group as Trustee	54	-	-	-	54	-	54	54	5.4885%	Bullet	Quarterly	December-15
	China Bank Savings, Inc. Trust as Trustee	16				16	-	16	16	5.4885%		Quarterly	December-15
	Land Bank of the Philippines	500	-	-	-	500	(6)	494	494	5.4885%	Bullet	Quarterly	December-15
		800	-	-	-	800	(6)	794	794				
SMPFC													
Floating	Bank of Commerce	204	25	-	25	179	-	179	204	PDST-R1 for 3-months plus margin	Amortized	Quarterly	September-14
	Banco de Oro Unibank, Inc.	1,500	-	-	-	1,500	(11)	1,489	1,489	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
	China Banking Corporation	1,200	-	-	-	1,200	(9)	1,191	1,191	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
	Land Bank of the Philippines	500	-	-	-	500	(4)	496	496	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
	Maybank Philippines, Inc.	500	-	-	-	500	(3)	497	497	PDST-F for 3 months plus margin	Bullet	Quarterly	December-15
		3,904	25	-	25	3,879	(27)	3,852	3,877				
Petron													
Floating	Development Bank of the Philippines	1,200	600	-	600	600	-	600	1,200	PDST-F for 3 months plus margin	Amortized	Quarterly	March-14
		83,487	15,665	(63)	15,602	67,822	(450)	67,372	82,974				

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2011
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Non Current Transaction Cost	Amount Shown as Long-term	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Foreign currency - denominated													
Domestic Subsidiairy													
SMC Global													
Fixed	DB Trustees (Hongkong) Limited	₱ 13,152	₱ -	₱ -	₱ -	₱ 13,152	₱ (140)	₱ 13,012	₱ 13,012	7%	Bullet	Semi Annual	January-16
Floating	Standard Chartered Bank (Hongkong) Limited	8,768	-	-	-	8,768	(55)	8,713	8,713	LIBOR plus agreed margin	Bullet	Quarterly	September-14
		21,920	-	-	-	21,920	(195)	21,725	21,725				
Petron													
Floating	Norddeutsche Landesbank Girozentrale	12,105	3,458	(99)	3,359	8,647	(117)	8,530	11,889	LIBOR plus agreed margin	Amortized	Quarterly	June-15
Floating	Standard Chartered Bank (Hong Kong) Limited	3,507	-	(25)	(25)	3,507	(63)	3,444	3,419	LIBOR plus agreed margin	Semi-annual	Semi-annual	November-16
		15,612	3,458	(124)	3,334	12,154	(180)	11,974	15,308				
SM Brewery													
Floating	Mizuho Corporate Bank, Ltd.	13,152	-	-	-	13,152	(246)	12,906	12,906	LIBOR plus agreed margin	Bullet	Quarterly	January-15
GSMI													
Floating	ABN AMRO	149	59	-	59	90		90	149	THBFIX plus agreed margin	Amortized	Quarterly	February-14
Floating	United Overseas Bank	149	60	(1)	59	89		89	148	THBFIX plus agreed margin	Amortized	Quarterly	February-14
		298	119	(1)	118	179	-	178	297				
		50,982	3,577	(125)	3,452	47,405	(621)	46,784	50,236				
Total Long-term Debt		**₱ 213,975**	**₱ 19,642**	**₱ (189)**	**₱ 19,453**	**₱ 194,333**	**₱ (2,366)**	**₱ 191,967**	**₱ 211,420**				

See Notes 23, 41 and 42 of the Notes to Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2011

DESCRIPTION	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED	TREASURY SHARES	NUMBER OF SHARES OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS	NUMBER OF SHARES HELD BY: RELATED PARTY	DIRECTORS, OFFICERS AND EMPLOYEES
COMMON STOCK	3,390,000,000	3,279,334,575	910,303,273	2,369,031,302	134,641,564	1,456,377,340	28,218,507
PREFERRED SHARES	1,110,000,000	970,506,353	-	970,506,353	-	86,145,265	360,109
	4,500,000,000	4,249,840,928	910,303,273	3,339,537,655	134,641,564	1,542,522,605	28,578,616

See Notes 23, 26, 36, 40 and 45 of the Notes to Consolidated Financial Statements.

SAN MIGUEL CORPORATION (Parent Only)
ACCOUNTS RECEIVABLE - NON-TRADE
AS OF DECEMBER 31, 2011
(Amounts in Millions)

		TOTAL	OVER 90 DAYS
ACCOUNTS RECEIVABLE - NON-TRADE	₱	250	250
ALLOW. FOR DOUBTFUL ACCOUNTS		(250)	
NET	₱	0	

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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, 2011 and 2010, and have issued our report thereon dated March 28, 2012, except as to Note 34, which is as of April 3, 2012.

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 accompanying 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. 3174023MA
Issued January 2, 2012 at Makati City

March 28, 2012, except as to Note 34, which is as of April 3, 2012
Makati City, Metro Manila

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, Group A, valid until December 31, 2013
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Group A, valid until December 17, 2014

SAN MIGUEL CORPORATION
No. 40 San Miguel Avenue, Mandaluyong City

SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DECLARATION
(In millions)

Unappropriated Retained Earnings, *as adjusted to available for dividend distribution, January 1, 2011*		P 61,863
Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	P 17,521	
Non-actual/unrealized income- net of tax		
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash equivalents)	(2,614)	
Unrealized marked-to-market gain	(294)	
Deferred tax asset	6,817	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS (impairment losses, inventory losses, allowance for doubtful accounts and others)	(1,957)	
	1,952	
Net income actually earned during the period		19,473
		81,336
Treasury shares		2,100
Dividend declaration during the period		(8,292)
TOTAL RETAINED EARNINGS, DECEMBER 31, 2011 AVAILABLE FOR DIVIDEND		**P 75,144**

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010, 2009 and 2008

Manabat Sanagustin & Co., CPAs
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PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-2
BSP Accredited

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, 2010 and 2009, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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, 2010 and 2009, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2010, in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO., CPAs

JORGE MA. S. SANAGUSTIN
Partner
CPA License No. 0030399
SEC Accreditation No. 0026-AR-2
Tax Identification No. 124-282-616
BIR Accreditation No. 08-001987-7-2010
Issued June 30, 2010; Valid until June 29, 2013
PTR No. 2639631MB
Issued January 3, 2011 at Makati City

March 14, 2011
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Millions)

		December 31	
	Note	**2010**	2009
ASSETS			
Current Assets			
Cash and cash equivalents	*9, 41, 42*	**P125,188**	P209,411
Trade and other receivables - net	*4, 10, 34, 41, 42*	**75,904**	49,082
Inventories	*4, 11*	**57,442**	25,458
Current portion of biological assets - net	*4, 18*	**3,267**	2,525
Prepaid expenses and other current assets	*12, 36, 41, 42*	**16,914**	8,891
		278,715	295,367
Assets held for sale	*5, 8*	**823**	2,746
Total Current Assets		**279,538**	298,113
Noncurrent Assets			
Investments and advances - net	*4, 13, 41*	**152,814**	39,005
Available-for-sale financial assets	*14, 41, 42*	**3,597**	351
Property, plant and equipment - net	*4, 16*	**308,073**	65,919
Investment properties - net	*4, 17*	**2,133**	1,867
Biological assets - net of current portion	*4, 18*	**1,479**	1,847
Goodwill - net	*4, 5, 19, 39*	**30,251**	6,408
Other intangible assets - net	*4, 5, 19*	**10,980**	3,630
Deferred tax assets	*4, 25*	**7,134**	8,883
Other noncurrent assets - net	*4, 5, 20, 36, 41, 42*	**33,801**	12,468
Total Noncurrent Assets		**550,262**	140,378
		P829,800	P438,491
LIABILITIES AND EQUITY			
Current Liabilities			
Drafts and loans payable	*21, 41, 42*	**P74,128**	P56,789
Accounts payable and accrued expenses	*22, 35, 36, 41, 42*	**69,774**	31,391
Finance lease liabilities - current portion	*35, 41, 42*	**10,946**	13
Income and other taxes payable		**10,001**	4,186
Dividends payable	*6, 37*	**826**	573
Current maturities of long-term debt - net of debt issue costs	*23, 41, 42*	**12,549**	1,077
Total Current Liabilities		**178,224**	94,029

Forward

		December 31	
	Note	**2010**	2009
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*23, 41, 42*	**P156,378**	P71,885
Deferred tax liabilities	*25*	**13,752**	12,037
Finance lease liabilities - net of current portion	*35, 41, 42*	**197,461**	17
Other noncurrent liabilities	*24, 36, 41, 42*	**17,160**	19,585
Total Noncurrent Liabilities		**384,751**	103,524
Equity	*26, 37, 38*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		**16,343**	16,150
Capital stock - preferred		**4,852**	4,852
Additional paid-in capital		**101,406**	99,085
Revaluation increment		**1,391**	18
Cumulative translation adjustments		**5,365**	5,845
Retained earnings:			
Appropriated		**5,671**	5,497
Unappropriated		**150,544**	151,911
Treasury stock		**(69,541)**	(69,541)
		216,031	213,817
Non-controlling Interests	*2*	**50,794**	27,121
Total Equity		**266,825**	240,938
		P829,800	P438,491

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(In Millions, Except Per Share Data)

	Note	**2010**	2009	2008
SALES	*34*	**P246,109**	P174,213	P168,041
COST OF SALES	*27*	**173,906**	124,295	124,072
GROSS PROFIT		**72,203**	49,918	43,969
SELLING AND ADMINISTRATIVE EXPENSES	*28*	**(37,426)**	(30,249)	(29,151)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*21, 23, 31, 35*	**(16,578)**	(7,926)	(6,032)
INTEREST INCOME	*32*	**3,023**	5,989	6,630
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES	*13*	**6,817**	2,816	(1,132)
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*13, 16, 17*	**529**	50,630	8,746
OTHER INCOME (CHARGES) - Net	*33*	**6,926**	(6,843)	(2,262)
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS		**35,494**	64,335	20,768
INCOME TAX EXPENSE	*25*	**11,438**	3,706	6,098
INCOME FROM CONTINUING OPERATIONS		**24,056**	60,629	14,670
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	*8*	**-**	-	5,413
NET INCOME		**P24,056**	P60,629	P20,083
Attributable to:				
Equity holders of the Parent Company		**P20,091**	P57,799	P19,348
Non-controlling interests		**3,965**	2,830	735
		P24,056	P60,629	P20,083
Basic Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*38*			
From Continuing Operations		**P6.18**	P19.21	P4.41
From Discontinued Operations		**-**	-	1.72
		P6.18	P19.21	P6.13
Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*38*			
From Continuing Operations		**P6.14**	P19.10	P4.40
From Discontinued Operations		**-**	-	1.71
		P6.14	P19.10	P6.11

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(In Millions)

	Note	**2010**	2009	2008
NET INCOME		**P24,056**	P60,629	P20,083
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**(653)**	521	689
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	*13*	**(422)**	252	(19)
GAIN (LOSS) ON CASH FLOW HEDGES - Net	*42*	**-**	222	(221)
INCOME TAX BENEFIT (EXPENSE)		**-**	(67)	66
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		**447**	(33)	(17)
INCOME TAX BENEFIT (EXPENSE)		**(45)**	3	2
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX		**(673)**	898	500
TOTAL COMPREHENSIVE INCOME - NET OF TAX		**P23,383**	P61,527	P20,583
Comprehensive Income Attributable to:				
Equity holders of the Parent Company		**P19,611**	P58,807	P19,314
Non-controlling interests		**3,772**	2,720	1,269
		P23,383	P61,527	P20,583

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
		Capital Stock		Additional		Cumulative Translation Adjustments			Retained Earnings					
	Note	Common	Preferred	Paid-in Capital	Revaluation Increment	Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Treasury Stock	Total		
As of January 1, 2010		**P16,150**	**P4,852**	**P99,085**	**P18**	**P5,737**	**P -**	**P108**	**P5,497**	**P151,911**	**(P69,541)**	**P213,817**	**P27,121**	**P240,938**
Loss on exchange differences on translation of foreign operations		-	-	-	-	(496)	-	-	-	-	-	(496)	(157)	(653)
Share in comprehensive loss of associates	*13*	-	-	-	-	-	-	(422)	-	-	-	(422)	-	(422)
Net gain on available-for-sale financial assets, net of tax		-	-	-	-	-	-	438	-	-	-	438	(36)	402
Other comprehensive income (loss)		-	-	-	-	(496)	-	16	-	-	-	(480)	(193)	(673)
Net income for the year		-	-	-	-	-	-	-	-	20,091	-	20,091	3,965	24,056
Total comprehensive income (loss) for the year		-	-	-	-	(496)	-	16	-	20,091	-	19,611	3,772	23,383
Issuance of capital stock	*26*	193	-	2,121	-	-	-	-	-	-	-	2,314	-	2,314
Stock options	*40*	-	-	200	-	-	-	-	-	-	-	200	-	200
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	(23)	-	-	-	-	-	-	(23)	24,877	24,854
Appropriations - net	*26*	-	-	-	-	-	-	-	174	(174)	-	-	-	-
Cash dividends	*37*													
Common		-	-	-	-	-	-	-	-	(15,584)	-	(15,584)	(4,976)	(20,560)
Preferred		-	-	-	-	-	-	-	-	(5,700)	-	(5,700)	-	(5,700)
Acquisition of subsidiary and others	*5*	-	-	-	1,396	-	-	-	-	-	-	1,396	-	1,396
As of December 31, 2010	*26*	**P16,343**	**P4,852**	**P101,406**	**P1,391**	**P5,241**	**P -**	**P124**	**P5,671**	**P150,544**	**(P69,541)**	**P216,031**	**P50,794**	**P266,825**

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total		
		Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated				
As of January 1, 2009		P16,112	P -	P31,183	P18	P4,882	(P123)	P78	P5,522	P96,298	(P4,053)	P149,917	P18,307	P168,224
Gain on exchange differences on translation of foreign operations		-	-	-	-	662	-	-	-	-	-	662	(141)	521
Share in comprehensive income of associates	*13*	-	-	-	-	193	-	59	-	-	-	252	-	252
Gain on cash flow hedges, net of tax	*42*	-	-	-	-	-	123	-	-	-	-	123	32	155
Net gain on available-for-sale financial assets, net of tax		-	-	-	-	-	-	(29)	-	-	-	(29)	(1)	(30)
Other comprehensive income (loss)		-	-	-	-	855	123	30	-	-	-	1,008	(110)	898
Net income for the year		-	-	-	-	-	-	-	-	57,799	-	57,799	2,830	60,629
Total comprehensive income for the year		-	-	-	-	855	123	30	-	57,799	-	58,807	2,720	61,527
Issuance of capital stock	*26*	38	486	6,563	-	-	-	-	-	-	-	7,087	-	7,087
Exchange of capital stock	*26*	-	4,366	61,122	-	-	-	-	-	-	(65,488)	-	-	-
Stock options	*40*	-	-	217	-	-	-	-	-	-	-	217	-	217
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	-	-	-	-	-	-	-	-	8,392	8,392
Appropriations - net	*26*	-	-	-	-	-	-	-	(25)	25	-	-	-	-
Cash dividends	*37*	-	-	-	-	-	-	-	-	(2,211)	-	(2,211)	(2,298)	(4,509)
As of December 31, 2009	*26*	P16,150	P4,852	P99,085	P18	P5,737	P -	P108	P5,497	P151,911	(P69,541)	P213,817	P27,121	P240,938

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments			Retained Earnings		Treasury Stock	Total		
		Common	Preferred			Translation Reserve	Hedging Reserve	Fair Value Reserve	Appro-priated	Unappro-priated				
As of January 1, 2008		P16,109	P -	P30,930	P18	P4,699	P -	P172	P6,034	P80,855	(P4,053)	P134,764	P11,329	P146,093
Gain on exchange differences on translation of foreign operations		-	-	-	-	183	-	-	-	-	-	183	506	689
Share in comprehensive loss of associates	*13*	-	-	-	-	-	-	(19)	-	-	-	(19)	-	(19)
Loss on cash flow hedges, net of tax	*42*	-	-	-	-	-	(123)	-	-	-	-	(123)	(32)	(155)
Net gain on available-for-sale financial assets, net of tax		-	-	-	-	-	-	(75)	-	-	-	(75)	60	(15)
Other comprehensive income (loss)		-	-	-	-	183	(123)	(94)	-	-	-	(34)	534	500
Net income for the year		-	-	-	-	-	-	-	-	19,348	-	19,348	735	20,083
Total comprehensive income (loss) for the year		-	-	-	-	183	(123)	(94)	-	19,348	-	19,314	1,269	20,583
Issuance of capital stock	*26*	3	-	-	-	-	-	-	-	-	-	3	-	3
Stock options	*40*	-	-	253	-	-	-	-	-	-	-	253	-	253
Addition to non-controlling interests	*2, 5, 6, 13*	-	-	-	-	-	-	-	-	-	-	-	6,217	6,217
Appropriations - net	*26*	-	-	-	-	-	-	-	(512)	512	-	-	-	-
Cash dividends	*37*	-	-	-	-	-	-	-	-	(4,417)	-	(4,417)	(508)	(4,925)
As of December 31, 2008	*26*	P16,112	P -	P31,183	P18	P4,882	(P123)	P78	P5,522	P96,298	(P4,053)	P149,917	P18,307	P168,224

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(In Millions)

	Note	**2010**	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax from continuing operations		**P35,494**	P64,335	P20,768
Loss before income tax from discontinued operations	*8*	**-**	-	(19)
Gain from disposal of discontinued operations	*8*	-	-	5,425
Income before income tax		**35,494**	64,335	26,174
Adjustments for:				
Depreciation, amortization and others - net	*29*	**9,457**	14,724	9,303
Interest expense and other financing charges	*31*	**16,578**	7,926	6,032
Interest income		**(3,023)**	(5,989)	(6,630)
Equity in net losses (earnings) of associates	*13*	**(6,817)**	(2,816)	1,132
Gain on sale of investments and property and equipment		**(5,020)**	(50,630)	(8,746)
Gain from disposal of discontinued operations	*8*	**-**	-	(5,425)
Operating income before working capital changes		**46,669**	27,550	21,840
Changes in noncash current assets, certain current liabilities and others	*39*	**13,112**	(1,183)	(1,291)
Cash generated from operations		**59,781**	26,367	20,549
Interest paid		**(5,155)**	(6,348)	(5,665)
Income taxes paid		**(9,312)**	(6,651)	(7,835)
Net cash flows provided by operating activities		**45,314**	13,368	7,049
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of subsidiaries, net of cash and cash equivalents acquired	*39*	**(18,978)**	(1,494)	-
Additions to investments and advances		**(99,762)**	(5,771)	(6,667)
Additions to property, plant and equipment	*16*	**(8,518)**	(6,249)	(6,437)
Decrease (increase) in other noncurrent assets and others		**1,424**	(950)	(16,010)
Payment by (advances to) related parties		**(6,070)**	3,243	31,708
Proceeds from sale of investments and property and equipment		**1,175**	55,127	13,663
Interest received		**3,798**	5,249	6,558
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	*8*	**-**	-	9,083
Net cash flows (used in) provided by investing activities		**(126,931)**	49,155	31,898

Forward

	Note	**2010**	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P685,768**	P691,093	P608,756
Long-term borrowings		**72,937**	67,786	64
Payments of:				
Short-term borrowings		**(703,376)**	(683,569)	(605,088)
Long-term borrowings		**(29,196)**	(44,657)	(13,336)
Payment of finance lease liabilities		**(4,798)**	(12)	-
Cash dividends paid	*37*	**(21,118)**	(3,301)	(4,463)
Proceeds from issuance of capital stock	*26*	**2,314**	7,087	3
Dividends paid to non-controlling shareholders		**(4,883)**	(2,192)	(393)
Increase in non-controlling interests		**126**	315	592
Net cash flows provided by (used in) financing activities		**(2,226)**	32,550	(13,865)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(380)**	(2,601)	(1,424)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(84,223)**	92,472	23,658
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**209,411**	116,939	93,281
CASH AND CASH EQUIVALENTS AT END OF YEAR	*9*	**P125,188**	P209,411	P116,939

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

San Miguel Corporation (SMC or Parent Company) was incorporated in the Philippines. The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange (PSE). The Group is 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.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 14, 2011.

2. Basis of Preparation

Basis of Measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale (AFS) financial assets are measured at fair value;
- defined benefit asset is measured as the net total of the fair value of the plan assets, less unrecognized actuarial gains and the present value of the defined benefit obligation; and
- agricultural produce are measured at fair value less estimated costs to sell at the point of harvest.

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All values are rounded off to the nearest million (P000,000), except when otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

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
	2010	2009	Incorporation
Beverage Business:			
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) [(a)] and subsidiary, Brewery Landholdings, Inc. (BLI) and San Miguel Brewing International Ltd. (SMBIL) [(b)] and subsidiaries {including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, PT Delta Djakarta Tbk (PT-Delta) and subsidiaries, San Miguel (Baoding) Brewery Co. Ltd., San Miguel Brewery Vietnam Ltd. (SMBV), San Miguel Beer (Thailand) Ltd. (SMBTL) and San Miguel Marketing Thailand Ltd.}]	**51.00**	51.00	Philippines
Ginebra San Miguel, Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc. and Ginebra San Miguel International, Ltd. (GSMIL), Ginebra San Miguel International Holdings Ltd. (GSMIHL), Global Beverage Holdings Ltd. (GBHL) and Siam Holdings Ltd. (SHL)]	**78.00**	79.53	Philippines
San Miguel Foods and Beverage International Limited (SMFBIL) and subsidiaries [including PT San Miguel Indonesia Foods & Beverages (PTSMIFB), San Miguel (Thailand) Co. Ltd., San Miguel (Guangdong) Foods & Beverages Co. Ltd., San Miguel (Vietnam) Co. Ltd., PT San Miguel Marketing Indonesia, and San Miguel (Malaysia) Sdn. Bhd.]	**100.00**	100.00	BVI
Food Business:			
San Miguel Pure Foods Company, Inc. (SMPFC) and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. (SMMI), The Purefoods-Hormel Company, Inc., Magnolia Inc. (Magnolia), San Miguel Super Coffeemix Co., Inc. (SMSCCI), P.T. San Miguel Pure Foods Indonesia (PTSMPFI) [(c)] and San Miguel Pure Foods International, Limited (SMPFIL) and subsidiary, San Miguel Pure Foods Investment (BVI) Limited (SMPFI) and subsidiary, San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN)]	**99.92**	99.92	Philippines
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiary, San Miguel Yamamura Fuso Molds Corporation	**65.00**	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Co. Ltd., Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Co. Ltd., San Miguel Yamamura Utama Indoplas, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Plastic Films Sdn. Bhd. and San Miguel Yamamura Knox Pty. Ltd. (SMYK) [(d)] and subsidiaries]	**65.00**	65.00	BVI
Mindanao Corrugated Fibreboard, Inc. (Mincorr) [(c)]	**100.00**	100.00	Philippines
San Miguel Paper Packaging Corporation (SMPPC) [(c)]	**100.00**	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	**60.00**	60.00	Philippines

Forward

	Percentage of Ownership		Country of
	2010	2009	Incorporation
Power Generation and Distribution Business:			
SMC Global Power Holdings Corp. (SMC Global) [(e)] and subsidiaries [including Strategic Power Devt. Corp. (SPDC), San Miguel Energy Corporation (SMEC), Panasia Energy Holdings Inc. (PanAsia) and South Premiere Power Corp. (SPPC)]	**100.00**	-	Philippines
Fuel and Oil Business:			
Sea Refinery Corporation (SRC) and subsidiary, Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation, Petron Singapore Trading Pte. Ltd., and New Ventures Realty Corporation and subsidiary, Las Lucas Construction & Development Corporation] [(f)]	**100.00**	-	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. (SMHC) and subsidiaries [including Rapid Thoroughfares Inc. (Rapid), Trans Aire Development Holding Corp. (TADHC) [(c, g)], Universal LRT Corporation (BVI) Limited (ULC BVI) [(c, h)] and subsidiaries]	**100.00**	100.00	Philippines
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC), Power Smart Capital Limited (PSCL) and A.G.N. Philippines, Inc. (AGNP)] [(i)]	**100.00**	100.00	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) and subsidiaries [including SMPI-Government Service Insurance System Joint Venture Corporation (SMPI-GSIS JVC) and Integrated Geosolutions, Inc. (IGI)] [(c)]	**99.68**	99.68	Philippines
Others:			
SMC Stock Transfer Service Corporation	**100.00**	100.00	Philippines
ArchEn Technologies, Inc.	**100.00**	100.00	Philippines
SMITS, Inc. [(c)] and subsidiary	**100.00**	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	**58.33**	58.33	Philippines
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiary	**70.00**	70.00	Philippines
Challenger Aero Air Corp.	**100.00**	100.00	Philippines
Philippine Breweries Corporation (PBC)	**99.52**	99.52	Philippines
Pacific Central Properties, Inc. (PCPI)	**100.00**	100.00	Philippines

(a) Parent Company owned 40% of BPI and SMBRP owned 60% of BPI when the increase in capital stock (including the assignment of the land in exchange for the common shares and assignment of BLI shares in exchange for the preferred shares) was approved by SEC on September 10, 2009. Consolidated to SMB in November 10, 2010 (Note 6).

(b) Consolidated to SMB effective January 29, 2010.

(c) The financial statements of these subsidiaries were audited by other auditors.

(d) Consolidated to SMYPIL effective December 17, 2009. JHK Investments was renamed "San Miguel Yamamura Knox Pty. Ltd." in February 2010.

(e) Formerly Global 5000 Investment Inc. Consolidated effective July 31, 2010.

(f) Consolidated effective December 15, 2010.

(g) Formerly Caticlan International Airport Development Corp. (CIADC). Consolidated to SMHC effective April 8, 2010.

(h) Consolidated to SMHC effective November 8, 2010.

(i) TCCI, PHC, and PSCL were consolidated to Vega effective July 30, 2010. AGNP was consolidated to Vega effective December 30, 2010.

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, SMBHK, PT-Delta, SMBV, SMBTL, GSMI, PTSMIFB, SMPFC, PTSMPFI, SMPFI, SMYPC, SMYPIL, SMYAC, SMPI, AIBC, SMCSLC, PBC in 2010 and 2009 and also Petron, TADHC, ULC BVI, SMPI-GSIS JVC and IGI in 2010.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS. Accordingly, the Group changed its accounting policies in the following areas:

Adopted Effective 2010

The Group has adopted the following PFRSs starting January 1, 2010:

- Revised PFRS 3, *Business Combinations* (2008), effective for annual periods beginning on or after July 1, 2009, incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
  - Any non-controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The Group has applied Revised PFRS 3 (2008) in the acquisitions of SMC Global, SRC, TADHC, ULC BVI, TCCI, PHC, PSCL, AGNP and IGI (Notes 5 and 13).

- Revised PAS 27, *Consolidated and Separate Financial Statements* (2008), effective for annual periods beginning on or after July 1, 2009, requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss.

  The Group has applied the Revised PAS 27 to acquisitions of non-controlling interests in SMC Global (Note 5).

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items, assessing hedge effectiveness, and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009. The adoption of these amendments to standards did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The interpretation is effective for annual periods beginning on or after July 1, 2009. The adoption of this Philippine Interpretation did not have a material effect on the consolidated financial statements.

- *Improvements to PFRSs 2008* - Amendments to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of PFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary. Disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. The amendments are effective for annual periods beginning on or after July 1, 2009. The adoption of these improvements to standard did not have a material effect on the consolidated financial statements.

- Amendments to PFRS 2, *Share-based Payment*: *Group Cash-settled Share-based Payment Transactions*, clarify the scope of PFRS 2, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled; and the interaction of PFRS 2 and other standards, that in PFRS 2, a "group" has the same meaning as in PAS 27, that is, it includes only a parent and its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2010. The adoption of these amendments to standards did not have a material effect on the consolidated financial statements.

- *Improvements to PFRSs 2009*, contain 15 amendments to 12 standards. The improvements are generally effective for annual periods beginning on or after January 1, 2010. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the consolidated financial statements of the Group:

  - PFRS 2 and PFRS 3 (2008). The amendments clarify that business combinations as defined in PFRS 3 (2008) are outside the scope of PFRS 2, notwithstanding that they may be outside the scope of PFRS 3 (2008). Therefore business combinations among entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under PFRS 2.

  - PAS 38, *Intangible Assets*. The amendments clarify that (i) an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognized separately from goodwill together with the related item; and (ii) complementary intangible assets with similar useful lives may be recognized as a single asset. The amendments also describe valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists.

  - Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*. The International Accounting Standards Board (IASB) amended the scope of IFRIC 9 so that embedded derivatives in contracts acquired in business combinations as defined in PFRS 3 (2008), joint venture formations and common control transactions remain outside the scope of IFRIC 9.

  - Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*. The amendments remove the restriction that prevented a hedging instrument from being held by a foreign operation that itself is being hedged.

  - PFRS 5. The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in PFRS 5.

  - PFRS 8, *Operating Segments*. The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.

  - PAS 1, *Presentation of Financial Statements*. The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.

  - PAS 7, *Statement of Cash Flows*. The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.

  - PAS 17, *Leases*. The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 - 13 of PAS 17, taking account of the fact that land normally has an indefinite economic life.

- PAS 36, *Impairment of Assets*. The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in PFRS 8 before applying the aggregation criteria of PFRS 8.

- PAS 39. The amendments provide: (i) additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; (ii) clarify that the scope exemption in PAS 39 paragraph 2 (g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (iii) clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

Additional disclosures required by the revised standards and improvements were included in the consolidated financial statements, where applicable.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

The Group will adopt the following new or revised standards, amendments to standards and interpretations in the respective effective dates:

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).* These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRSs 2010* contain 11 amendments to 6 standards and 1 interpretation, of which only the following are applicable to the Group.

  - PFRS 3. The amendments: (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (ii) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (iii) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted and is required to be disclosed.

  - PAS 27. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates,* and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010.

  - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.

  - PAS 1. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.

  - PAS 34, *Interim Financial Reporting.* The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.

  - Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011.

None of the above amendments are expected to have a significant effect on the consolidated financial statements of the Group.

- 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 interpretation is effective for annual periods beginning on or after January 1, 2012.

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) - 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC - 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.

- PFRS 9, *Financial Instruments* (2009) was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. In October 2010, a new version of PFRS 9, *Financial Instruments* (2010) was issued which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments*, which will be mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets.

The Group will assess the impact of the new or revised standards, amendments to standards and interpretations on the consolidated financial statements upon adoption on their respective effective dates.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction costs.

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there is no significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which are not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial Assets

Financial Assets at FVPL. A financial asset is classified at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in equity. Any interest earned shall be recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as FVPL shall be recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets and financial assets at FVPL are classified under this category (Notes 12 and 42).

The combined carrying amounts of financial assets under this category amounted to P442 and P202 as of December 31, 2010 and 2009, 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 integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables and deposits are included in this category (Notes 9, 10 and 20).

The combined carrying amounts of financial assets under this category amounted to P225,875 and P264,426 as of December 31, 2010 and 2009, respectively (Note 42).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2010 and 2009, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity securities included under "Available-for-sale financial assets" account are classified under this category (Note 14).

The carrying amounts of financial assets under this category amounted to P3,597 and P351 as of December 31, 2010 and 2009, respectively (Note 42).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in equity. Any interest expense incurred shall be recognized as part of "Interest expense" in the consolidated statements of income.

The Group's derivative liabilities are classified under this category (Notes 22 and 42).

The carrying amounts of financial liabilities under this category amounted to P71 and P111 as of December 31, 2010 and 2009, respectively (Note 42).

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

Included in this category are the Group's liabilities arising from its trade or borrowings such as drafts and loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities (Notes 21, 22, 23, 24 and 35).

The combined carrying amounts of financial liabilities under this category amounted to P536,828 and P179,882 as of December 31, 2010 and 2009, 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 expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

As of December 31, 2010 and 2009, the Group has no outstanding derivatives accounted for as fair value hedges.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in equity. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is recognized in profit or loss.

As of December 31, 2010 and 2009, the Group has no outstanding derivatives accounted for as cash flow hedges.

Net Investment Hedge. As of December 31, 2010 and 2009, the Group has no hedge of a net investment in a foreign operation.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derecognition of Financial Assets and Financial Liabilities
Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses at reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

Classification of Financial Instruments Between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories

Finished goods, goods in process and materials and supplies are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and conditions are accounted for as follows:

Finished goods and goods in process	-	at cost which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; cost of goods in process includes unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Petroleum products (except lubes and greases, waxes and solvents), crude oil, and other products	-	at cost which includes duties and taxes related to the acquisition of inventories; costs are determined using the first-in, first-out method.
Lubes and greases, waxes and solvents	-	at cost which includes duties and taxes related to the acquisition of inventories; costs are determined using the moving-average method.
Materials, supplies and others	-	at cost using the moving-average method.
Coal	-	at cost using the first-in, first-out method.

Net realizable value of finished goods and goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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 is the current replacement cost.

Containers (i.e., returnable bottles and shells) are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented under deferred containers included under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

Biological Assets and Agricultural Produce

The Group's biological assets include breeding, growing poultry livestock, hogs and cattle and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

Growing hogs, cattle and poultry livestock and goods in process are carried at accumulated cost while breeding stocks are carried at accumulated cost net of amortization and any impairment in value. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets have no active market and no active market for similar assets prior to point of harvest are available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs, efficiency values, production) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result 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:

	Number of Years
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Business Combination

Acquisitions on or after January 1, 2010

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

For acquisitions on or after January 1, 2010, the Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8.

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 Asset 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 intangible asset is assessed to be either finite or indefinite.

  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 available-for-sale financial asset depending on the level of influence retained.

Acquisitions Prior to January 1, 2010
In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs.

The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Transactions Under Common Control

Transactions under common control entered into in contemplation of each other, and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

Non-controlling Interests

For acquisitions of non-controlling interests on or after January 1, 2010, the acquisitions are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting from the date when it becomes an associate. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition. The Group's share of the profit or loss of the associate is recognized in the Group's profit or loss. Dividends received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount, may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognized in other comprehensive income.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized.

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Upon acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3. Consequently:

a. goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investment in an associate is reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The financial statements of the associates are prepared for the same reporting period as the Parent Company. The accounting policies of the associates conform to those used by the Group for like transactions and events in similar circumstances.

Interest in Joint Venture

The Group generally recognizes its interest in joint venture using proportionate consolidation. The Group combines its share in each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The joint venture is proportionately consolidated until the date when the Group ceases to have joint control over the joint venture.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO) and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	3 - 43
Refinery and plant equipment	5 - 16
Service stations and other equipment	1 1/2 - 10
Machinery and equipment	3 - 40
Transportation equipment	5 - 7
Tools and small equipment	2 - 5
Office equipment, furniture and fixtures	2 - 10
Molds	2 - 5
Leasehold improvements	5 - 50 or term of the lease, whichever is shorter

The remaining useful lives, residual values, depreciation and amortization method are reviewed and adjusted, if appropriate, periodically to ensure that such periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization are recognized in profit or loss.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Investment Properties

Investment properties consist of properties held to earn rentals and/or for capital appreciation. Investment properties, except for land, are measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	5 - 50
Machinery and equipment	3 - 40
Tools and small equipment	2 - 5

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at each financial year-end.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-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 sale.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. 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 expenditure is recognized in profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset 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 financial year-end. 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 on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Computer software	2 - 8
Service concession rights	25
Mining rights	19 - 30
Leasehold rights	20 or term of the lease, whichever is shorter
Land use rights	25 - 50 or term of the lease, whichever is shorter

The Group assessed the useful life of licenses, trademarks and brand names to be indefinite because based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Licenses, 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 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 the provisions of the 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 constructs or acquires 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 upgrades 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 percentage 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 it must fulfill as a condition of its license (a) maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e. at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Intangible Asset - Service Concession Rights

The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value of the construction services. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

This includes the service concession right granted by the ROP to the Group to operate the Caticlan Airport, as expressly stated in the CA (Note 35). This includes the right to design and finance the development of the Caticlan Airport and operate and maintain the airport during the concession period. Except for the position that relates to the annual fee as defined in the CA, the right is earned and recognized by the Group as the project progresses. This also includes the present value of the obligation to pay the annual franchise fee to the ROP over the concession period (Note 4).

The intangible asset - service concession right is amortized using the straight-line method over the estimated useful economic life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The service concession period is 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. 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.

Gains or losses from derecognition of an intangible asset - service concession right 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.

Deferred Exploration and Evaluation Costs

Deferred exploration and evaluation costs comprise expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and evaluation costs also include expenditures incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest, 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 evaluation costs are transferred to property and equipment under mine development costs.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, investment properties, containers, biological assets, other intangible assets with finite useful lives and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cylinder Deposits

The liquefied petroleum gas cylinders remain the property of the Group and are loaned to dealers upon payment by the latter of an equivalent 100% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting period, cylinder deposits, shown under "Other noncurrent liabilities - others" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is credited directly to profit or loss.

Provisions

Provisions are recognized when the Group has: a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or b) a present obligation that arises from past events but is not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and those 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 Caticlan Airport at a serviceability level acceptable to the ROP through continuous maintenance and restoration prior to turnover to the ROP at the end of the concession period.

Share Capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares
Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Treasury Shares
Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sales. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery and the amount of revenue can be measured reliably.

Agricultural Produce. Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at point of harvest.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized if the Group disposes of its investment in a subsidiary or associate. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Rent. Revenue from investment properties is recognized on a straight-line basis over the term of the lease. Rent income is included as part of other income.

Cost and Expense Recognition
Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Share-based Payment Transactions

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 expense recognized for share-based payment transactions, at each reporting date until the vesting date reflects the extent to which the vesting period has expired and 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;
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in profit or loss.

Capitalized lease assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease
Group as Lessee. Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Research and Development Costs
Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Retirement Costs
The Parent Company and majority of its subsidiaries have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains and losses, effect of asset limit and effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to the plan, past service cost is recognized immediately as an expense. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of

the previous reporting year exceed the greater of 10% of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The transitional liability as of January 1, 2005, the date of adoption of PAS 19, *Employee Benefits*, is recognized as an expense over five years from date of adoption.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service costs not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the resulting asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan, net actuarial losses of the current period and past service costs of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service costs of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service costs of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service costs of the current period are recognized immediately.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS equity investments, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates at the reporting dates.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve ("Translation reserve") in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate 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 equity.

Taxes
Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, the assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and

then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property 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 or distribution and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets, property, plant and equipment and investment property once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Discontinued Operations

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative consolidated statements of income are re-presented as if the operation had been discontinued from the start of the comparative period and show the results of discontinued operation separate from the results of continuing operation.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the Parent Company's ESPP and LTIP, respectively, which are assumed to be exercised at the date of grant.

Where the effect of the assumed conversion of shares issuable to employees and executives under the Parent Company's stock purchase and option plans would be anti-dilutive, diluted EPS is not presented.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 7 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchase between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's consolidated financial position at reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Finance Lease - Company in the Group as Lessee. In accounting for its Independent Power Producer (IPP) Administration Agreements with Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPP Administration Agreement is an agreement that contains a lease. In addition, TSML and TGT, the Group's joint venture in Thailand entered into lease agreements with 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 and transportation equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants and transportation equipment and finance lease liabilities at the present value of the agreed monthly payments (Notes 16 and 35).

Finance lease liabilities recognized in the consolidated statement of financial position amounted to P208,407 and P30 as at December 31, 2010 and 2009, respectively (Note 35). The carrying amount of power plants and transportation equipment under finance lease amounted to P209,301 and P30 as of December 31, 2010 and 2009, respectively (Note 16).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements as either a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent expense charged to profit or loss amounted to P1,795, P2,120 and P1,796 in 2010, 2009 and 2008, respectively (Notes 27, 28 and 35).

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement (CA) with the Republic of the Philippines (ROP), significant judgment was applied to determine the most appropriate accounting policy to use. Management used Philippine Interpretation IFRIC 12, as guide and determined that the CA is within the scope of the interpretation since it specifically indicated that ROP will regulate what services the Group must provide and at what price those will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the CA, will be transferred to the ROP. Reference was made to the terms of the CA in determining the consideration receivable from the ROP in exchange for the fulfillment of the Group's obligations under the CA.

Management determined that the consideration receivable is an intangible asset in the form of a license to operate the Caticlan Airport; i.e. license to charge fees to users. Judgment was further exercised by management in determining the components of the cost of acquiring the right. Further reference to the terms of the CA (Note 35) was made to determine such costs and it identified the following as the components: (i) total Project cost; (ii) present value of total franchise fees over 25 years amounting to P8 per year; and, (iii) present value of IRO.

Management also exercised judgment in determining the timing and manner of recognition of these costs. Project cost is recognized as part of intangible assets as the construction progresses (Note 19). It used the cost to cost method as it believes that the actual cost of construction is most relevant to the amount that should be recognized as cost of the intangible asset at the end of every reporting period as opposed to the other percentage of completion approach.

The present value of the IRO is recognized as part of intangible assets upon completion of the Project and amortized simultaneously with the cost related to the Project because only at that time would significant maintenance of the Caticlan Airport also commence. However, since the Group has already started the maintenance of the existing Caticlan Airport which is currently being rehabilitated, the entire present value of the annual fees have already been recognized in construction in progress - service concession arrangements and portion of which representing the actual amount incurred in the current year for the maintenance of the Caticlan Airport have been recognized as part of the cost of intangible assets and also subjected to amortization.

The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Caticlan Airport during the last quarter of 2010. Consequently, management has also started amortizing the related value of the intangible asset.

Difference in judgment with respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Assumption of Profit Margin on the Service Concession Project. The Group did not assume any profit margin for the Project as it believes that the fair value of the intangible asset related to it reasonably approximates the cost of the Project. It believes that the margin of its contractors is enough to cover any difference in the fair value and carrying amount.

Classification of Redeemable Preferred Shares. Based on the features of the preferred shares, particularly mandatory redemption that TADHC issued, management determined that the shares are in substance a financial liability. Accordingly, it was classified as part of "Other noncurrent liabilities" account in the 2010 consolidated statements of financial position (Note 24).

Accounting for SMPI's Investment in SMPI-GSIS JVC. Under normal circumstances, the Group would account for its investment in a joint venture classified as jointly controlled entity using proportionate consolidation. In the recently consummated joint venture of SMPI with GSIS, however, significant judgment was exercised to determine whether SMPI's interest in the joint venture should be accounted for as jointly controlled entity under PAS 31 or as a subsidiary under PAS 27. After considering the salient provisions of the Joint Venture Agreement (JVA), particularly, with respect to the option granted by SMPI to GSIS, i.e. GSIS to sell to SMPI its whole ownership interest in SMPI-GSIS JVC (the "Put Option") at a pre-determined exercise price at different dates, management concluded that it is most appropriate to account for the investment as a subsidiary. The main factor considered by management was the potential voting rights brought about by the Put Option which gives SMPI control over the SMPI-GSIS JVC once exercised (Note 35). At present, although SMPI owns 52% of SMPI-GSIS JVC, the JVA clearly specified joint control of the entity but such was without due consideration to the Put Option yet; hence the SMPI-GSIS JVC was consolidated in the Group's financial statements.

Determining Fair Values of Financial Instruments. Where the fair values of financial assets and financial liabilities recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

Contingencies. The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its

consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 45).

Estimates

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 P4,519 and P2,729 as of December 31, 2010 and 2009, respectively. The carrying amounts of trade and other receivables amounted to P75,904 and P49,082 as of December 31, 2010 and 2009, 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 reporting date to the extent that such events confirm conditions existing at reporting date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The allowance for inventory losses amounted to P1,297 and P1,149 as of December 31, 2010 and 2009, respectively. The carrying amounts of inventories amounted to P57,442 and P25,458 as of December 31, 2010 and 2009, 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 transactions and reporting date. Costs to sell are estimated based on most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest.

Unrealized gain on fair valuation of agricultural produce included in the cost of inventories as of December 31, 2010 and 2009 amounted to P41 and P63, respectively (Note 11).

Financial Assets and Financial Liabilities. The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair value of financial assets and financial liabilities are discussed in Note 42.

Estimated Useful Lives of Investment Properties, Containers and Property, Plant and Equipment. The Group estimates the useful lives of investment properties, containers and property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, containers and property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of investment properties, containers and property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of investment properties, containers and property, plant and equipment would increase recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Accumulated depreciation and amortization of investment properties and property, plant and equipment amounted to P96,410 and P56,714 as of December 31, 2010 and 2009, respectively. Property, plant and equipment, net of accumulated depreciation and amortization amounted to P319,790 and P73,892 as of December 31, 2010 and 2009, respectively (Note 16). Investment properties, net of accumulated depreciation amounted to P2,524 and P2,263 as of December 31, 2010 and 2009, respectively (Note 17). Deferred containers net of accumulated amortization included under "Other noncurrent assets" account in the consolidated statements of financial position amounted to P4,420 and P4,446 as of December 31, 2010 and 2009, respectively (Note 20).

Fair Value of Investment Properties. The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be exchanged between a willing buyer and seller in an arm's length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment properties amounted to P3,129 and P2,886 as of December 31, 2010 and 2009, 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 P3,544 and P1,433 as of December 31, 2010 and 2009, respectively (Note 19).

Estimated Useful Lives of Intangible Asset - Service Concession Rights. The Group estimates the useful lives of intangible assets arising from service concessions based on the period over which the assets are expected to be available for use, which is 25 years. The Group has not included any renewal period on the basis of uncertainty as of reporting date of the probability of securing renewal contract at the end of the original contract term.

Impairment of Goodwill, Trademarks, Licenses, and Brand Names and Formulas and Recipes with Indefinite Lives. The Group determines whether goodwill, trademarks, licenses, and brand names and formulas and recipes are impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated and the value in use of the trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill as of December 31, 2010 and 2009 amounted to P30,251 and P6,408, respectively (Note 19).

The carrying amounts of trademarks, licenses and brand names and formulas and recipes amounted to P7,436 and P2,197 as of December 31, 2010 and 2009, respectively (Note 19).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recognized at the date of acquisition at their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets, 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.

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, 2010. 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 recoverable amounts as of December 31, 2010.

Deferred exploration and development costs included in "Other noncurrent assets - others" in the consolidated statements of financial position amounted to P41 as of December 31, 2010 (Note 20). There were no impairment losses recognized for the year ended December 31, 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 P7,134 and P8,883 as of December 31, 2010 and 2009, 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, containers, biological assets, intangible asset - service concession rights, other intangible assets with finite useful lives and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses of property, plant and equipment and investment properties amounted to P12,108 and P8,369 as of December 31, 2010 and 2009, respectively. The aggregate amount of investments and advances, AFS financial assets, property, plant and equipment, investment properties, biological assets, intangible assets - service concession rights and other intangible assets with finite useful lives, containers, and idle assets, amounted to P479,496 and P117,628 as of December 31, 2010 and 2009, respectively (Notes 13, 14, 16, 17, 18, 19 and 20).

Present Value of Defined Benefit Obligation. The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 36 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligations.

The Group has a net cumulative unrecognized actuarial gain amounting to P25,846 and P3,271 as of December 31, 2010 and 2009, respectively (Note 36).

Present Value of Obligation Under a Put Option. In estimating the obligation, significant assumptions were made by management, such as the period in which the option would be exercised and the discount rate appropriate to determine the present value of such obligation. Management assumed that the option will be exercised within the next 12 months from the reporting date. Accordingly, the Group used a risk-free rate of 3.9% based on the Group's ordinary and short-term borrowing arrangements.

Management believes that the Group's estimated obligation arising from the Put Option is reasonable; however, subsequent changes in assumptions or circumstances may potentially result in significant increase or decrease in the obligation under the Put Option. Should there be changes in assumptions or circumstances and the amount of the estimated obligation will be recognized by the Group prospectively.

As of December 31, 2010, the estimated obligation of the Group under a Put Option arrangement, amounts to P386 (Note 22).

Asset Retirement Obligation. The Group has an ARO arising from leased service stations and depots. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO, by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.81% to 11.17% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group also has an ARO arising from its refinery. However, such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of fair value cannot be determined. Thus, the ARO included under "Other noncurrent liabilities" account in the consolidated statements of financial position amounting to P815 as of December 31, 2010, covers only the Group's leased services stations and depots (Note 24).

Present Value of Annual Franchise Fee and IRO - Service Concession Arrangements. Almost the entire amount of recognized intangible asset - service concession rights as of December 31, 2010 pertains to the present value of annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in construction in progress - service concession arrangements until the completion of the Project.

The present value of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate. The carrying amount of present value of annual franchise fee already recognized in the intangible asset and carrying amount of IRO recognized in construction in progress - service concession arrangements are presented in Notes 19 and 20. A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect on profit or loss.

Amortization of Intangible Asset - Service Concession Rights. Management used 25 years to amortize portion of the intangible asset, together with the portion representing maintenance costs already incurred and recognized as intangible asset - service concession rights (Note 19).

Percentage of Completion - Service Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total Project cost. The Group reviews and revises when necessary the estimate of Project cost as it progresses to appropriately adjust the amount construction revenue recognized at the end of each reporting period (Note 20).

5. Business Combinations and Asset Acquisitions

Business Combinations:

Power and Mining

- SMEC

  On October 26, 2009, SMEC's BOD approved the subscription by the Parent Company and Global 5000 Investment Inc. (SMC Global) (now named SMC Global Power Holdings Corp. as approved by the Securities and Exchange Commission (SEC) on October 15, 2010) of 15,000 and 60,000 shares, respectively, of SMEC's remaining unissued capital stock.

  The Parent Company, on November 16, 2009, and SMC Global, on November 17, 2009, executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SMEC. Prior to the subscription, the Parent Company beneficially owned the 25,000 subscribed common stock of SMEC representing 100% ownership interest. On November 26, 2009, the Parent Company paid in full its remaining unpaid subscription to the 24,995 common shares of stock in SMEC amounting to P1.835.

  With the new subscription, SMC Global owned an aggregate of 60% equity ownership interest in SMEC, while the Parent Company retained an aggregate of 40% equity ownership interest in SMEC.

Mining Companies

Sultan Energy Phils. Corp. (SEPC)
On May 13, 2010, SMEC acquired 100% ownership interest in SEPC, which has a coal mining property and right over an aggregate area of 7,000 hectares, more or less composed of 7 coal blocks located in Lake Sebu, South Cotabato and Sen. Ninoy Aquino, Sultan Kudarat covered by Coal Operating Contract (COC) No. 134 with the Department of Energy (DOE) dated February 23, 2005. SEPC has an In-situ coal resources (measured plus indicative coal resources) of about 55 million metric tons based on exploratory drilling conducted by SEPC and confirmatory drilling conducted by an independent geologists from March 13 to April 19, 2010.

Daguma Agro Minerals, Inc. (DAMI)
On January 29, 2010, SMEC acquired 100% ownership interest in DAMI, a coal mining company with coal property covered by COC No. 126 with the DOE, dated November 19, 2002, located in Barangay Ned, Lake Sebu, South Cotabato consisting of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 95 million metric tons based on exploratory drilling conducted by DAMI and additional in-fill drilling being conducted by independent geologists which commenced last May 13, 2010.

Bonanza Energy Resources, Inc. (BERI)
On January 29, 2010, SMEC acquired BERI, a mining company with coal property covered by COC No. 138 with the DOE dated May 26, 2005. COC No. 138 is located in Maitum, Sarangani Province and Barangay Ned, Lake Sebu, South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 5 million metric tons based on initial exploratory drilling conducted by SMEC geologists in Maitum, Saranggani during the period from May to July 2010. The exploratory drilling to be conducted on 4 coal blocks of BERI located in Barangay Ned, Lake Sebu Municipality is projected to contain 30 million metric tons based on a geological setting and initial exploratory drilling conducted in Maitum.

The coal operating contracts met the contractual/legal criterion and qualified as intangible assets under PFRS 3.

On February 9, 2009, March 26, 2008 and December 15, 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of SEPC, DAMI and BERI, respectively.

As of December 31, 2010, SEPC, DAMI and BERI are in the exploratory stages of their mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations included as part of "Other noncurrent assets - others" account in the statements of financial position (Note 20).

The Group had not identified any facts and circumstances which suggest that the carrying amounts of the deferred exploration and development costs exceeded recoverable amounts as of December 31, 2010.

The following summarizes the recognized amounts of assets acquired and liabilities assumed from SEPC, DAMI and BERI at the acquisition date:

	2010
Assets	
Other receivables	P1
Deferred exploration and development costs	72
Other intangible assets - mining rights	81
Liabilities	
Accounts payable and accrued expenses	(8)
Due to related parties	(47)
Total identifiable net assets at fair value	P99

Mining rights were recognized as a result of the acquisition as follows:

	Note	2010
Total cash consideration transferred		P1,818
Total identifiable net liabilities at fair value		(99)
Other intangible asset - mining rights	*19, 39*	P1,719

- SPDC

  On February 11, 2010, SPDC's BOD approved the subscription by the Parent Company and SMC Global of 1,500 and 6,000 shares, respectively, of SPDC's remaining unissued capital stock.

  On March 15, 2010, the Parent Company and SMC Global executed the Subscription Agreement setting forth their aforementioned subscription of the remaining unissued capital stock of SPDC. Prior to the subscription, the Parent Company beneficially owned the 2,500 subscribed common stock of SPDC, representing 100% ownership interest. On March 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPDC amounting to P0.1875.

  With the new subscription, SMC Global owned an aggregate of 60% equity ownership interest in SPDC, while the Parent Company retained an aggregate of 40% equity ownership interest in SPDC.

- PanAsia

  On November 3, 2009, as part of the corporate restructuring of the Parent Company's power and energy business cluster, PanAsia became a direct wholly-owned subsidiary of the Parent Company as a result of SMEC's sale of its 100% equity ownership interest in PanAsia in favor of the Parent Company for P2.5.

- SPPC

  On May 19, 2010, the Parent Company paid in full its remaining unpaid subscription to the 2,495 common shares of stock in SPPC amounting to P0.1875.

- SMC Global

  On August 9, 2010, the Parent Company obtained control of SMC Global by acquiring 75% of the shares and voting interests therein.

From the date of acquisition, SMC Global has contributed revenue of P25,665 and profit of P8,230 to the Group's results.

The Group has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P2,699
Trade and other receivables	5,578
Inventories	893
Prepaid expenses and other current assets	556
Investments and advances - net	12,824
Property, plant and equipment - net	140,260
Deferred tax assets	36
Other noncurrent assets - net	1,367
Liabilities	
Accounts payable and accrued expenses	(4,194)
Income and other taxes payable	(1,261)
Deferred tax liabilities	(225)
Other noncurrent liabilities	(148,226)
Total identifiable net assets at fair value	P10,307

The fair value of the trade and other receivables amounts to P5,578. None of the receivables has been impaired and it is expected that the full amount can be collected.

Bargain purchase gain, which was presented as part of "Other income (charges)" in the consolidated statement of income, was recognized as a result of the acquisition as follows:

	Note	2010
Total cash consideration transferred		P3,240
Non-controlling interest measured at proportionate interest in identifiable net assets		2,577
Total identifiable net assets at fair value		(10,307)
Bargain purchase gain	*33*	(P4,490)

Acquisition of Non-controlling Interests
On September 3 and 8, 2010, the Parent Company acquired the remaining 25% ownership in SMC Global, making it a wholly-owned subsidiary. A cash consideration of P1,080 was paid to 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" 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 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.

Fuel and Oil

- SRC and Petron

The Parent Company entered into an option agreement with SEA Refinery Holdings B.V. (SEA BV) (the "Option Agreement") dated December 24, 2008, as amended on March 4, 2010, pursuant to which SEA BV granted to the Parent Company an option to acquire and purchase up to 100% of its interests in SEA BV's wholly-owned subsidiary, SRC, consisting of: (i) 16,000,000 common shares of SRC, representing 40% of the outstanding common shares of SRC on or before April 30, 2010; and (ii) 24,000,000 common shares of SRC, representing 60% of the outstanding common shares of SRC on or before December 23, 2010. SRC owns 4,696,885,564 common shares of Petron (representing approximately 50.1% of the outstanding common shares of Petron). The Parent Company conducted a tender offer as a result of its intention to exercise the option to acquire 100% of SRC from SEA BV. The tender offer period ended on June 2, 2010 and a total of 184,702,538 Petron common shares tendered were crossed at the PSE on June 8, 2010, which is equivalent to approximately 1.97% of the issued and outstanding common shares of Petron.

On June 15, 2010, the Parent Company executed the Deed of Absolute Sale for the purchase of the 16,000,000 common shares of SRC from SEA BV.

On August 31, 2010, the Parent Company purchased an additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE. Said shares comprise approximately 16.19% of the outstanding common shares of Petron.

On October 18, 2010, the Parent Company also acquired from the public a total of 530,624 common shares of Petron, representing approximately 0.01% of the outstanding common shares of Petron.

On December 15, 2010, the Parent Company exercised its option to acquire the remaining 60% of SRC from SEA BV pursuant to the Option Agreement. With the exercise of the option, the Parent Company beneficially owns approximately 68.26% of the outstanding common shares of Petron.

From the date of acquisition, SRC and Petron has contributed revenue of P10,383 and profit of P284 to the Group's results.

The Group has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P39,948
Trade and other receivables - net	26,945
Inventories	34,422
Prepaid expenses and other current assets	3,177
Investments and advances - net	2,172
Property, plant and equipment - net	34,550
Investment properties - net	121
Assets held for sale	823
Deferred tax assets	394
Other noncurrent assets - net	23,422
Liabilities	
Drafts and loans payable	(34,987)
Accounts payable and accrued expenses	(21,604)
Income and other taxes payable	(6)
Current maturities of long-term debt - net of debt issue costs	(9,193)
Long-term debt - net of current maturities and debt issue costs	(43,452)
Deferred tax liabilities	(2,312)
Other noncurrent liabilities	(2,652)
Total identifiable net assets at fair value	P51,768

The fair value of the trade and other receivables amounts to P26,945. The gross amount of trade receivables is P27,883, of which P938 are expected to be uncollectible at the acquisition date (Note 10).

Goodwill was recognized as a result of the acquisition as follows:

	Note	2010
Total consideration transferred:		
Cash		P33,323
Equity interest held before business combination		16,720
		50,043
Non-controlling interest measured at proportionate interest in identifiable net assets		23,750
Total identifiable net assets at fair value		(51,768)
Goodwill	*19, 39*	P22,025

Goodwill arising from the acquisition is attributable to the benefit of expected synergies with the Group's power generation and shipping businesses, revenue growth, future market development and the assembled workforce of Petron. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognized is expected to be deductible for income tax purposes.

Infrastructure

- ULC BVI

On October 28, 2010, the Parent Company, through SMHC, signed a share sale and purchase agreement (the "Agreement") with ULC BVI, pursuant to the authority of the BOD of the Parent Company on March 15, 2010. Under the terms of the Agreement, SMHC shall acquire up to 51% equity interest in ULC BVI, the corporation which holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the MRT-7 Project by virtue of the Concession Agreement dated June 18, 2008 with the ROP, through the Department of Transportation and Communications (DOTC) (Note 35).

Closing of the Agreement was held on November 8, 2010. As of December 31, 2010, completion of the acquisition is still subject to the satisfaction of certain mandatory conditions by the counterparty.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P1
Trade and other receivables - net	1
Other intangible assets - net	2,182
Liabilities	
Accounts payable and accrued expenses	(136)
Deferred tax liability	(1)
Total identifiable net assets at fair value	P2,047

The fair value of the trade and other receivables amounts to P1. None of the receivables has been impaired and it is expected that the full amount can be collected.

Goodwill was recognized as a result of the acquisition as follows:

	Note	**2010**
Total cash consideration transferred		P2,508
Non-controlling interest measured at proportionate interest in identifiable net assets		1,003
Total identifiable net assets at fair value		(2,047)
Goodwill	*19, 39*	P1,464

- TADHC

On April 8, 2010, the Parent Company, through its wholly-owned subsidiary, SMHC, executed a share sale purchase agreement relating to the purchase by SMHC of the rights, title and interests to a total of 2,025,000 common shares in CIADC (the "CIADC Shares"). On April 29, 2010, Deeds of Assignment of Shares were executed covering the CIADC Shares. CIADC holds the exclusive rights, obligations and privileges to finance, design, construct, operate and maintain the Caticlan Airport by virtue of the Concession Agreement, dated June 22, 2009, with the ROP, through the DOTC and the Civil Aviation Authority (Note 35). As of December 31, 2010,

SMHC paid P675 for the acquisition of CIADC Shares. The balance of P350 is payable as follows: (i) P180, one year after closing of the transaction; (ii) P100, two years after the closing of the transaction; and (iii) P70, one year from the date of the previous payment.

The current portion of the Group's outstanding payable related to the purchase as of December 31, 2010 amounting to P180, is included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P170 as of December 31, 2010, is reported as part of "Other noncurrent liabilities" account (Note 24).

As approved by the SEC on September 23, 2010, CIADC was renamed to Trans Aire Development Holdings Corp.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Prepaid expenses and other current assets	P4
Property, plant and equipment - net	11
Other intangible assets - licenses	58
Liabilities	
Accounts payable and accrued expenses	(9)
Other noncurrent liabilities	(4)
Total identifiable net assets at fair value	P60

Goodwill was recognized as a result of the acquisition as follows:

	Note	**2010**
Total consideration transferred		
Cash		P675
Deferred consideration		350
		1,025
Non-controlling interest measured at proportionate interest in identifiable net assets		2
Total identifiable net assets at fair value		(60)
Goodwill	*19, 39*	P967

Telecommunications

- TCCI, PHC and PSCL

On July 30, 2010, the Parent Company through its wholly-owned subsidiary, Vega, subscribed to unissued shares of stock of TCCI, PHC and PSCL, equivalent to 75% equity interests in each of said companies. TCCI, PHC and PSCL, in turn, collectively own 100% of the outstanding capital stock of Bell Telecommunications Philippines (BellTel).

BellTel is a grantee of a franchise to install, operate and maintain local exchange networks and wireless local loop (WLL) in several areas including special economic zones, inter-exchange networks, nationwide VSAT network, international gateway facilities, and cellular mobile telecommunications network (Note 35).

On August 1, 2010, Vega acquired the remaining 25% ownership interest in TCCI, PHC and PSCL, making TCCI, PHC and PSCL wholly-owned subsidiaries of Vega.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash and cash equivalents	P68
Trade and other receivables - net	429
Prepaid expenses and other current assets	55
Property, plant and equipment - net	374
Other noncurrent assets	6
Liabilities	
Accounts payable and accrued expenses	(1,181)
Deferred tax liabilities	(1)
Other noncurrent liabilities	(256)
Total identifiable net liabilities at fair value	(P506)

The fair value of the trade and other receivables amounts to P429. The gross amount of trade receivables is P456, of which P27 are expected to be uncollectible at the acquisition date (Note 10).

License was recognized as a result of the acquisition as follows:

	Note	**2010**
Total cash consideration transferred		P4,715
Total identifiable net liabilities at fair value		506
Other intangible asset - license	*19, 39*	P5,221

- AGNP

On December 30, 2010, the Parent Company through its wholly-owned subsidiary, Vega, executed a Share Purchase Agreement (the "Agreement") with ISM Communications Corporation ("ISMCorp."), for the purchase of 100% of the outstanding and issued shares of stock of AGNP. The acquisition of AGNP was authorized by the BOD of Vega during the meeting held on December 16, 2010.

AGNP is the registered and beneficial owner of approximately 40% of Eastern Telecommunications Philippines, Inc. (Eastern Telecoms). Eastern Telecoms' products 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 Eastern Telecoms through AGNP, would complement the internet broadband service of Liberty Telecommunications Holdings, Inc. (LTHI), in which the Group holds 41.48% interest.

Upon the signing of the Agreement, Vega paid P320 as initial payment. Under the Agreement, the outstanding balance of P1,280 is payable in two installments. The first payment amounting to 50% of the outstanding balance is due on December 29, 2011 while the remaining balance is to be settled on December 29, 2012.

The current portion of the Group's outstanding payable related to the purchase of AGNP shares as of December 31, 2010 amounted to P640, included under "Accounts payable and accrued expenses" account (Note 22), while the noncurrent portion amounting to P640 as of December 31, 2010 is reported as part of "Other noncurrent liabilities" account (Note 24).

Total identifiable assets at fair value on the acquisition date pertains to its investment in Eastern Telecoms amounting to P1,600, which is also equal to the total consideration of the purchase made by Vega.

Properties

- SMPI-GSIS

On October 31, 2007, the Parent Company through SMPI entered into a JVA with GSIS to establish the SMPI-GSIS JVC. The SMPI-GSIS JVC will hold ownership and title to the real property owned by GSIS, develop the property into a first class high-rise service apartment and manage and operate the same. The SMPI-GSIS JVC will have an authorized capital stock of P600 divided into 600,000,000 shares with a par value of P1 per share. The parties agreed to an equal equity participation wherein the real estate property owned by GSIS is valued at P300 while SMPI has committed to contribute P300 to the SMPI-GSIS JVC. On October 23, 2008, SMPI-GSIS JVC was incorporated.

In 2010, the Articles of Incorporation of SMPI-GSIS JVC was amended accordingly to reflect the increase in its authorized capital stock from P600 divided into 600,000,000 shares to P625 divided into 625,000,000 shares, both with par value of P1. SMPI then completed the acquisition of the 52% equity ownership in SMPI-GSIS JVC by assigning its 100% equity ownership in Maison 17 Properties (MPI), one of its wholly-owned subsidiaries, plus additional cash consideration of P181, which is in accordance with the JVA. After this transaction MPI became a wholly-owned subsidiary of SMPI-GSIS JVC.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2010
Assets	
Cash	P13
Prepaid expenses and other current assets	10
Property, plant and equipment - net	455
Total identifiable net assets at fair value	P478

In 2010, SMPI's ownership interest in Maison was diluted when SMPI assigned its entire interest in MPI to the SMPI-GSIS JVC. The effect of dilution in SMPI's share in MPI's net assets amounting to P52 was recognized in equity.

The dilution loss recognized as a result of the acquisition is as follows:

	Note	**2010**
Total cash consideration transferred		P181
Non-controlling interest measured at proportionate interest in identifiable net assets		349
Total identifiable net assets at fair value		(478)
Dilution loss	*39*	P52

Under the JVA, SMPI grants GSIS 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).

The SMPI-GSIS JVC has not yet started commercial operations as of March 14, 2011.

Packaging

- SMYK

On December 3, 2009, SMYPIL's BOD approved the increase in the authorized capital stock of SMYPIL from US$100 to US$120. The proposed increase in capital stock would cover the additional capital to be issued by SMYPIL to finance the acquisition of JHK Investments and its subsidiaries.

On December 14, 2009, an amendment to the Articles of Association increasing SMYPIL's authorized capital from US$100 to US$120 was filed with the Registrar of Corporate Affairs of BVI.

Subsequently, while maintaining their respective ownership interests, the Parent Company through its wholly-owned subsidiary, San Miguel Holdings Ltd. (SMHL), and Nihon Yamamura Glass Co., Ltd. (NYG) made additional investments in SMYPIL amounting to US$23.6 and US$12.7, respectively.

On December 17, 2009, SMYPIL acquired from James Huntly Knox "JHK" 60,705,521 shares of SMYK, the parent company of the Cospak Group, for up to a maximum amount of Australian Dollar (A$)34.65 (US$31.64). Of the said purchase price, A$9.91 (US$9.05) is placed on escrow and will be released in favor of JHK based on the attainment of SMYK of an agreed earnings before interest, taxes, depreciation and amortization for the periods ended December 31, 2009 and June 30, 2010. On March 12, 2010 and November 22, 2010, the escrow account was released to JHK.

On the same date, SMYPIL also subscribed to an additional 12,269,939 shares in SMYK for A$5 (US$4.57). With this additional acquisition, SMYPIL owns an aggregate of 65% of the outstanding shares of SMYK.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2009
Assets	
Cash and cash equivalents	US$4
Trade and other receivables - net	20
Inventories	14
Prepaid expenses and other current assets	6
Property, plant and equipment - net	11
Deferred tax assets	1
Liabilities	
Drafts and loans payable	(19)
Accounts payable and accrued expenses	(20)
Dividends payable	(2)
Income and other taxes payable	(1)
Noncurrent portion of finance lease liability	(1)
Total net identifiable assets	US$13

Goodwill was recognized as a result of the acquisition as follows:

	Note	2009
Total cash consideration transferred		US$36
Non-controlling interest measured at proportionate interest in identifiable net assets		5
Total identifiable net assets at fair value		(13)
Goodwill	*19, 39*	US$28

The following summarizes the major classes of consideration transferred:

Cash	US$27.16
Contingent consideration	9.05
	US$36.21

Identifiable assets acquired and liabilities assumed as a result of the foregoing acquisitions are disclosed in Note 39.

The Parent Company's diversification into new businesses such as power, fuel and oil, infrastructure and telecommunications are opportunities that will provide growth momentum and better earnings for the Group as a whole. If the acquisitions had occurred on January 1, 2010, management estimates that consolidated revenue would have been P474,427, and consolidated net income for the year would have been P34,895. 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, 2010.

Asset Acquisitions:

- IPP Administration Agreement (Note 35)

  - Sual Power Plant IPP Administration Agreement

    As a result of the bidding conducted by the PSALM on August 28, 2009 for the Appointment of the IPP Administrator for the Contracted Capacity of the Sual 2x500 MW Coal Fired Power Station (Sual Power Plant), SMEC was declared the winning bidder thereof as set out in the Notice of Award issued by PSALM on September 1, 2009. As of November 6, 2009, SMEC assumed the administration of the Contracted Capacity of the Sual Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the Sual Power Plant with Execution Date of September 8, 2009.

  - San Roque IPP Administration Agreement

    Following the December 15, 2009 bidding conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the 345 MW San Roque Multi-Purpose Hydroelectric Power Plant located at Barangay San Roque, San Miguel, Pangasinan (San Roque Power Plant), PSALM issued on December 28, 2009 the Notice of Award to SPDC as the winning bidder thereof. As of January 26, 2010, SPDC assumed the administration of the Contracted Capacity of the San Roque Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the San Roque Power Plant with Execution Date of December 29, 2009.

  - Ilijan IPP Administration Agreement

    On April 16, 2009, the Parent Company successfully bid for the Appointment of the IPP Administrator for the Contracted Capacity of the Ilijan Natural Gas Fired Combined Cycle Power Plant with an installed capacity of 1200 MW located at Ilijan, Batangas (Ilijan Power Plant) and received a notice of award on May 5, 2010. On June 10, 2010, the Parent Company and SPPC entered into an Assignment Agreement with Assumption of Obligations whereby the Parent Company assigned all its rights and obligations to SPPC under the IPP Administration Agreement for the Contracted Capacity of the Ilijan Power Plant with execution date of May 11, 2010. PSALM consented to the aforementioned assignment in its letter dated June 16, 2010.

    On June 26, 2010, SPPC assumed the administration of the contracted capacity of the Ilijan Power Plant in accordance with the provisions of the IPP Administration Agreement for the Contracted Capacity of the Ilijan Power Plant with Execution Date of May 11, 2010.

    The IPPA Agreements include, among others, the following common salient rights and obligations:

    i. The right and obligation to manage and control the Capacity 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 Station in case of buy-out or termination of the Agreement for no consideration;

iv. The right to receive an assignment of National Power Corporation (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 Station 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.

In view of the nature of the IPP Administration Agreements, the arrangement has been accounted for as finance lease (Note 35).

- Independent Power Producer

  - Limay Power Plant

    On September 11, 2009, PSALM issued the Notice of Award to SMEC as the winning buyer of the 620 MW Limay Combined Cycle Power Plant (Limay Power Plant). SMEC and PSALM entered into the Asset Purchase Agreement and Land Lease Agreement (collectively, the "Limay Agreements") with effective date of September 18, 2009, with an option to acquire the land.

    On November 13, 2009, SMEC and PanAsia entered into an Assignment Agreement with Assumption of Obligations, wherein PanAsia assumed all the rights and obligations of SMEC under the Limay Agreements subject to the written consent of PSALM to such assignment. PSALM's consent to the assignment was secured by SMEC and PanAsia, as set out in the Amendment, Accession and Assumption Agreement executed by the parties on January 11, 2010.

    On January 18, 2010, the physical possession of the Limay Power Plant was turned over and transferred to PanAsia. PanAsia started operations of the Limay Power Plant on February 16, 2010.

    In July 2010, with the consent of PSALM, PanAsia's option to acquire the land was assigned to 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.

6. Investment in Subsidiaries

The following are the developments relating to the Parent Company's investments in subsidiaries in 2010 and 2009:

Beverages

- SMB

  On July 24, 2007, the stockholders of the Parent Company, during the annual stockholders' meeting, approved the transfer of the Parent Company's domestic beer business assets (excluding land and brands) to a wholly-owned subsidiary of the Parent Company, in exchange for shares of stock. The transfer of such assets to a wholly-owned subsidiary is pursuant to the listing with the PSE and the public offering of the shares of SMB.

  On July 26, 2007, the Parent Company incorporated SMB, a wholly-owned subsidiary with an initial authorized capital stock of P100 and paid-up capital of P6.25. Pursuant to the stockholders approval obtained on July 24, 2007, the Parent Company's domestic beer business net assets as of June 30, 2007, excluding land, brands and certain payables were transferred to SMB in exchange for additional shares of stock effective October 1, 2007. The transfer of the net assets is pursuant to a Master Deed of Assignment of Domestic Beer Assets dated August 23, 2007 between the Parent Company and SMB with amendments dated September 7, 2007.

  On September 27, 2007, the SEC approved the increase in SMB's authorized capital stock from P100 to P25,000 and the decrease of the par value of its shares from P100.00 to P1.00. Shares totaling 15,308,416,960, were issued to the Parent Company pursuant to such transfer under a tax-free asset-for-share agreement, as confirmed by the Bureau of Internal Revenue (BIR) in its certification No. SN-300-2007.

  As a standard condition of the SEC for approval of applications for increase in authorized capital stock, where the payment for the shares issued pursuant to such increase is made in the form of motor vehicles and receivables, 2,557,573,242 common shares that were issued by SMB to the Parent Company in exchange for motor vehicles and receivables, out of the 15,308,416,960 common shares issued by SMB, were held in escrow by the SEC pending the transfer of ownership of those motor vehicles in the name of SMB and proof of collection of receivables. In a letter dated May 26, 2010, the SEC ordered the release of the escrow on the said common shares.

  On May 12, 2008, SMB listed its shares in the PSE pursuant to its listing application approved on March 26, 2008. In April to May 2008, SMB sold at P8.00 per share 77,052,000 shares to the public by way of a primary offer, and the Parent Company sold to the public 809,050,000 shares of its existing shares in SMB (including shares to cover for over-allotments) by way of a secondary offer, pursuant to a registration statement rendered effective by the SEC on April 28, 2008. The total shares offered represents 5.75% stake in SMB. The Group recognized a net gain of P5,650 from the transaction in 2008.

On February 20, 2009, the Parent Company signed a share purchase agreement for the acquisition by Kirin Holdings Company, Limited ("Kirin"), of a 43.2499% stake in SMB. Under the terms of the agreement, purchase price of the shares amounted to P8.841 per share, implying a total acquisition price at P58,924. Further to the agreement, the Parent Company, Kirin and SMB negotiated exclusively for SMB's purchase of shares in Parent Company's overseas beer business.

On April 30 and May 22, 2009, the Parent Company sold its 2,185,402,491 and 4,479,621,199 common shares, respectively, representing 43.2499% stake in SMB to Kirin at P8.841 per share for a total purchase price of P58,924. The Group recognized a net gain of P50,537 from the sale in 2009.

- SMBIL

On August 17, 2009, the Parent Company assigned its international trademarks, trade dress, know-how, copyrights, patents and other intellectual property rights used in connection with the international beer business of the Parent Company and its international subsidiaries ("International IP Rights") valued at US$31.5 to SMIL. Common shares totaling 2,863,636 were issued to the Parent Company under a tax-free asset-for-share agreement, as confirmed by the BIR in its certification No. SN-233-2009.

The value of International IP Rights was derived from the independent valuation study done by Fortman Cline Capital Markets (FCCM), in which FCCM applied one valuation methodology, the royalty relief method.

On December 18, 2009, SMB's BOD approved the purchase of the international beer and malt-based beverages business of the Parent Company through the purchase of the shares of SMHL, a wholly-owned subsidiary of Parent Company, in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL ("SMBIL Shares"), with an enterprise value of US$300. On the same date, the Parent Company, SMB and SMHL entered into a Share Purchase Agreement ("SPA") for the SMBIL Shares. The SPA includes contingent consideration that will be paid through an earn-out scheme based on the attainment by SMBIL and certain subsidiaries of SMBIL of EBITDA and sales volume targets at certain periods. The BOD of the Parent Company likewise approved the sale of its international beer and malt-based beverage business to SMB, through the sale by SMHL, its wholly-owned subsidiary, of the SMBIL shares to SMB, on the same day.

On December 21, 2009, SMIL's BOD approved the assignment of International IP Rights to SMHL valued at US$31.5 in exchange for 286,363 SMHL common shares. The assignment was also approved by SMHL's BOD on the same date.

Also on the same date, SMHL's BOD approved the assignment of International IP Rights to SMBIL valued at US$31.5 in exchange for 2,863,636 SMBIL shares. The assignment was also approved by SMBIL's BOD on the same date.

On January 28, 2010, SMB entered into a US$300 unsecured loan facility agreement. Proceeds of the loan were used to finance SMB's acquisition of SMBIL Shares. The sale was completed on January 29, 2010, with SMB acquiring the SMBIL Shares for a purchase price of US$302 (P13,941), after adjustments in accordance with the terms of the SPA. As a result, SMBIL became a wholly-owned subsidiary of SMB.

- IBI

  On December 8, 2008, the BOD of the Parent Company approved the transfer of its domestic beer and malt-based beverages brands, including related trademarks, copyrights, patents and other intellectual property rights and know-how ("Domestic IP Rights") to a wholly-owned subsidiary, in exchange for shares of stock.

  On December 16, 2008, the Parent Company formed IBI, a wholly-owned subsidiary, with an authorized capital stock of P1. IBI was incorporated primarily to engage in the manufacturing, buying, selling (on wholesale) and dealing in alcoholic and non-alcoholic beverages and to own, purchase, license and/or acquire such trademarks and other intellectual property rights necessary for the furtherance of its business. On the same date, the BOD and stockholders of IBI approved the increase in its authorized capital stock from P1 to P10,000 divided into 100,005,000 shares at P100.00 par value per share. To fund such increase, the Parent Company and IBI executed a Deed of Assignment of Domestic Intellectual Rights dated December 16, 2008 as supplemented for the transfer of the Domestic IP Rights in exchange for common shares in IBI out of the existing and unissued capital stock and the increase in IBI's authorized capital stock.

  On January 27, 2009, the Parent Company's BOD approved the sale of its Domestic IP Rights to SMB, through the sale of all its interests in IBI to SMB. SMB's BOD approved on the same date, the purchase of the Domestic IP Rights through the purchase of all of Parent Company's interests in IBI after the completion of such transfer to IBI by the Parent Company of the Domestic IP Rights to IBI.

  On February 27, 2009, the SEC approved the increase in the authorized capital stock of IBI. With such approval, the SEC likewise approved the transfer of Parent Company's Domestic IP Rights to IBI in exchange for 100,000,000 additional common shares in IBI. Such shares were issued to Parent Company under a tax-free asset-for-share agreement, as confirmed by the BIR in its certification No. SN-405-2008 dated December 24, 2008.

  On April 29, 2009, SMB acquired the Parent Company's shares in IBI comprising 100% of the outstanding capital stock of IBI, for a total purchase price of P32,000, thereby making IBI its wholly-owned subsidiary. For SMB, the value of the Domestic IP Rights represents the purchase price after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by UBS Investments Philippines, Inc. SMB, after considering said valuation methodologies, viewed the royalty relief (based on commercial rates) and advertising spent methodologies to be generally more relevant, compared to other methodologies that may be used to value the Domestic IP Rights on the basis that such methodologies require fewer assumptions and less reliance on subjective reasoning since key assumptions come from primary sources based on SMB's filings and projections, actual industry precedents and industry common practice. The purchase price agreed upon is within the value range yielded by said methodologies, which value range is P25,000 to P32,000. For the Parent Company, the value of the Domestic IP Rights was derived after considering the independent valuation study done by FCCM, in which FCCM applied several methodologies, including the replacement methodology.

- BPI

  On December 8, 2008, the BOD of the Parent Company approved the transfer of certain parcels of land used in the domestic beer operations to a wholly-owned subsidiary, in exchange for shares of stock.

  On December 16, 2008, the Parent Company formed BPI, a wholly-owned subsidiary, with an authorized capital stock of P1. BPI was incorporated primarily to own, use, improve, develop, sell, exchange, lease and hold investment or otherwise, real estate of all kinds, including buildings and other structures.

  On January 27, 2009, SMB's BOD approved the purchase of all interest of the Parent Company in BPI after: (i) Parent Company has transferred certain land used in the domestic beer operations of SMB ("Land") to BPI in exchange for BPI common shares, and (ii) San Miguel Brewery Inc. Retirement Plan ("SMBRP") has transferred its shares in BLI to BPI preferred shares for the purchase price of P6,829, corresponding to the appraised value of the Land transferred by the Parent Company to BPI.

  On January 28, 2009, the BOD of BPI approved the increase in the par value of its common shares from P100.00 to P350.00 per share and the increase in its authorized capital stock from P1 divided into 10,000 shares with a par value of P100.00 per share to P800 divided into 2,400,000 preferred shares and 1,600,000 common shares with a par value of P100.00 and P350.00 per share, respectively. To fund the increase in BPI's authorized capital stock, the Parent Company transferred certain parcels of land used in the domestic beer business of SMB to BPI in exchange for 1,592,281 common shares, out of its existing unissued capital stock and the increase in its authorized capital stock, and SMBRP transferred its 2,389,494 common shares (with a par value of P100.00 per share) in BLI as payment for its subscription to 2,389,494 preferred shares of BPI (with a par value of P100.00 per share).

  On February 25, 2009, the Parent Company sold certain parcels of land used in the domestic beer business to BLI for a total consideration of P239 and recognized a gain of P232.

  On September 10, 2009, the SEC approved the increase in the par value of BPI's common shares and the increase in its authorized capital stock. With such approval, the transfer of: (i) the certain parcels of land (used in the domestic beer business of SMB) of the Parent Company to BPI in exchange for additional common shares from the existing unissued authorized capital stock of BPI and the increase in authorized capital stock; and (ii) the common shares of SMBRP in BLI to BPI as payment for SMBRP's subscription to BPI preferred shares were also approved by the SEC. The transfer was under a tax-free asset-for-share agreement, as confirmed by the BIR in its certification No. SN-121-2009. Following the approval, BLI became a subsidiary of BPI.

  BLI and BPI started commercial operations on February 25, 2009 and September 10, 2009, respectively.

On November 10, 2010, SMB and the Parent Company executed a Deed of Absolute Sale of Shares ("Deed") for the purchase by SMB of all the shares of the Parent Company in BPI (the "BPI Shares"), at the aggregate purchase price of P6,829 ("Purchase Price"). SMB paid P6,629, corresponding to the appraised value of the 128 Land titles transferred in the name of BPI to Parent Company upon execution of the Deed. The balance shall be paid by SMB to Parent Company upon transfer of the remaining eight (8) Land titles in the name of BPI. The BPI Shares comprise 40% of the issued and outstanding capital stock of BPI. The acquisition was financed using part of the proceeds of the bond offering of SMB.

SMB has the ability to govern BPI's financial and operating policies and conduct activities in order that SMB may obtain benefits from its operations. As such and in accordance with PAS 27, BPI is consolidated to SMB.

- SMBI

On November 1, 2008, GSMI entered into an Asset Purchase Agreement with SMBI for the purchase of SMBI's assets at net book value totaling P1,039, subject to adjustments as may be warranted by circumstances transpiring prior to closing date and which affect the value of the assets. Twenty-five percent (25%) of the purchase price was settled upon execution of the agreement, and thereafter the remaining balance shall be payable in six (6) equal monthly installments. On December 8, 2008, GSMI also entered into a service agreement with SMBI whereby the latter rendered various services to GSMI related to the production, promotion, sale and distribution of non-alcoholic beverages products as well as the operation of beverage assets. In consideration of the services rendered by SMBI, GSMI paid a monthly service fee in the amount of P21. The term of the agreement is for six (6) months commencing on November 1, 2008 and expired on April 30, 2009.

On December 31, 2008, the closing date of the transaction, the purchase price was adjusted to P1,117.

Foods

- SMPFC

On February 2, 2010, the Parent Company's BOD approved the following corporate actions:

- Sale to SMPFIL, a wholly-owned subsidiary of SMPFC, of the Parent Company's 51% interest in SMPFI at book value.

- Potential subscription of up to P5,200 worth of new SMPFC shares.

- Sale of the Parent Company's food-related brands and intellectual property rights to SMPFC at a purchase price of P3,200.

- Sale of up to 40% of the Parent Company's interest in SMPFC, by way of a trade sale or marketed placements to investors, which may include investors outside the United States (Reg S) or and to not more than 19 non-qualified buyers domestically to be determined by Management.

On February 2, 2010, the BOD of SMPFC approved the proposal of SMPFC management to a) purchase food-related brands and intellectual property rights from the Parent Company at a purchase price of P3,200, and b) acquire, through SMPFIL, a BVI company and a wholly-owned subsidiary of SMPFC, the Parent Company's 51% interest, through SMFBIL, in SMPFI at book value. SMPFI owns 100% of SMPFVN.

On February 2, 2010 and March 12, 2010, SMPFC's stockholders approved, among others, the following corporate actions, subject to the necessary approvals of the SEC:

- Potential issuance of up to 75,000,000 new SMPFC shares to the Parent Company or third parties.

- Amendment of Amended Articles of Incorporation of SMPFC to reflect the following:

  i. de-classification of SMPFC's common shares;
  ii. increase in SMPFC's authorized capital stock by P1,000 or 100,000,000 shares at P10.00 par value; and
  iii. denial of Pre-emptive rights to the proposed issuance of shares of up to 75,000,000 new SMPFC shares to the Parent Company or third parties.

- Declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

On April 12, 2010, the SEC approved SMPFC's amendment to its Articles of Incorporation for the de-classification of common shares.

On May 21, 2010, the SEC issued to SMPFC the Certificate for the Approval of Increase of Capital Stock from 146,000,000 common shares to 246,000,000 common shares with par value of P10.00 per share and the Certificate of Filing of Amended Articles of Incorporation.

On July 6, 2010, the PSE approved the application of SMPFC to list additional 25,423,746 common shares, with a par value of P10.00 per share, to cover the 18% stock dividend declaration to stockholders. Stock dividend payment was made on July 26, 2010.

On July 21, 2010, the Parent Company and SMPFC entered into an Intellectual Property Rights Transfer Agreement (the "Agreement") for the transfer to SMPFC of the food-related brands and intellectual property rights at a purchase price of P3,200. Following the provision of the Agreement between the Parent Company and SMPFC, 10% of the purchase price was paid on July 30, 2010 and the balance payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on 1 year PDSTF plus an agreed margin after one year, whichever comes first. On March 8, 2011, the remaining balance was fully paid by SMPFC.

In July 2010, the Parent Company, through its wholly-owned subsidiary, SMFBIL, sold to SMPFIL, (a wholly-owned subsidiary of SMPFC) its 51% interest in SMPFI for US$18.6. SMPFI owns 100% of SMPFVN. Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$16.8 (P734.3 as at December 31, 2010) shall be payable (i) upon change in controlling interest of SMPFIL to any third person other than affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first.

The Parent Company and SMPFC engaged FCCM as financial adviser to perform a third party valuation of the food-related brands. The Parent Company and SMPFC arrived at a purchase price of P3,200 after taking into account the valuation study.

On September 15, 2010, SMPFC's BOD approved, among others, the (i) reclassification of up to 75,000,000 authorized and unissued common shares into cumulative, non-participating, non-voting and non-convertible preferred shares with par value of P10.00 per share and with other features determined by management; (ii) issuance of preferred shares with total issue size of up to P50,000, part of the proceeds of which will be used to settle SMPFC's remaining 90% balance on the acquisition of food-related brands and intellectual property rights from the Parent Company and on the purchase of the Parent Company's 51% stake in SMPFI; (iii) listing of such preferred shares at the appropriate exchanges, and (iv) amendment of SMPFC's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On November 3, 2010, SMPFC's stockholders approved, among others, the (i) reclassification of SMPFC's 40,000,000 authorized and unissued common shares into non-voting, cumulative and non-participating preferred shares with par value of P10.00 per share, (ii) issuance of such preferred shares and the listing thereof at the appropriate exchanges, and (iii) amendment of SMPFC's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

On December 23, 2010, the SEC approved the Amendment of the Articles of Incorporation of SMPFC to reflect the reclassification of SMPFC's 40,000,000 common shares to cumulative, non-participating, non-voting and non-convertible preferred shares with par value of P10.00 per share and the denial of the pre-emptive rights of shareholders to the issuance of the said preferred shares.

- Highbreed Livestock Corporation (HLC)

  In April 2009, Monterey Food Corporation (MFC), a majority-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in HLC, a Philippine company engaged in livestock farming, processing, selling meat products (mainly pork and beef) and leasing of properties. As such, HLC became a subsidiary of MFC and was consolidated into SMPFC through MFC. On June 22, 2009, the respective BOD and stockholders of MFC and HLC approved the merger of HLC into MFC, with MFC as the surviving corporation. The consideration of the assignment of the subscription, net of the effect of the merger, amounted to P6.25. The SEC approved the merger on October 22, 2009. The BIR confirmed the tax-free merger of HLC into MFC in its certification No. S40-052-2009 dated December 18, 2009.

- SMFI

  On May 1, 2009, the Parent Company ceased the operations of Centralized Key Accounts Group and transferred its receivables, inventories and fixed assets to SMFI for a total consideration of P2,353.

  In August 2010, the SEC approved the merger of MFC into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective BOD and stockholders of MFC and SMFI in June 2010 and July 2010, respectively. The merger became effective September 1, 2010. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the BIR as at March 14, 2011.

- SMMI

  Pursuant to the Deed of Assignment executed by SMFI and SMMI in 2005 transferring certain assets and liabilities of SMFI's Flour Division at historical book value of P1,646 in exchange for SMMI's shares to be effective January 1, 2006, and the SEC's approval of such transfer and SMMI's increase in its authorized capital stock on March 27, 2007, SMMI issued to SMFI 16,454,816 of its common shares on April 10, 2007 in exchange for the transfer of said assets and liabilities. SMFI subsequently declared as property dividend its shares in SMMI in favor of SMPFC.

  In December 2010, the SEC approved the declaration of SMFI's 16,457,310 shares in SMMI as property dividend in favor of SMPFC. Prior to the SEC approval, a Deed of Assignment was executed by SMFI in January 2008 assigning its 16,457,310 shares in SMMI to SMPFC effective December 28, 2007.

- PF-Hormel

  In December 2010, the BOD of PF-Hormel approved the declaration of cash dividends amounting to P450 million payable not later than January 31, 2011. Dividends payable to non-controlling interests of PF-Hormel amounting to P180 million was recognized as part of the Group's "Dividends payable" account in the statements of financial position. Dividends were subsequently paid in January 2011.

- Philippine Nutrition Technologies, Inc. (PNTI)

  The SMPFC's application with the SEC for the dissolution of PNTI, a joint venture between SMPFC and the Great Wall Group of Taiwan, was approved on May 27, 2010. As a result of the said dissolution, SMPFC's investment in PNTI amounting to P12 was written off against its allowance for decline in value of investment.

Packaging

- SMPPC and Mincorr

  On April 17, 2009, the Parent Company acquired Rengo Co. Ltd.'s 30% and 20% stake in SMPPC (then SMRPC) and Mincorr, respectively, for a total purchase price of P250. Subsequently, on April 29, 2009, the Parent Company acquired all the interests of Macondray Fibreboard Corporation in Mincorr for P27.1.

The acquisitions of the said interests by the Parent Company resulted in SMPPC and Mincorr becoming wholly-owned subsidiaries of the Parent Company in 2009.

SMRPC was renamed "San Miguel Paper Packaging Corporation", as approved by the SEC on September 3, 2009.

7. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined by the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are beverage, food, packaging, power generation and distribution, fuel and oil, infrastructure and telecommunications.

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

The food segment includes, among others, poultry, feeds production and selling, livestock farming, processing and selling of basic meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of flour product, premixes and flour-based products, dairy-based products, breadfill desserts, cooking oil, importation and marketing coffee and coffee-related products and processed meats.

The packaging segment is involved in the production and marketing of the following packaging products, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, crate and plastic 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.

The power generation and distribution segment is engaged in power generation and mining. The power generation assets supply electricity to a variety of customers, including the Manila Electric Company (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as roads, highways, toll roads, freeways, skyways, flyovers, viaducts and interchanges.

The telecommunications segment is engaged in rendering all types of domestic and international telecommunications services.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. 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, 2010, 2009 and 2008

	Continuing Operations																								
	Beverage			Food			Packaging			Power Generation and Distribution	Fuel and Oil	Infra-structure	Telecommu-nications	Others			Eliminations			Total			**Discontinued Operations** (Note 8)	**Total Operations**		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008	**2010**	**2010**	**2010**	**2010**	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008	2008	**2010**	2009	2008
Sales																										
External sales	**P90,407**	P82,735	P78,599	**P80,415**	P77,220	P73,830	**P19,268**	P14,258	P15,612	**P45,636**	**P10,383**	**P -**	**P -**	**P -**	P -	P -	**P -**	P -	P -	**P246,109**	P174,213	P168,041	P181	**P246,109**	P174,213	P168,222
Inter-segment sales	**139**	1,067	-	**3**	15	50	**4,172**	5,413	4,246	**65**	**246**	-	-	-	-	-	**(4,625)**	(6,495)	(4,296)	-	-	-	-	-	-	-
Total sales	**P90,546**	P83,802	P78,599	**P80,418**	P77,235	P73,880	**P23,440**	P19,671	P19,858	**P45,701**	**P10,629**	**P -**	**P -**	**P -**	P -	P -	**(P4,625)**	(P6,495)	(P4,296)	**P246,109**	P174,213	P168,041	P181	**P246,109**	P174,213	P168,222
Result																										
Segment result	**P19,194**	P14,035	P14,556	**P5,905**	P4,559	P865	**P1,999**	P1,562	P1,315	**P9,568**	**P679**	**(P73)**	**(P57)**	**(P2,727)**	(P2,769)	(P2,216)	**P289**	P2,282	P298	**P34,777**	P19,669	P14,818	(P10)	**P34,777**	P19,669	P14,808
Interest expense and financing charges																				**(16,578)**	(7,926)	(6,032)	-	**(16,578)**	(7,926)	(6,032)
Interest income																				**3,023**	5,989	6,630	-	**3,023**	5,989	6,630
Equity in net earnings (losses) of associates																				**6,817**	2,816	(1,132)	-	**6,817**	2,816	(1,132)
Gain (loss) on sale of investments and property and equipment																				**529**	50,630	8,746	-	**529**	50,630	8,746
Other income (charges) - net																				**6,926**	(6,843)	(2,262)	(9)	**6,926**	(6,843)	(2,271)
Income tax benefit (expense)																				**(11,438)**	(3,706)	(6,098)	7	**(11,438)**	(3,706)	(6,091)
Gain (loss) from discontinued operations																				-	-	-	5,425	-	-	5,425
Net income																				**P24,056**	P60,629	P14,670	P5,413	**P24,056**	P60,629	P20,083
Attributable to:																										
Equity holders of the Parent Company																				**P20,091**	P57,799	P13,935	P5,413	**P20,091**	P57,799	P19,348
Non-controlling interests																				**3,965**	2,830	735	-	**3,965**	2,830	735
Net income																				**P24,056**	P60,629	P14,670	P5,413	**P24,056**	P60,629	P20,083

For the Years Ended December 31, 2010, 2009 and 2008

	Beverage			Food			Packaging			Power Generation and Distribution	Fuel and Oil	Infra-structure	Telecommu-nications	Others			Eliminations			Consolidated		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008	**2010**	**2010**	**2010**	**2010**	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Other Information																						
Segment assets	**P81,412**	P76,816	P100,242	**P43,267**	P43,126	P71,122	**P32,112**	P33,689	P33,021	**P238,591**	**P158,984**	**P4,920**	**P5,881**	**P213,879**	P315,548	P241,782	**(P144,272)**	(P91,069)	(P154,247)	**P634,774**	P378,110	P291,920
Investments in and advances to associates	-	-	-	-	-	-	-	-	-	**12,931**	**804**	**1,581**	**5,125**	**132,373**	39,005	31,663	-	-	-	**152,814**	39,005	31,663
Goodwill, trademarks and brand names																				**30,491**	8,547	7,452
Other assets																				**3,764**	1,200	700
Assets held for sale																				**823**	2,746	-
Deferred tax assets																				**7,134**	8,883	7,638
Consolidated total assets																				**P829,800**	P438,491	P339,373
Segment liabilities	**P20,958**	P9,722	P26,443	**P14,755**	P23,337	P24,095	**P5,380**	P7,714	P7,659	**P225,163**	**P19,633**	**P9,530**	**P11,723**	**P121,981**	P96,547	P146,348	**(P135,218)**	(P87,690)	(P155,935)	**P293,905**	P49,630	P48,610
Drafts and loans payable																				**74,128**	56,789	48,560
Long-term debt and redeemable preferred shares																				**168,927**	72,962	49,763
Income and other taxes payable																				**10,001**	4,186	4,429
Dividends payable and others																				**2,262**	1,949	1,936
Deferred tax liabilities																				**13,752**	12,037	17,851
Consolidated total liabilities																				**P562,975**	P197,553	P171,149
Capital expenditures	**P2,240**	P1,399	P3,471	**P599**	P781	P215	**P1,490**	P1,010	P1,354	**P586**	**P364**	**P8**	**P -**	**P3,231**	P3,059	P1,397	**P-**	P -	P -	**P8,518**	P6,249	P6,437
Depreciation and amortization of property, plant and equipment	**2,248**	2,415	2,251	**906**	940	868	**1,611**	1,533	1,491	**2,468**	**210**	**9**	**55**	**370**	366	323	-	-	-	**7,877**	5,254	4,933
Noncash items other than depreciation and amortization of property, plant and equipment	**717**	763	795	**1,338**	1,167	966	**(30)**	172	(81)	**357**	**1,660**	-	**29**	**(6,875)**	2,612	2,368	-	-	-	**(2,804)**	4,714	4,048
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**4,333**	3,705	-	**51**	54	-	-	695	-	-	-	-	-	-	302	322	-	-	-	**4,384**	4,756	322

8. Assets Held for Sale and Discontinued Operations

Assets Held for Sale:

a. Petron Mega Plaza

Petron has an investment property consisting of office units located at Petron Mega Plaza which has a floor area of 21,216 square meters covering the 28th - 44th floors and 209 parking lots. On December 1, 2010, Petron's BOD approved the sale of these properties to provide cash flows for various projects. The carrying amount of the investment property as of December 31, 2010 of P823 is presented as "Assets held for sale" in the consolidated statement of financial position.

Total estimated fair value of the properties amounted to P1,242. Management expects to sell the properties within the next 12 months from the reporting date.

b. Bank of Commerce (BOC) (Note 13)

On February 15, 2010, SMPI's BOD authorized the divestment of SMPI's 31.23% interest in BOC. The carrying amount of the investment as of December 31, 2009 of P2,746 representing 16,396,689 common shares was presented as "Assets held-for-sale" in the consolidated statements of financial position.

In 2010, SMPI's management decided not to pursue the sale of its ownership interest in BOC and reclassified it back to "Investments and advances" account in the consolidated statements of financial position. The investment was valued at its adjusted carrying amount amounting to P2,746 which at the time of reclassification was also equivalent to its recoverable amount.

Discontinued Operations:

a. Agribusiness Division of the Parent Company

In 2008, the Parent Company ceased the operations of its Agribusiness Division, particular the operations of its Iligan Coconut Oil Mill.

b. San Miguel Australia Holdings Ltd. (SMAH)

On November 8, 2007, the Parent Company through San Miguel Beverages (L) Pte. Ltd. signed a definitive agreement to sell its SMAH shares including its premium Tasmanian brewer, J. Boag, to Lion Nathan Australia Pty. Ltd., an Australian alcoholic beverages company, for which enterprise value amounted to A$325.

The closing audit was completed on January 2, 2008 and the Parent Company received A$277 as payment of purchase price, net of adjustments. The Group recognized a gain of P5,425, net of deferred tax in 2008.

As required by PFRS 5, the financial performance of Agribusiness in 2008, was presented as a separate item under "Income after income tax from discontinued operations" in the consolidated statements of income.

The results of discontinued operations are presented below:

	Note	2008
Net sales		P181
Cost of sales		168
Gross profit		13
Selling and administrative expenses		(23)
Other charges - net		(9)
Loss before income tax		(19)
Income tax benefit	*25*	(7)
Loss from discontinued operations		(12)
Gain on disposal of investment - net of tax of P2,921	*25*	5,425
Net income from discontinued operations, attributable to equity holders of the Parent Company	*38*	P5,413

Basic and diluted earnings per share from discontinued operations, attributable to equity holders of the Parent Company, are presented in Note 38.

Cash flows provided by discontinued operations are presented below:

	2008
Net cash flows provided by operating activities	P1,312
Net cash flows provided by investing activities	7,786
Net cash flows provided by discontinued operations	P9,098

The effect of disposal on the consolidated financial position follows:

	2008
Assets held for sale	P5,324
Liabilities directly associated with assets held for sale	(3,642)
Amounts recognized directly in equity relating to assets held for sale	(37)
Net assets disposed of	P1,645
Cash consideration received	P9,083

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2010	2009
Cash in banks and on hand	**P17,344**	P25,926
Short-term investments	**107,844**	183,485
	P125,188	P209,411

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.

10. Trade and Other Receivables

Trade and receivables consist of:

	Note	**2010**	2009
Trade		**P39,112**	P17,188
Non-trade	*35, 40*	**30,072**	31,453
Amounts owed by related parties	*34*	**11,239**	3,170
		80,423	51,811
Less allowance for impairment losses		**4,519**	2,729
	41, 42	**P75,904**	P49,082

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

The movements in the allowance for impairment losses are as follows:

	Note	**2010**	2009
Balance at beginning of year		**P2,729**	P2,884
Charges for the year		**697**	398
Amounts written off		**(257)**	(257)
Acquisition of subsidiaries	*5*	**965**	**-**
Reversals and others		**385**	(296)
Balance at end of year		**P4,519**	P2,729

As at December 31, 2010 and 2009, the aging of receivables is as follows:

2010	**Total**	**Trade**	**Non-trade**	**Owed by related parties**
Current	**P72,754**	**P33,202**	**P28,313**	**P11,239**
Past due				
Less than 30 days	**2,625**	**2,413**	**212**	**-**
30-60 days	**1,067**	**849**	**218**	**-**
61-90 days	**476**	**387**	**89**	**-**
Over 90 days	**3,501**	**2,261**	**1,240**	**-**
	P80,423	**P39,112**	**P30,072**	**P11,239**

2009	Total	Trade	Non-trade	Owed by related parties
Current	P43,988	P11,142	P29,676	P3,170
Past due				
Less than 30 days	2,609	2,334	275	-
30-60 days	789	613	176	-
61-90 days	804	729	75	-
Over 90 days	3,621	2,370	1,251	-
	P51,811	P17,188	P31,453	P3,170

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 historic payment behavior and extensive analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Parent Company has outstanding advances to San Miguel Corporation Retirement Plan (SMCRP) amounting to P3,997 and P2,785 as of December 31, 2010 and 2009, respectively, subject to interest of 6.5% per annum (Note 34). Interest pertaining to the said advances amounted to P82, P639 and P2,310 for the years ended December 31, 2010, 2009 and 2008, respectively (Note 32).

11. Inventories

Inventories at net realizable value consist of:

	2010	2009
Finished goods and goods in process (including petroleum products)	**P37,402**	P8,547
Materials and supplies (including coal)	**18,427**	15,355
Containers	**1,613**	1,556
	P57,442	P25,458

The cost of finished goods and goods in process amounted to P37,637 and P8,877 as of December 31, 2010 and 2009, 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 products would have decreased by P715 as of December 31, 2010.

The cost of materials and supplies as of December 31, 2010 and 2009 amounted to P19,185 and P15,879, respectively.

Containers at deposit value amounted to P1,917 and P1,851 as of December 31, 2010 and 2009, respectively.

Finished goods and goods in process include net unrealized gain of P41 and P63 on fair valuation of agricultural produce as of December 31, 2010 and 2009, respectively (Note 4). The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P416 and P287 as of December 31, 2010 and 2009, respectively, with corresponding cost at point of harvest amounting to P375 and P224, respectively.

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2010**	2009
Prepaid taxes and licenses		**P10,539**	P4,180
Raw land inventory and real estate projects		**3,675**	3,062
Prepaid rent		**314**	46
Derivative assets	*41, 42*	**249**	202
Retirement assets - current portion	*36*	**221**	150
Prepaid interest		**212**	-
Prepaid insurance		**198**	66
Financial assets at FVPL	*41, 42*	**193**	-
Construction in progress - service concession arrangements	*4*	**119**	-
Others		**1,194**	1,185
		P16,914	P8,891

"Others" consist of advances to officers and employees and prepayments for various operating expenses.

Construction in progress - service concession arrangements includes the Group's accumulated costs incurred on the design of the upgrade component of the development of the Caticlan Airport (the "Project") as described in Note 35, cost of a parcel of land earmarked for such upgrade and the present value of the obligation to maintain and restore the Caticlan Airport prior to transfer to the ROP at the end of the concession period. 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 IRO (Note 24) in 2010 amounting to P0.9 was recognized and presented as part of "Interest expense and other financing charges" in the consolidated statements of income.

13. Investments and Advances

Investments and advances consist of:

	Note	**2010**	2009
Investments in associates - at equity:			
Acquisition cost			
Balance at beginning of year		**P36,461**	P32,826
Additions		**97,017**	6,794
Acquisition of subsidiaries	*5*	**15,383**	-
Transfer to (from) assets held for sale	*8*	**3,159**	(3,159)
Disposals and reclassifications		**(4)**	-
		152,016	36,461
Accumulated equity in net earnings (losses):			
Balance at beginning of year		**1,388**	(1,163)
Equity in net earnings during the year		**6,817**	2,816
Dividends		**(2,338)**	(752)
Reclassification of investment in associate to investment in subsidiaries	*5*	**(5,095)**	-
Accumulated equity on investments transferred to (from) assets held for sale	*8*	**(413)**	413
Share in other comprehensive gains (losses)		**(422)**	252
Acquisition of subsidiaries		**(154)**	-
Impairment loss and others	*33*	**-**	(178)
Balance at end of year		**(217)**	1,388
		151,799	37,849
Advances		**1,015**	1,156
		P152,814	P39,005

The carrying amounts of investments in associates are as follows:

		2010		2009	
	Country of Incorporation	**Percentage of Ownership**	**Amount**	Percentage of Ownership	Amount
Top Frontier Investment Holdings, Inc (Top Frontier)	Philippines	**49.00**	**P92,480**	-	P -
Meralco	Philippines	**33.19**	**45,309**	27.00	32,029
BOC	Philippines	**32.77**	**6,253**	31.23	-
LTHI	Philippines	**41.48**	**3,525**	32.70	3,714
Eastern Telecoms	Philippines	**40.00**	**1,600**	-	-
Private Infra Dev Corporation (PIDC)	Philippines	**35.00**	**1,581**	35.00	1,575
Petrochemical Asia (HK) Limited (PAHL)	Hong Kong	**33.00**	**591**	-	-
Northpine Land, Inc.	Philippines	**20.00**	**247**	20.00	237
Limay Energen Corp. (LEC)	Philippines	**40.00**	**213**	-	-
SMEC	Philippines	**-**	**-**	40.00	294
			P151,799		P37,849

Following are the unaudited condensed and combined financial information of the associates:

	2010	2009	2008
Current assets	**P355,184**	P100,853	P93,633
Current liabilities	**151,072**	140,332	131,582
Noncurrent assets	**197,516**	297,501	172,880
Noncurrent liabilities	**110,527**	182,838	82,829
Revenue	**253,289**	194,795	198,577
Net income (loss)	**19,290**	8,262	(3,493)

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 by the Parent Company in the 2,598,040 preferred shares of Top Frontier were issued in the name of the Parent Company on October 22, 2010.

The preferred shares are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares.

The preferred shares are non-voting and participating. These are redeemable in whole or in part, at the sole option of Top Frontier, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

b. Meralco

On October 27, 2008, the Parent Company entered into a sale and purchase agreement with the GSIS to acquire the latter's 300,963,189 shares in Meralco for a total consideration of P27,087 plus an additional fixed term interest of P3,758. On November 10, 2008, the Parent Company paid P5,417 representing down payment for said shares with the balance payable in three (3) years.

On August 9, 2010, the Parent Company's beneficial interest in Meralco increased by 6.19% upon acquisition of SMC Global, which owns 69,059,538 common shares of Meralco for a total consideration of P7,063, inclusive of transaction costs of P46. SMC Global paid P1,243 representing down payment for the said shares with balance payable in three (3) years.

The current portion of the Group's outstanding payable related to the purchase of Meralco shares as of December 31, 2010 and 2009 amounted to P14,019 and P6,527, respectively, included under "Accounts payable and accrued expenses" account, while the noncurrent portion amounting to P14,253 and P18,148 as of December 31, 2010 and 2009, respectively, is reported as part of "Other noncurrent liabilities" account.

The fair value of the Group's investment in Meralco amounted to P84,365 and P61,396 as of December 31, 2010 and 2009, respectively.

c. BOC

In 2008 and 2007, SMPI made a series of acquisitions of BOC shares and at the end of 2008, SMPI has acquired a total of 11,749,779 shares amounting to P1,749 and equivalent to 30 % equity ownership interest in BOC. In 2009, SMPI subscribed to additional shares of BOC for a total consideration of P1 thereby increasing its equity ownership interest from 30% to 31.23% as of December 31, 2009. However, in the same year, SMPI's management decided to sell SMPI's entire ownership interest in BOC and reclassified the asset to "Assets held-for-sale" in the consolidated statements of position (Note 8).

In 2010, SMPI management decided not to pursue the sale of its ownership interest in BOC and reclassified it back to "Investments and advances" and made further acquisitions of BOC shares.

In 2010, SMPI acquired additional 20,383,210 shares amounting to P3,562 from various stockholders of BOC. These acquisitions increased SMPI's equity ownership interest in BOC to 32.77% as of December 31, 2010. Of the total acquisition cost, P1,800 and P542 were paid by SMCRP and Parent Company in behalf of SMPI. These amounts remained unpaid as of December 31, 2010 (Note 34). The unpaid subscription to BOC arising from the same transaction and amounting to P521 as of December 31, 2010, is presented as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position (Note 22).

As of December 31, 2010, SMPI also has pending share purchase transactions with certain other stockholders of BOC, for the acquisition of sufficient number of shares to increase further of SMPI's equity interest in BOC to 33.86%. Pending consummation of the shares purchase transactions, advance payments made by SMPI to the sellers amounting to P221 as of December 31, 2010 were presented as advances for acquisition of additional BOC shares under the "Investment and advances" account in the consolidated statements of financial position. Accordingly, this was not considered in the determination of SMPI's percentage of equity interest in BOC.

Share in BOC's accumulated fair value gains (losses) amounted to (P201) and P54 in 2010 and 2009, respectively, and are presented as part of "Share in comprehensive income (losses) of associates" account in the consolidated statements of comprehensive income. Additionally, share in BOC's translation adjustment for losses and gains amounted to P8 and P9 in 2010 and 2009, respectively. As of December 31, 2010, cumulative translation adjustments for gains amounted to P1 and P9 in 2010 and 2009, and are presented as "Cumulative translation adjustments" in the consolidated statements of changes in equity.

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 2010 and 2009 audited financial statements of BOC to conform with BOC's accounting policies with PFRS and make them consistent with the Group's accounting policies. The adjustments made by SMPI relate to the correction of: (a) inadequate reserves on non-performing assets, investment properties and financial assets; (b) deferral of losses on sale of non-performing loans; and (c) misstatement in the values of structured financial instruments and certain investment properties.

BOC is required to meet certain ratios under Bangko Sentral ng Pilipinas (BSP) regulations to manage the risks inherent in the banking business. As of December 31, 2010 and 2009, BOC has complied with the statutory and regulatory capital requirements which were computed based on the regulatory accounting policies that differ from PFRS in some aspects. BOC's retained earnings as of December 31, 2010 and 2009 is restricted from being declared as dividend to common stockholders to the extent of the amount of cumulative cash dividend in arrears of P320 declared by BOC's BOD on December 16, 2008 in favor of stockholders of certain redeemed preferred shares. The dividend declaration is pending approval from the BSP as of December 31, 2010 and 2009.

Based on the adjusted account balances of BOC as of December 31, 2009, management determined that the carrying amount of the investment is not fully recoverable, thus, an impairment loss on the investment amounting to P163 was recognized and is included in "Other income (charges)" account (Note 33). No impairment loss on the investment was recognized in 2010 and 2008.

d. LTHI

On July 8, 2009, Vega, a wholly-owned subsidiary of the Parent Company, acquired 579,111,669 common shares of LTHI from LTHI's existing stockholders for a total consideration of P2,041.

On July 21, 2009, Vega entered into a subscription agreement with LTHI for the subscription of 587,951,737 voting, nonredeemable and participating preferred shares out of the proposed increase in the authorized capital stock of LTHI at an issue price of P3.00 per share or approximately P1,764. As of December 31, 2009, Vega paid P735 as deposit for the subscription.

On January 5, 2010, Vega paid P588 as additional deposit for the subscription of LTHI's preferred shares.

The application for the increase in the authorized capital stock of LTHI was approved by the SEC on January 18, 2010.

On April 8, 2010, Vega paid the remaining subscription payable on LTHI's preferred shares amounting to P441.

The transaction was completed with a stock certificate covering the said preferred shares issued in the name of Vega on May 26, 2010.

On October 5, 2010, Vega also acquired from the public a total of 64,589,000 common shares of LTHI amounting to P221.

The fair value of the Group's capital stock investment in LTHI amounted to P4,152 and P1,564 as of December 31, 2010 and 2009, respectively.

e. PIDC

On September 11, 2009, Rapid, a wholly-owned subsidiary of SMHC, acquired 35% stake in PIDC, a consortium of construction companies behind the Tarlac-Pangasinan-La Union Expressway Project. Rapid subscribed to 1,575,000 common shares of PIDC amounting to P1,575 and paid a portion of the subscription price amounting to P245 and P561 on November 30, 2010 and September 11, 2009, respectively.

f. PAHL

On March 13, 2010, Petron acquired 182,000,000 ordinary shares or 40% of the outstanding shares of PAHL from Vantage Stride (Mauritius) Limited ("Vantage Stride").

PAHL is a company incorporated in Hong Kong. It has an authorized capital of Hong Kong Dollar (HK$)585, consisting of 585,000,000 shares at HK$1.00 per share. Of this, 455,000,000 shares are outstanding. Silverdale (Suisse), S.A. holds the remaining 60% of the outstanding shares of PAHL.

PAHL was incorporated in March 2008 and indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

In June 2010, another investor acquired 102,142,858 new Class "B" ordinary shares of PAHL which reduced Petron's ownership to 33%.

PAHL's business operation is expected to commence in the first quarter of 2011.

g. LEC

On August 3, 2010, Petron together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of P3,400. Out of its authorized capitalization, P850 has been subscribed, of which P213 has been paid up. Petron subscribed to P340 worth of shares of LEC representing 40% of the total subscribed capital, while Two San Isidro subscribed to P510 worth of shares of LEC, representing the remaining 60% of the total subscribed capital.

LEC was formed to build, operate and maintain a cogeneration power plant that will engage in a generation of power and steam for the primary purpose of supplying the steam and power requirements of Petron Bataan Refinery.

h. SMPI Advances

IGI
In June 2009, SMPI entered into a JVA with certain individuals and corporations (collectively referred to as Co-Venturer) to transfer title of the properties and develop and later operate the properties into a mixed commercial and residential estate. On July 28, 2009, as part of the terms of the JVA, IGI was incorporated with an authorized capital stock of P1,000 divided into 1,000,000,000 common shares with a par value of P1.00 per share. On the same date, the Co-Venturer subscribed to 600,000,000 common shares of IGI for P600.

Pursuant to the terms and conditions of the JVA, SMPI made cash advances in favor of the Co-Venturer amounting to P311 as of December 31, 2009. Under a Deed of Assignment, such advances will be applied as payment for SMPI's subscription to sufficient number of IGI shares of stock to give SMPI a 51% ownership interest in IGI. In 2010, the Deed of Assignment between SMPI and the Co-Venturer was consummated and SMPI became the parent company of IGI. Accordingly, the balance of its advances earmarked for such subscription was applied to the subscription price.

Primeria Commercio Holdings, Inc. (PCHI)
In 2009, SMPI provided US dollar-denominated non-interest bearing cash advances to PCHI, a future investee of SMPI, amounting to P794 as of December 31, 2010 and 2009. These advances will be applied against future subscriptions of SMPI to the shares of stock of PCHI.

14. Available-for-sale Financial Assets

Available-for-sale financial assets consist of:

	Note	**2010**	2009
Equity securities		**P2,292**	P103
Government securities		**1,049**	-
Proprietary membership shares and others		**256**	248
	41, 42	**P3,597**	P351

Acquisition of Indophil Resources NL (Indophil)
On October 8, 2010, the Parent Company entered into a share placement agreement with Indophil to subscribe to 48,016,960 common shares (Placement Shares) equivalent to approximately 10.1% of the currently issued common shares of Indophil, on a fully diluted basis.

Indophil is an Australian company listed in the Australian stock exchange, which owns a 37.5% beneficial interest in Sagitarius 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, a subsidiary of SMHC. The total consideration for the purchase of the Placement Shares was A$41.3 (approximately US$40) or A$0.86 per Placement Share.

As of December 31, 2010, the fair value of the investment in Indophil amounted to P2,188.

Government Securities
This account consists of investments in government securities of Petrogen and ROP9 bonds of Ovincor.

Petrogen's investments bear fixed annual interest rates of 6.25% to 8.875% in 2010.

Ovincor's ROP9 bonds are maintained at the Bank of Bermuda with fixed interest rate of 8.3% to 8.9% and will mature in March 2015.

15. Interest in a Joint Venture

On August 27, 2008 and September 11, 2008, GSMI incorporated GBHL and SHL, respectively, as wholly-owned subsidiaries. GSMI subscribed to 1,000 shares of GBHL at par value of US$1.00 per share for a total subscription value of US$0.001(P0.05) and 1,000 shares of SHL at par value of US$1.00 per share for a total subscription value of US$0.001 (P0.05). Both entities are established as holding companies for the acquisition of additional investment in Thai San Miguel Liquor Co. Ltd. (TSML) and Thai Ginebra Trading (TGT), both a joint venture by GSMI with Thai Life Group of Companies.

On October 14, 2008, GSMI, through SHL, acquired 24,500 shares representing 49% ownership of the outstanding shares of Siam Wine and Liquor Limited (SWL), a limited company organized under the laws of Thailand, for Thailand Baht THB2 (P3). On the same date, SWL acquired 1,000,000 shares representing 10% ownership of the outstanding capital stock of TSML for THB106.48 (P148). SHL's share on the share purchase is THB52.2 (P72) for 490,000 shares at THB108.68 per share representing 4.9% ownership. Accordingly, GSMI group's share in TSML increased from 40% to 44.9%.

On October 14, 2008, GSMI advanced a total amount of US$3 (P147) to GBHL. On October 10, 2008, GBHL ("Lender") entered into a loan agreement with SWL ("Borrower") for the same amount, to finance the latter's working capital requirements and purchase of additional shares in TSML and TGT.

On March 9, 2009 and December 11, 2009, SHL ("Lender") entered into a loan agreement with SWL ("Borrower") for THB15 and THB10, respectively, to subscribe to the increase in capital stock of TSML.

On February 25, April 8 and December 7, 2010, the Lender entered into a loan agreement with the Borrower for a total of THB40 to subscribe to the increase in capital stock of TSML.

Presented below is the Group's share in the assets, liabilities, income and expenses of the joint venture as of and for the years ended December 31, 2010, 2009 and 2008 of TSML which is included in the Group's consolidated financial statements:

	2010	2009	2008
Current assets	**P777**	P556	P459
Noncurrent assets	**894**	896	911
Current liabilities	**437**	409	288
Noncurrent liabilities	**310**	416	526
Revenue	**893**	474	402
Cost of sales	**826**	397	398
Operating expenses	**63**	136	70
Other income	**7**	1	1
Net income (loss)	**(11)**	59	(65)

The Group's share in the cash flows of TSML for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Net cash flows provided by (used in) operating activities	**(P259)**	(P69)	P88
Net cash flows provided by (used in) investing activities	**792**	17	(70)
Net cash flows used in financing activities	**(106)**	(111)	(20)

On October 14, 2008, SWL acquired 5,000 shares representing 10% ownership of the outstanding capital stock of TGT for THB0.5 (P0.7). SHL's share on the share purchase is THB0.2 (P0.3) for 2,450 shares at THB100.00 per share representing 4.9% ownership. Accordingly, the GSMI group's share in TGT increased from 40% to 44.9%.

Presented below is the Group's share in the assets, liabilities, income and expenses of the joint venture as of and for the years ended December 31, 2010, 2009 and 2008 of TGT which is included in the Group's consolidated financial statements:

	2010	2009	2008
Current assets	**P50**	P102	P142
Noncurrent assets	**14**	30	44
Current liabilities	**276**	237	216
Noncurrent liabilities	**2**	16	29
Revenue	**232**	228	153
Cost of sales	**207**	206	121
Operating expenses	**111**	80	92
Other income	**1**	2	1
Net loss	**85**	57	60

The Group's share in the cash flows of TGT for the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Net cash flows provided by (used in) operating activities	**(P50)**	P1	P18
Net cash flows provided by (used in) investing activities	**27**	14	(43)
Net cash flows provided by (used in) financing activities	**(21)**	(13)	29

TSML and TGT both started commercial operations in March 2008.

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	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Cost:													
December 31, 2008	P9,189	P23,973	P -	P -	P -	P77,345	P2,920	P1,854	P2,606	P527	P840	P5,379	P124,633
Additions	424	897	-	-	-	2,766	729	210	126	144	115	838	6,249
Disposals/reclassifications/ acquisition of subsidiaries	977	(245)	-	-	-	(781)	(349)	315	(190)	(17)	(35)	(513)	(838)
Currency translation adjustments	37	(219)	-	-	-	(439)	5	(25)	-	3	1	(30)	(667)
December 31, 2009	10,627	24,406	-	-	-	78,891	3,305	2,354	2,542	657	921	5,674	129,377
Additions	437	561	568	-	364	3,073	3,170	285	129	267	73	(409)	8,518
Disposals/reclassifications/ acquisition of subsidiaries	4,136	7,642	214,331	37,286	4,955	5,340	2,148	(334)	1,532	(219)	243	838	277,898
Currency translation adjustments	77	(385)	-	-	-	(539)	(8)	22	(9)	(3)	-	(6)	(851)
December 31, 2010	**15,277**	**32,224**	**214,899**	**37,286**	**5,319**	**86,765**	**8,615**	**2,327**	**4,194**	**702**	**1,237**	**6,097**	**414,942**
Accumulated depreciation and amortization:													
December 31, 2008	1,054	6,199	-	-	-	38,076	2,027	1,510	2,157	403	334	-	51,760
Additions	83	721	-	-	-	3,696	226	139	182	161	46	-	5,254
Disposals/reclassifications/ acquisition of subsidiaries	7	(132)	-	-	-	(732)	(270)	42	(166)	(55)	(9)	-	(1,315)
Currency translation adjustments	10	(57)	-	-	-	(156)	4	(23)	5	2	1	-	(214)
December 31, 2009	1,154	6,731	-	-	-	40,884	1,987	1,668	2,178	511	372	-	55,485
Additions	109	745	2,464	86	42	3,630	240	168	161	157	75	-	7,877
Disposals/reclassifications/ acquisition of subsidiaries	1,197	3,358	3,147	16,459	3,700	3,015	170	(203)	1,252	(125)	107	-	32,077
Currency translation adjustments	2	(102)	-	-	-	(199)	(8)	58	(6)	(33)	1	-	(287)
December 31, 2010	**2,462**	**10,732**	**5,611**	**16,545**	**3,742**	**47,330**	**2,389**	**1,691**	**3,585**	**510**	**555**	-	**95,152**

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Machinery and Equipment	Transportation Equipment	Tools and Small Equipment	Office Equipment, Furniture and Fixtures	Molds	Leasehold Improvements	Construction in Progress	Total
Accumulated impairment losses:													
December 31, 2008	P -	P1,090	P -	P -	P -	P3,442	P1	P10	P15	P2	P -	P -	P4,560
Additions for the year	208	1,571	-	-	-	1,852	6	3	6	-	-	-	3,646
Disposals/reclassifications/ acquisition of subsidiaries	-	(280)	-	-	-	210	-	-	(1)	-	-	-	(71)
Currency translation adjustments	-	(68)	-	-	-	(94)	(1)	-	-	1	-	-	(162)
December 31, 2009	208	2,313	-	-	-	5,410	6	13	20	3	-	-	7,973
Additions for the year	-	1,574	-	-	-	2,248	6	-	20	-	-	-	3,848
Disposals/reclassifications/ acquisition of subsidiaries	204	(5)	-	-	-	(138)	-	7	2	(2)	-	-	68
Currency translation adjustments	-	(53)	-	-	-	(117)	-	-	(1)	(1)	-	-	(172)
December 31, 2010	**412**	**3,829**	-	-	-	**7,403**	**12**	**20**	**41**	-	-	-	**11,717**
Net book value:													
December 31, 2009	P9,265	P15,362	P -	P -	P -	P32,597	P1,312	P673	P344	P143	P549	P5,674	P65,919
December 31, 2010	**P12,403**	**P17,663**	**P209,288**	**P20,741**	**P1,577**	**P32,032**	**P6,214**	**P616**	**P568**	**P192**	**P682**	**P6,097**	**P308,073**

Depreciation, amortization and impairment losses recognized in profit or loss amounted to P11,725, P8,900 and P4,933 in 2010, 2009 and 2008, respectively (Notes 29 and 33). These amounts include annual amortizations of capitalized interest amounting to P2 in 2010, 2009 and 2008.

The Group has interest amounting to P15 and P6 which were capitalized to machinery and equipment in 2010 and 2009, respectively. The capitalization rate used to determine the amount of interest eligible for capitalization was 5.73% in 2010 and 5.96% in 2009. As of December 31, 2010 and 2009, the unamortized capitalized borrowing costs amounted to P97 and P94, respectively.

The carrying amount of power plants and transportation equipment under finance lease amounted to P209,301 and P30 as of December 31, 2010 and 2009, respectively (Note 35).

In 2008, the Group, through SMPI, sold its parcel of land, including improvements located along Aurora Boulevard, Quezon City for a total consideration of P1,616. The gain recognized by the Group relating to the sale amounting to P1,562, is presented as part of "Gain on sale of investments and property and equipment" in the consolidated statements of income.

Land and land improvements include a 144-hectare property in 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 included in the account as of December 31, 2008 amounted to P37.

To settle the land dispute, a Memorandum of Agreement (MOA) was executed between SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in October 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal for their concurrence. As of March 14, 2011, finalization of the Joint Manifestation and Motion for Dismissal is still ongoing.

The cost of farm improvements, buildings, machinery and equipment and construction in progress incurred for Monterey's hog farm expansion project situated in Sumilao amounted to P889 and P676 in 2010 and 2009, respectively.

17. Investment Properties

The movements in investment properties, including the effects of currency translation adjustments are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Tools and Small Equipment	Total
Cost:					
December 31, 2008	P1,765	P671	P1,013	P9	P3,458
Additions/reclassifications	71	7	-	-	78
Disposals	(2)	(38)	-	-	(40)
Currency translation adjustments	7	(11)	-	-	(4)
December 31, 2009	1,841	629	1,013	9	3,492
Additions/reclassifications	289	28	2	-	319
Disposals	(3)	(39)	-	-	(42)
Currency translation adjustments	31	(18)	-	-	13
December 31, 2010	**2,158**	**600**	**1,015**	**9**	**3,782**
Accumulated depreciation:					
December 31, 2008	73	222	901	9	1,205
Additions	8	11	15	-	34
Disposals/reclassifications	-	(7)	-	-	(7)
Currency translation adjustments	-	(3)	-	-	(3)
December 31, 2009	81	223	916	9	1,229
Additions	8	22	13	-	43
Disposals/reclassifications	-	(6)	-	-	(6)
Currency translation adjustments	(2)	(6)	-	-	(8)
December 31, 2010	**87**	**233**	**929**	**9**	**1,258**
Accumulated impairment losses:					
December 31, 2008	342	73	-	-	415
Additions	3	-	-	-	3
Disposals	-	(24)	-	-	(24)
Currency translation adjustments	4	(2)	-	-	2
December 31, 2009	349	47	-	-	396
Additions	-	-	-	-	-
Disposals/reclassifications	(6)	(11)	-	-	(17)
Currency translation adjustments	13	(1)	-	-	12
December 31, 2010	**356**	**35**	**-**	**-**	**391**
Net book value:					
December 31, 2009	P1,411	P359	P97	P -	P1,867
December 31, 2010	**P1,715**	**P332**	**P86**	**P -**	**P2,133**

Impairment losses amounting to P3 in 2009 is included under "Other income (charges)" account in the consolidated statements of income (Note 33). No impairment loss was recognized in 2010.

There are no other direct selling and administrative expenses other than depreciation and real property taxes arising from investment properties that generated income in 2010, 2009 and 2008.

18. Biological Assets

Biological assets consist of poultry, hogs and cattle as follows:

	2010	2009
Current:		
Growing stocks	**P2,559**	P2,309
Goods in process	**708**	216
Total Current	**3,267**	2,525
Noncurrent breeding stocks - net	**1,479**	1,847
	P4,746	P4,372

The amortization of breeding stocks recognized in profit or loss amounted to P1,081, P909 and P863 in 2010, 2009 and 2008, respectively.

Growing stocks pertain to growing broilers, hogs and cattle and goods in process pertain to hatching eggs and carcass.

The movements in biological assets, including the effects of foreign exchange adjustments are as follows:

	2010	2009
Gross:		
Balance at beginning of year	**P4,598**	P6,767
Increase (decrease) due to:		
Purchases	**13,101**	13,391
Production	**11,308**	11,147
Mortality	**(414)**	(492)
Sales	**(4,693)**	(7,535)
Harvest	**(17,884)**	(15,957)
Currency translation adjustments	**(1,006)**	(2,723)
Balance at end of year	**5,010**	4,598
Accumulated amortization:		
Balance at beginning of year	**226**	2,021
Additions	**1,081**	909
Disposals and others	**(1,043)**	(2,704)
Balance at end of year	**264**	226
Net book value	**P4,746**	P4,372

The Group harvested approximately 392.2 million and 348.1 million kilograms of grown broilers, in 2010 and 2009, respectively, and 0.35 million and 0.78 million heads of marketable hogs and cattle in 2010 and 2009, respectively.

19. Goodwill and Other Intangible Assets

The movements in goodwill, including effects of currency translation adjustments are as follows:

	Note	**2010**	2009
Balance at beginning of year		**P6,408**	P5,201
Additions	*5*	**24,456**	1,296
Impairment	*33*	**(461)**	(33)
Currency translation adjustments		**(152)**	(56)
Balance at end of year		**P30,251**	P6,408

The movements in other intangible assets with indefinite useful lives, including the effects of currency translation adjustments are as follows:

	Note	**Trademarks and Brand Names**	**Licenses**	**Formulas and Recipes**	**Total**
Cost:					
December 31, 2008		P2,251	P -	P58	P2,309
Currency translation adjustments		21	-	-	21
December 31, 2009		2,272	-	58	2,330
Additions and acquisition of subsidiaries	*5*	-	5,221	-	5,221
Disposals and reclassifications		(1,839)	1,917	-	78
Currency translation adjustments		(3)	-	-	(3)
December 31, 2010		**430**	**7,138**	**58**	**7,626**
Accumulated amortization and impairment losses:					
December 31, 2008		-	-	-	-
Additions	*33*	133	-	-	133
December 31, 2009		133	-	-	133
Additions	*33*	64	-	-	64
Currency translation adjustments		(7)	-	-	(7)
December 31, 2010		**190**	-	-	**190**
Net book value:					
December 31, 2009		P2,139	P -	P58	P2,197
December 31, 2010		**P240**	**P7,138**	**P58**	**P7,436**

The movements in other intangible assets with finite useful lives, including the effects of currency translation adjustments are as follows:

	Note	Service Concession Rights	Licenses	Mining Rights	Land Use Rights	Others	Total
Cost:							
December 31, 2008		P -	P118	P -	P1,820	P618	P2,556
Additions		-	-	-	-	6	6
Disposals and reclassifications		-	21	-	118	65	204
Currency translation adjustments		-	-	-	(48)	-	(48)
December 31, 2009		-	139	-	1,890	689	2,718
Additions and acquisition of subsidiaries	*5*	91	-	1,800	-	69	1,960
Disposals and reclassifications		-	62	-	-	3	65
Currency translation adjustments		-	2	-	(73)	(3)	(74)
December 31, 2010		**91**	**203**	**1,800**	**1,817**	**758**	**4,669**
Accumulated amortization and impairment losses:							
December 31, 2008		-	43	-	477	533	1,053
Additions	*33*	-	9	-	37	38	84
Disposals and reclassifications		-	-	-	144	22	166
Currency translation adjustments		-	-	-	(17)	(1)	(18)
December 31, 2009		-	52	-	641	592	1,285
Additions and acquisition of subsidiaries	*33*	1	12	-	(202)	51	(138)
Disposals and reclassifications		-	(3)	-	-	11	8
Currency translation adjustments		-	1	-	(29)	(2)	(30)
December 31, 2010		**1**	**62**	-	**410**	**652**	**1,125**
Net book value:							
December 31, 2009		P -	P87	P -	P1,249	P97	P1,433
December 31, 2010		**P90**	**P141**	**P1,800**	**P1,407**	**P106**	**P3,544**

Intangible asset-service concession right substantially represents 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, 20 and 24).

Mining rights and licenses with finite lives and licenses, goodwill, trademarks and brand names with indefinite lives acquired through business combinations have been allocated to individual cash-generating units, for impairment testing as follows:

	2010			2009	
	Goodwill	**Licenses , Trademarks and Brand Names**	**Mining Rights**	Goodwill	Licenses, Trademarks and Brand Names
Fuel and Oil	**P22,025**	**P -**	**P -**	P -	P -
Food	**2,936**	**227**	**-**	2,943	233
Packaging	**2,026**	**-**	**-**	2,139	-
Beverage	**772**	**1,930**	**-**	1,265	1,906
Power Generation and Distribution	**-**	**-**	**1,800**	-	-
Infrastructure	**2,431**	**-**	**-**	-	-
Telecommunications	**-**	**5,221**	**-**	-	-
Others	**61**	**-**	**-**	61	-
Total	**P30,251**	**P7,378**	**P1,800**	P6,408	P2,139

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% for 2010 and 2009. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

Impairment loss on goodwill amounting to P461, P33 and P322 was recognized and is included in "Other income (charges)" account in 2010, 2009 and 2008, respectively (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 increased over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

Discount Rates. The Group uses the weighted average cost of capital as the discount 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. Forecast consumer price is obtained from indices during the budget period from which raw materials are purchased. Value assigned to key assumption is consistent with external sources of information.

20. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2010**	2009
Noncurrent receivables and deposits - net	*40, 41, 42*	**P24,783**	P5,933
Deferred containers - net	*4*	**4,420**	4,446
Project development costs	*4, 5*	**2,186**	-
Retirement assets	*36*	**147**	160
Others		**2,265**	1,929
		P33,801	P12,468

Noncurrent receivables and deposits include advances to Petron Corporation Employee Retirement Plan (PCERP) and deposits to Meralco amounting to P22,435 and P87, respectively, as of December 31, 2010, and advances to SMEC and deposits to Meralco amounting to P2 and P68 as of December 31, 2009 (Note 34).

Project development costs consist of expenses related to the development of the MRT 7 Project (Note 35) which are capitalized. These include manpower costs, engineering service costs, financing fees, technology development and consultancy service costs, overhead costs and other related project costs.

"Others" include noncurrent prepaid rent and insurance, catalysts, deferred exploration and development costs and idle assets.

Idle assets included under "Others" amounted to P169 and P235 as of December 31, 2010 and 2009, respectively (Note 33).

21. Drafts and Loans Payable

Drafts and loans payable consist of:

	Note	**2010**	2009
Parent Company			
Peso-denominated		**P22,422**	P34,331
Foreign currency-denominated		**-**	3,188
Subsidiaries			
Peso-denominated		**48,214**	16,125
Foreign currency-denominated		**3,492**	3,145
	41, 42	**P74,128**	P56,789

Drafts and loans payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.05% to 4.50% and 3.10% to 6.79% in 2010 and 2009, respectively. Interest rates for foreign currency-denominated loans range from 1.8% to 16.5% and 1.32% to 12.08% in 2010 and 2009, respectively.

Drafts and loans payable of the Group are not subject to covenants and warranties.

22. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2010**	2009
Trade		**P34,591**	P8,791
Payables on the purchase of shares of stock	*5, 13*	**14,839**	7,280
Non-trade		**12,383**	10,783
Amounts owed to related parties	*34*	**1,843**	32
Subscriptions payable	*13*	**1,290**	-
Retirement liabilities	*36*	**503**	572
Obligation under a put option	*4, 35*	**386**	-
Others		**3,939**	3,933
	41, 42	**P69,774**	P31,391

Derivative liabilities included under "Others" amounted to P71 and P111 as of December 31, 2010 and 2009, respectively (Notes 41 and 42).

Non-trade payables include freight payable, contract growers/breeders' fee, guarantee deposits, utilities, rent and other expenses payable to external parties, as supported by invoices, which were not paid in the month in which they are incurred.

The current portion of IRO included in "Non-trade" amounted to P2 as of December 31, 2010 (Note 35).

Others include payroll-related accruals and accrued interest payable.

23. Long-term Debt

Long-term debt consist of:

	2010	2009
Parent Company		
Unsecured term notes:		
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus an agreed margin, with maturities up to 2015 (a)	**P42,810**	P26,397
Peso-denominated:		
Floating interest rate based on PDST-F plus an agreed margin, with maturities up to 2012, 2014 and 2015 (b)	**10,838**	2,982
	53,648	29,379
Subsidiaries		
Peso-denominated:		
Bonds:		
Fixed interest rate of 8.25%, 8.875% and 10.5% maturing in 2012, 2014 and 2019, respectively (c)	**38,425**	38,416
Unsecured term notes:		
Fixed interest rate of 7% maturing in 2017 (d)	**19,779**	-
Fixed interest rate of 8.88%, 8.14% and 9.33% maturing in 2011, 2014 and 2016, respectively (e)	**16,162**	-
Fixed interest rate of 6.50% and 7.25% maturing in 2012 and 2014, respectively (f)	**2,217**	2,214
Fixed interest rate of 7.63% and 8.30% maturing in 2015 (g)	**1,493**	-
Fixed interest rate of 6.73% maturing in 2012 (h)	**767**	-
Fixed interest rate of 5.4885% maturing in 2015 (i)	**793**	-
Floating interest rate based on PDST-F plus an agreed margin, with maturities up to 2011 and 2014 (j)	**2,466**	-
Floating interest rate based on PDST-F plus an agreed margin, with maturities up to 2015 (i)	**3,668**	-
Foreign currency-denominated:		
Unsecured term notes:		
Floating interest rate based on LIBOR plus an agreed margin, with maturities up to 2015 (k)	**15,229**	-
Floating interest rate based on LIBOR plus an agreed margin, with maturities up to 2014 (l)	**12,840**	-
Floating interest rate based on VNIBOR and THBFIX plus an agreed margin, with maturities up to 2014 (m)	**1,440**	2,953
	115,279	43,583
	168,927	72,962
Less current maturities	**12,549**	1,077
	P156,378	P71,885

a. The amount represents drawdown by the Parent Company in 2010 and 2009 from the US$1,000 loan and US$600 loan facility, respectively. The drawdown was used to refinance its existing financial indebtedness and for general working capital purposes.

   The balance of the US$600 loan was paid off by the Parent Company on July 26, 2010 out of the proceeds of the US$1,000 loan facility.

   Unamortized debt issue costs related to these loans amounted to P1,030 and P1,323 as of December 31, 2010 and 2009, respectively.

b. The amount represents drawdown by the Parent Company in 2010 and 2009 for general financing and corporate requirements. Unamortized debt issue costs related to these loans amounted to P12 and P18 as of December 31, 2010 and 2009, respectively.

c. SMB offered for sale and subscription to the public Philippine peso-denominated fixed rate bonds in the aggregate principal amount of P38,800 (Bonds) on April 3, 2009 (Issue Date). The Bonds was issued in three (3) series: Series A Bonds with an aggregate principal amount of P13,590 having a term of 3 years beginning on Issue Date and ending on April 3, 2012, with a fixed interest rate of 8.25% per annum; Series B Bonds with an aggregate principal amount of P22,400 having a term of 5 years and 1 day beginning on Issue Date and ending on April 4, 2014, with a fixed interest rate of 8.875% per annum; and Series C Bonds with an aggregate amount of P2,810 having a term of 10 years beginning on Issue Date and ending on April 3, 2019, with a fixed interest rate of 10.50% per annum. Proceeds from the issuance of the Bonds were used to finance SMB's acquisition of the interest of the Parent Company in IBI and in BPI. Unamortized debt issue costs related to these bonds amounted to P276 and P384 as of December 31, 2010 and 2009, respectively.

   On November 17, 2009, the Philippine Dealing & Exchange Corp. (PDEX) approved SMB's application to list its peso-denominated fixed rate bonds for trading on the PDEX.

d. 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. Unamortized debt issue cost related to this loan amounted to P222 as of December 31, 2010.

e. The amount represents fixed rate corporate notes issued by Petron amounting to P6,300 in 2006 and P5,200 and P4,800 in 2009. The P6,300 fixed rate corporate note was used to finance the construction of its Petro Fluidized Catalytic Cracker Unit and Propylene Recovery Unit and for other general financing purposes. Unamortized debt issue cost related to this loan amounted to P89 as of December 31, 2010.

f. The amount represents syndicated loans obtained by SMYAC which were used for capital expenditures. Unamortized debt issue costs related to these loans amounted to P8 and P11 as of December 31, 2010 and 2009, respectively.

g. The amount represents drawdown by GSMI in 2010, from a local bank, used for working capital requirements. Unamortized debt issue costs related to these bonds amounted to P7 as of December 31, 2010.

h. The amount represents a club loan agreement of Petron with Metropolitan Bank and Trust Company and Citibank amounting to P1,000 each in 2007. The loan bears interest of 6.73% per annum payable in 13 quarterly installments starting January 2009 up to 2012. In December 2007, Citibank assigned P900 of its interest in the Club loan agreement to the following financial institutions:

Bank Name	Amount
MayBank Phils.	P500
Mega International Commercial Bank of China	300
Robinsons Bank	100
	P900

In May 2008, Citibank assigned its remaining P100 interest to Insular Life Assurance Co. Ltd. Unamortized debt issue costs related to these loans amounted to P2 as of December 31, 2010.

i. SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate corporate notes with principal in the aggregate amount of P800 and P3,700, respectively. Both types of bonds have a term of 5 years and 1 day beginning on December 10, 2010 and ending in December 11, 2015. The fixed rate bonds has a fixed interest rate of 5.4885% per annum, while the floating rate bond has a floating interest rate based on 3-month PDST-F plus an agreed margin. Proceeds from the issuance of the bonds will be used to fund any expansion or any investment in new businesses by SMFI and for other general corporate financing purposes. Unamortized debt issue costs related to these bonds amounted to P39 as of December 31, 2010.

j. The amount includes a loan agreement entered into by Petron with Land Bank of the Philippines in 2006 amounting to P2,000, used for capital expenditures. Unamortized debt issue costs related to these notes amounted to P1 as of December 31, 2010. It also includes a loan agreement entered into by Petron with Development Bank of the Philippines in 2010 amounting to P1,800. The loan was obtained to finance Petron's general corporate requirements.

k. The amount represents drawdown by Petron in 2010 from the US$355 loan facility for general corporate purposes and refinancing of peso-denominated debts. Unamortized debt issue costs related to this loan facility amounted to P334 as of December 31, 2010.

l. 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 beverages business from the Parent Company, through SMB's purchase of SMH's shares in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL. Unamortized debt issue costs related to this loan facility amounted to P312 as of December 31, 2010.

m. The amount includes loan obtained by SMFBIL's subsidiaries, which was used to finance their capital expenditures. It also includes the 44.9% share of the loan of TSML in 2010 and 2009 to finance its plant constructions and start up operations. Unamortized debt issue costs related to these loans amounted to P1 and P2 as of December 31, 2010 and 2009, respectively.

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, 2010 and 2009, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	Note	**2010**	2009
Balance at beginning of year		**P1,738**	P424
Additions and reclassification		**2,404**	1,889
Amortization	*31*	**(1,808)**	(575)
Balance at end of year		**P2,334**	P1,738

Repayment Schedule
As of December 31, 2010, the annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2011	P12,722	P173	P12,549
2012	21,084	589	20,495
2013	5,059	351	4,708
2014	33,569	578	32,991
2015	71,505	535	70,970
2016	4,512	42	4,470
2017	20,000	36	19,964
2019	2,810	30	2,780
Total	**P171,261**	**P2,334**	**P168,927**

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 41.

24. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	**2010**	2009
Payables on the purchase of shares of stock	*5, 13*	**P15,063**	P18,148
ARO	*4*	**815**	-
Retirement liabilities	*36*	**132**	192
Obligation to the Philippine Government - service concession agreement	*4, 19, 20*	**77**	-
IRO	*4, 20*	**45**	-
Redeemable preferred shares	*4*	**12**	-
Subscriptions payable		**-**	1,014
Cash bonds, cylinder deposits and others		**1,016**	231
		P17,160	P19,585

Redeemable preferred shares represent preferred shares of TADHC. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares shall be preferred as to dividends, which shall be given on the face of coupons, at the rate of 90% of the 1 year PDST-F rate. The dividends shall be cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings.

The preferred shares are mandatorily redeemable at the end of the ten-year period from and after the issuance of the preferred shares. The redemption price is equivalent to 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 shall be entitled to be paid in full or proportionately to the extent that the remaining assets of TADHC will permit, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period, before any assets of TADHC shall be paid or distributed to the holders of the common shares.

25. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2010	2009
Allowance for impairment losses on trade and other receivables and inventory	**P1,745**	P1,163
MCIT	**434**	1,145
NOLCO	**392**	753
Undistributed net earnings of foreign subsidiaries	**(10,137)**	(11,213)
Unrealized intercompany charges and others	**948**	4,998
	(P6,618)	(P3,154)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2010**	2009
Deferred tax assets	*4*	**P7,134**	P8,883
Deferred tax liabilities		**(13,752)**	(12,037)
		(P6,618)	(P3,154)

The undistributed earnings of foreign subsidiaries and cumulative translation adjustments for which deferred tax liabilities have not been recognized totaled P10,291 and P11,425 as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, 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
2008	December 31, 2011	P3	P122
2009	December 31, 2012	1,304	312
		P1,307	**P434**

The components of income tax expense are shown below:

	Note	**2010**	2009	2008
Current		**P11,517**	P10,254	P7,907
Deferred		**(79)**	(6,548)	(1,809)
Income tax expense from continuing operations		**11,438**	3,706	6,098
Income tax benefit from ordinary activities of discontinued operations	*8*	**-**	-	(7)
Income tax expense from gain on disposal of discontinued operations	*8*	**-**	-	2,921
		P11,438	P3,706	P9,012

The reconciliation between the statutory income tax rate on income tax before income tax from continuing operations and the Group's effective income tax rate is as follows:

	2010	2009	2008
Statutory income tax rate	**30.00%**	30.00%	35.00%
Increase (decrease) in income tax rate resulting from:			
Equity in net losses (earnings) of associates	**(5.76)**	(1.31)	1.91
Interest income subject to final tax	**(2.56)**	(2.79)	(11.17)
Loss (gain) on derivatives	**(0.56)**	(0.45)	18.06
Gain on sale of investments subject to final or capital gains tax	**-**	(23.52)	(12.05)
Others, mainly income subject to different tax rates and change in tax rate - net	**11.10**	3.83	(2.38)
Effective income tax rate	**32.22%**	5.76%	29.37%

26. Stockholders' Equity

a. On July 24, 2007, the stockholders of the Parent Company approved the increase in the Parent Company's authorized capital stock from P22,500 to P37,500, which will be made up of 3,600,000,000 Class "A" common shares, 2,400,000,000 Class "B" common shares and 1,500,000,000 preferred shares, all with a par value of P5.00 per share.

On July 23, 2009, during the Parent Company's annual stockholders' meeting, the stockholders approved amendments to the Parent Company's Articles of Incorporation providing for the reclassification of the common shares comprising the authorized capital stock of P22,500. The authorized capital stock of the Parent Company was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares and 1,110,000,000 Series "1" preferred shares, and defined the terms and features of the Series "1" preferred shares. The preferred shares shall be 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 these amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009. The stockholders also approved in the same stockholders' meeting, further amendments to the resolutions on the increase in the authorized capital stock of the Parent Company which were passed during the 2007 annual stockholders' meeting to provide for the division of the increased authorized capital stock of the Parent Company into common shares and two series of preferred shares. The proposed increase in the authorized capital stock of the Parent Company has not been submitted to the SEC for approval.

Also, on July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one (1) common share for one (1) Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the Parent Company's BOD approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

On July 27, 2010, the Parent Company's BOD approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share. The proceeds will be used to finance investments and acquisitions of the Parent Company.

b. *Capital Stock*

Common Stock
Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company shall be considered as common shares without distinction, as approved by the SEC. Both shall be available for foreign investors, subject to the foreign ownership limit.

The movements in the number of issued and outstanding shares of common stock are as follows:

	2010
Balance at beginning of year	**3,229,944,942**
Issuances during the year	**38,649,312**
Issued shares at end of year	**3,268,594,254**
Less treasury shares	**938,648,724**
Issued and outstanding shares at end of year	**2,329,945,530**

	2009	2008
Class "A"		
Balance at beginning of year	1,975,940,615	1,975,292,245
Issuances during the year	4,652,540	648,370
Issued shares at end of year	1,980,593,155	1,975,940,615
Less treasury shares	530,959,512	54,662,760
Issued and outstanding shares at end of year	1,449,633,643	1,921,277,855
Class "B"		
Balance at beginning of year	1,246,527,833	1,246,527,833
Issuances during the year	2,823,954	-
Issued shares at end of year	1,249,351,787	1,246,527,833
Less treasury shares	407,689,212	10,812,611
Issued and outstanding shares at end of year	841,662,575	1,235,715,222

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 shall 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 December 8, 2010, the Parent Company listed 873,173,353 Series "1" preferred shares worth P65,488, representing 27.6% of its outstanding stock.

As of December 31, 2010 and 2009, the Parent Company has 970,506,353 outstanding Series "1" preferred shares.

c. Treasury shares, totaling 65,475,371 Class "A" and "B" common shares, are stated at acquisition cost, while 873,173,353 Class "A" and "B" common shares were acquired through the exchange of common shares to preferred shares on a one-for-one basis at P75.00 per share.

Out of the total treasury shares, 25,450,000 common shares (15,274,484 Class "A" common shares and 10,175,516 Class "B" common shares), with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the Parent Company shares under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the 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.

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 compromised 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 Case No. 033-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 are 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.

The Supreme Court affirmed its resolution, issued on September 17, 2009, allowing the PCGG to convert the 24% sequestered shares of the Parent Company in the name of CIIF into Series "1" preferred shares. The Court held that the conversion is necessary to preserve the value of the 753,848,312 common shares.

On February 11, 2010, the Supreme Court amended its Resolution dated September 17, 2009 and authorized the PCGG to exercise discretion in depositing on 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, having in mind the greater interest of the government and the coconut farmers.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares.

The movements in the number of acquired shares of treasury stock are as follows:

	2009	2008
Class "A"		
Balance at beginning of year	54,662,760	54,662,760
Acquisition through exchange of common shares to preferred shares during the year	476,296,752	-
Balance at end of year	530,959,512	54,662,760
Class "B"		
Balance at beginning of year	10,812,611	10,812,611
Acquisition through exchange of common shares to preferred shares during the year	396,876,601	-
Balance at end of year	407,689,212	10,812,611

As of December 31, 2010, the Parent Company holds 938,648,724 common treasury shares.

d. The Group's unappropriated retained earnings includes its accumulated equity in net earnings of subsidiaries and associates amounting to P16,429, P18,184 and P57,482 in 2010, 2009 and 2008, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The Parent Company's unappropriated retained earnings as of December 31, 2010 and 2009 is restricted in the amount of P69,541, representing the cost of shares held in treasury.

e. The BOD of certain subsidiaries approved additional appropriations amounting to P200, P15 and P176 in 2010, 2009 and 2008, respectively, to finance future capital expenditure projects. Reversal of appropriations in 2010, 2009 and 2008 amounted to P27, P40 and P688, respectively.

27. Cost of Sales

Cost of sales consist of:

	Note	**2010**	2009	2008
Inventories		**P102,166**	P75,051	P76,205
Taxes and licenses		**23,343**	21,515	19,703
Fuel and oil		**17,504**	2,170	3,267
Depreciation and amortization	*29*	**7,287**	4,994	4,660
Contracted services		**5,929**	4,682	4,296
Freight, trucking and handling		**5,504**	4,392	4,230
Communications, light and water		**4,585**	3,662	4,232
Personnel	*30*	**3,827**	3,802	3,815
Repairs and maintenance		**1,962**	1,827	1,584
Rent	*4, 35*	**507**	455	550
Others		**1,292**	1,745	1,530
		P173,906	P124,295	P124,072

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2010	2009	2008
Selling	**P18,239**	P12,905	P13,518
Administrative	**19,187**	17,344	15,633
	P37,426	P30,249	P29,151

Selling expenses consist of:

	Note	**2010**	2009	2008
Freight, trucking and handling		**P5,922**	P2,021	P2,049
Advertising and promotions		**4,977**	4,980	5,697
Personnel	*30*	**4,180**	3,635	3,251
Rent	*4, 35*	**1,200**	1,060	995
Depreciation and amortization	*29*	**419**	221	248
Supplies		**326**	251	281
Taxes and licenses		**271**	249	213
Communications, light and water		**193**	218	169
Professional fees		**131**	45	43
Others		**620**	225	572
		P18,239	P12,905	P13,518

Administrative expenses consist of:

	Note	**2010**	2009	2008
Personnel	*30*	**P8,081**	P7,385	P6,771
Depreciation and amortization	*29*	**2,403**	2,110	1,859
Professional fees		**1,750**	2,383	1,283
Advertising and promotion		**1,201**	822	1,614
Taxes and licenses		**794**	673	617
Supplies		**755**	711	710
Communications, light and water		**713**	644	692
Repairs and maintenance		**680**	952	867
Freight, trucking and handling		**513**	270	316
Research and development		**236**	212	299
Rent	*4, 35*	**88**	605	251
Others	*40*	**1,973**	577	354
		P19,187	P17,344	P15,633

"Others" consist of entertainment and amusement, gas and oil, and other operating and administrative expenses.

29. Depreciation, Amortization and Impairment

Depreciation and amortization are distributed as follows:

	Note	**2010**	2009	2008
Cost of sales:				
Property, plant and equipment	*16*	**P6,192**	P3,852	P3,604
Deferred containers, biological assets and others	*18, 20*	**1,095**	1,142	1,056
	27	**7,287**	4,994	4,660
Selling and administrative expenses:				
Property, plant and equipment	*16*	**1,685**	1,402	1,329
Deferred containers and others	*20, 33*	**1,137**	929	778
	28	**2,822**	2,331	2,107
		P10,109	P7,325	P6,767

"Others" include amortization of computer software, land use rights, licenses and investment properties.

30. Personnel Expenses

Personnel expenses consist of:

	Note	**2010**	2009	2008
Salaries and wages		**P7,990**	P7,205	P6,440
Retirement costs	*36*	**285**	594	857
Other employee benefits		**7,813**	7,023	6,540
		P16,088	P14,822	P13,837

Personnel expenses are distributed as follows:

	Note	**2010**	2009	2008
Cost of sales	*27*	**P3,827**	P3,802	P3,815
Selling expenses	*28*	**4,180**	3,635	3,251
Administrative expenses	*28*	**8,081**	7,385	6,771
		P16,088	P14,822	P13,837

31. Interest Expense and Other Financing Charges

	2010	2009	2008
Interest expense	**P13,870**	P6,780	P5,370
Other financing charges	**2,708**	1,146	662
	P16,578	P7,926	P6,032

Amortization of debt issue costs in 2010, 2009 and 2008 included in other financing charges amounted to P1,808, P575 and P374, respectively (Note 23).

Interest expense on drafts and loans payable and long-term debt are as follows:

	2010	2009	2008
Drafts and loans payable	**P3,035**	P2,916	P2,960
Long-term debt	**10,835**	3,864	2,410
	P13,870	P6,780	P5,370

32. Interest Income

Interest income consist of:

	Note	**2010**	2009	2008
Interest from short-term investments, cash in banks and others		**P2,941**	P5,350	P4,320
Interest on amounts owed by a related party	*10*	**82**	639	2,310
		P3,023	P5,989	P6,630

33. Other Income (Charges)

Other income (charges) consist of:

	Note	**2010**	2009	2008
Foreign exchange gains (losses)		**P6,097**	(P3,364)	P8,684
Gain on acquisition of a subsidiary	*5, 39*	**4,490**	-	-
Gains (losses) on derivatives - net	*42*	**660**	962	(10,718)
Loss on impairment of goodwill, trademark and brand name, property, plant and equipment and idle assets (a, b, c, d)	*16, 17 ,19*	**(4,233)**	(4,756)	(322)
Others (b)		**(88)**	315	94
		P6,926	(P6,843)	(P2,262)

a. In 2010 and 2009, the Group recognized impairment loss on noncurrent assets of SMBHK and San Miguel (Guangdong) Brewery Company Limited (SMGB). Over the past three years, the Group's business performance of SMBHK and SMGB had been adversely affected by factors including economic downturns, fierce market competition, counterfeit products and poor weather conditions.

SMBHK

In 2010, the recoverable amount of SMBHK cash-generating unit (CGU) has been determined using the value in use calculation derived on the cash flow projections based on the business forecasts approved by the management covering a period of five years on which cash flows beyond the covered periods are extrapolated using a steady growth rate of 2%.

Key assumptions used for value in use calculation are as follows:

	2010
Sales volume growth rate	**1.7 - 12.6%**
Gross contribution rate	**40 - 43%**
Pre-tax discount rate	**9.85%**

SMGB
In 2010, the estimates of recoverable amount of SMGB CGU were based on the assets' fair values less costs to sell, determined by reference to the observable market prices for similar assets on which the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. In 2009 however, the estimated recoverable amount of the mainland China CGU was determined using value in use calculation. This calculation uses the discounted value of the projected cash flows to be generated over the remaining useful life of the CGU. Cash flows beyond the six-year period were extrapolated using a steady growth rate of 4%.

Key assumptions used for value in use calculation are as follows:

	2009
Sales volume growth rate	5.5 - 7.3%
Gross contribution rate	39 - 40%
Pre-tax discount rate	13.17%

Management determined the growth rate and gross contribution rate based on past experiences, future expected market trends and an intermediate holding company's import plan of beer brewed by the Group.

As of December 31, 2010 and 2009, the Group assessed the recoverable amounts of the CGUs to which these assets belong, and as a result, the carrying amounts of the assets in the CGUs were written down by P4,333 and P3,705, respectively, presented as follows:

	Note	**2010**	2009
Other charges		**P4,182**	P3,705
Selling and administrative expenses	*29*	**151**	-
		P4,333	P3,705

b. In 2010 and 2009, the Group recognized provisions for impairment loss on land and idle assets (included under "Other noncurrent assets") amounting to P51 and P54, respectively, 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 (Note 20). In 2010, following the recent appraisal reports, the Group reversed the impairment loss on land amounting to P46 which was included under "Others".

c. In 2009, the Group reduced the carrying amount of certain assets of SMPPC by a total of P694 after the latter ceased its commercial operations on July 27, 2009.

d. On December 31, 2008, the Group reviewed the recoverable amount of its investment in shares of stock of Star Dari, Inc. (SDI). It was determined that the carrying amount of the investment is higher than its value in use and an impairment loss of P322 was recognized. The discount rate applied to after tax cash flow projections of SDI was 12%. The impairment loss was allocated fully to goodwill (Note 19).

34. Related Party Disclosures

Transactions with related parties are made at normal market prices. For the years ended December 31, 2010, 2009 and 2008, the Group did not provide any allowance for impairment losses relating to amounts owed by related parties. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

a. The Parent Company has advances to SMCRP amounting to P3,997 and P2,785 as of December 31, 2010 and 2009, respectively, included as part of "Trade and other receivables" account (Note 10).

b. The Parent Company has advances to Top Frontier amounting to P2,543 as of December 31, 2010, included as part of "Trade and other receivables" account (Note 10).

c. SMPI has advances from SMCRP amounting to P1,800 as of December 31, 2010, included as part of "Accounts payable and accrued expenses" account (Notes 13 and 22). SMPI used the proceeds of the advances mainly for the acquisition of additional BOC shares. As of December 31, 2010, SMPI also has outstanding advances to SMCRP amounting to P2 included as part of "Trade and other receivables" account (Note 10).

d. The significant transactions of the Group and Meralco include the following:

Year	Sales	Purchases of Utilities	Included under "Trade and other receivables" account (Note 10)	Included under "Accounts payable and accrued expenses" account (Note 22)
2010	P17,103	P490	P4,548	P43
2009	P -	P692	P72	P32

In 2010 and 2009, the Group has noncurrent receivables and deposits from Meralco amounting to P87 and P68, respectively (Note 20).

e. As of December 31, 2010, Vega has advances to LTHI which amounted to P145 included as part of "Trade and other receivables" account (Note 10).

f. As of December 31, 2010, the Group has outstanding receivables from BOC amounting to P4 included as part of "Trade and other receivables" account (Note 10).

g. As of December 31, 2010, Petron has noncurrent receivables of P22,435 from PCERP (Note 20). Such advance is subject to interest of 4% per annum.

h. As of December 31, 2009, the Parent Company has advances to SMEC which amounted to P313 and P2 included as part of "Trade and other receivables" and "Other noncurrent assets" accounts, respectively (Notes 10 and 20).

i. The compensation of key management personnel of the Group, by benefit type, follows:

	2010	2009	2008
Short-term employee benefits	**P408**	P378	P200
Retirement costs (income)	**(147)**	37	19
Share-based payments	**31**	56	53
	P292	P471	P272

Some of the personnel performing key management functions in certain subsidiaries are employed by the Parent Company. This is covered by a management agreement executed by and between the Parent Company and the subsidiaries. The salaries and benefits of these personnel are billed to the subsidiaries through management fees, with details as follows:

	Note	**2010**	2009	2008
Short-term employee benefits		**P30**	P46	P118
Retirement costs	*36*	**-**	1	9
Share-based payments	*40*	**24**	43	55
	28	**P54**	P90	P182

35. Significant Agreements and Lease Commitments

Significant Agreements:

Power

Market Participation Agreements (MPA)
SMEC, SPDC, SPPC and PEHI 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 Energy Regulatory Commission.

The Group purchases power from WESM during periods when the power generated from power plants are not sufficient to meet customers' power requirements.

Power Supply Agreements
SMEC and SPPC have Power Supply Agreements with various counterparties to supply or sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by both parties.

The customers are billed based on the time-of-use per kilowatt hour (TOU/kWh). However, as stipulated in the contracts, each customer has to pay the minimum charge based on the contracted power using the basic energy charge and adjustments if customer has not fully taken or failed to consume the contracted power. As of December 31, 2010, all customers are above their minimum contracted power requirements.

Coal Supply Agreement
SMEC entered into a Supply Agreement for Steaming Coal with PT Bumi Resources Tbk's subsidiary PT Kaltim Prima Coal through Topcoal Trading Corporation for the coal requirements of the Sual Power Plant from October 1, 2009 to September 30, 2010. Under the agreement, the parties shall negotiate and agree on the contract price of the coal at least 30 days prior to the delivery. The agreement is renewable at such terms and conditions as agreed upon by the parties in writing. The agreement was renewed on September 30, 2010.

Fuel and Oil

Supply Agreement
Petron and Arabian American Oil Company ("Saudi Aramco") have a term contract to purchase and supply, respectively, 90% of Petron's monthly crude oil requirements at Saudi Aramco's standard far east selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron for such purchases are shown as part of "Accounts payable and accrued expenses - trade" account in the consolidated statements of financial position. The contract was extended until October 27, 2011.

Fuel Supply Contract with NPC
Petron entered into various fuel supply contracts with NPC. Under the agreements, Petron supplies the bunker fuel and diesel fuel oil requirements to selected NPC plants and NPC-supplied IPP plants.

Infrastructure

Concession Agreement

- TADHC

  In 2009, the ROP awarded TADHC the Project through a Notice of Award (NOA) issued on May 15, 2009. The Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under Republic Act (RA) No. 6957, as amended by RA 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

  On June 22, 2009, TADHC entered into a CA with the ROP, through the DOTC and Civil Aviation Authority of the Philippines. Based on the CA, TADHC has been granted with the concession of the Project which includes the extension or expansion of the Caticlan Airport. Subject to existing law, the CA also grants to TADHC the Franchise to operate and maintain the Caticlan 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 CA may be renewed or extended

for another 25 years upon written agreement of the parties hereto through the execution of a renewal or extension contract.
The following are the salient features of the CA:

1. The operations and management of the Caticlan 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 Caticlan Airport.

2. As concessionaire , TADHC shall have full responsibility in all aspect of the operation and maintenance of the Caticlan 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 Caticalan Airport, TADHC shall post in favor of the ROP an Operations and Maintenace Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2010, TADHC has not paid the OMPS yet since it is due only after the completion of the construction of the Project.

3. Immediately upon receiving the Notice to Commerce Implementation (NCI) and provided all conditions precedent in the CA are fulfilled and waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Caticlan Airport in to a larger and more technologically advanced aviation facility to allow international airport operations.

4. TADHC shall finance the Project cost, while maintaining a debt-to-equity ratio of 70:30. TADHC's estimated capital commitment to develop the Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with by TADHC as of December 31, 2010.

5. TADHC shall post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC to develop the Project. This performance security shall be partially released by the ROP from time to time to the extent of the percentage of completion of the Project. In 2010, TADHC has paid P1 premium for the Work Performance Security. The unamortized portion of which was presented as part of the "Prepaid expenses and other current assets - Others" in the consolidated statements of financial position (Note 12).

6. In consideration for allowing TADHC to operate and manage the Caticlan 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 Caticlan Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the airport was turned over to TADHC on October 16, 2010.

After the fulfillment of all contractual and legal requirements, the CA became effective on December 7, 2009. The Notice to Commence Implementation issued to TADHC by the DOTC was accepted by TADHC on December 18, 2009.

In accordance with the license granted by the ROP, as expressly indicated in the CA, TADHC presently operates the Caticlan Airport and has started the rehabilitation of the existing airport building and facilities which is part of the Project. However, the upgrade component of the Project has yet to be started as of December 31, 2010.

- ULC BVI

In 2008, the ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT Line 7 Project (the "MRT 7 Project") through a NOA issued on January 31, 2008. The MRT Project is proposed to be an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage (BGTOM) scheme which is a modified Build-Transfer-Operate (BTO) arrangement under (RA) No. 6957, as amended by RA 7718, otherwise known as the BOT Law, and its Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into a CA (MRT 7 Agreement) with the ROP, through the DOTC, for a 25-year concession period, subject to extensions as may be provided for under the CA and by law. Based on the CA, ULC BVI has been granted the right to finance, construct, Operate and Maintain (O&M) the proposed MRT Line 7, which consists of 44-kilometer of road and rail transportation from the Bocaue exit on the North Luzon Expressway to LRT 1 and Metro Rail Transit 3 at North Avenue - Epifanio delos Santos Avenue.

The following are the salient features of the CA:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the CA, ULC BVI's estimated capital commitment to develop the 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 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 US0.1 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, extendible 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 IFRIC 12 apply to this CA and will be accounted for under the financial asset model. However, as of December 31, 2010, construction of the MRT 7 Project has not yet started.

Telecommunications

Franchise with National Telecommunications Commission (NTC)
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. 92-339, 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;
- Wireless Local Loop 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.

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.

Prior to the extension of the PA in CCC Case No. 94-229, the NTC has issued a show cause order in January 2009 against BellTel for non-usage of assigned frequencies within the 1710-1720/1805-1815 megahertz band, which are within the wireless local loop band and this was regarded as in violation of the PA and the provisions of RA No. 3846 and NTC Memorandum Circular No. 3-3-96. However, in a decision dated August 4, 2009, the NTC resolved that BellTel has not violated the NTC Order and thus is not liable as charged and the case filed against BellTel was dismissed and closed.

Properties

SMPI-GSIS Put Option
The Put Option between SMPI and GSIS can be exercised within a period of 10 years starting October 2008, which is the first anniversary of the original issuance of the shares to GSIS but effectively became exercisable only in 2010. The option exercise price is equivalent to P300 plus interest on such amount at the rate specified below.

Year	Annual Interest Rate	Amount
1	10%	P330
2	10%	363
3	10%	399
4	10%	439
5	10%	483
6	8%	522
7	8%	564
8	8%	609
9	8%	657
10	8%	710

Any dividends declared and paid to stockholders prior to the exercise of the Put Option by GSIS will be deducted from interest provided above upon exercise of the option. As of December 31, 2010, the carrying amount of the obligation related to the Put Option amounts to P386 and is presented under "Accounts payable and accrued expenses" account in the 2010 consolidated statement of financial position (Note 22). Accretion expense of the obligation under a put option amounts to P2 and is presented as part of "Interest expense and other financing charges" in the consolidated statements of income.

Lease Commitments:

a. Finance Leases

Leases as Lessee

i. IPP Administration Agreements (Note 5)

The IPP Administration Agreements are with the conformity of NPC, a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees the terms of the Agreement and further confirms that for so long as it remains the IPP Counterparty it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The SMEC, SPDC and SPPC have opened a performance bond of US$58, US$20 and US$60, respectively, with the bank which expires on November 3, 2011, January 25, 2012 and June 16, 2011, respectively.

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 IPP Administration Agreements with PSALM, the Group's management has made a judgment that the IPP Administration Agreement is an agreement that contains a finance lease. 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. Accordingly, the Group recognized the capitalized asset and related liability of P209,303 and P208,394 (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 "Power plants" and "Finance lease liabilities" in the consolidated statements of financial position.

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPDC	3.30%	7.90%
SPPC	3.85%	8.05%

The discount determined at inception of the agreement is amortized over the period of the IPP Administration Agreement and recognized as "Interest expense" in the consolidated statements of income. Interest expense in 2010 amounted to P5,299.

The future minimum lease payments for each of the following periods are as follows:

	Dollar payments	**Peso equivalent of dollar payments**	**Peso payments**	**Total**
Not later than one year	**US$129**	**P5,671**	**P6,109**	**P11,780**
More than one year and not later than five years	**861**	**37,731**	**41,203**	**78,934**
Later than five years	**2,486**	**108,981**	**114,966**	**223,947**
	3,476	**152,383**	**162,278**	**314,661**
Less: Future finance charges on finance lease liabilities	**897**	**32,888**	**73,379**	**106,267**
Present values of finance lease liabilities	**US$2,579**	**P119,495**	**P88,899**	**P208,394**

The present values of minimum lease payments for each of the following periods are as follows:

	Dollar payments	Peso equivalent of dollar payments	Peso payments	Total
Not later than one year	**US$123**	**P5,406**	**P5,529**	**P10,935**
More than one year and not later than five years	**743**	**32,566**	**30,316**	**62,882**
Later than five years	**1,713**	**81,523**	**53,054**	**134,577**
	US$2,579	**P119,495**	**P88,899**	**P208,394**

ii. Automobiles

The Group's finance leases also cover automobiles 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, 2010 and 2009, the net carrying amount of leased transportation equipment was P13 and P30, respectively.

The Group's minimum lease payments of the finance lease liabilities relating to automobiles are as follows:

2010	**Minimum lease payable**	**Interest**	**Principal**
Within one year	**P14**	**P3**	**P11**
After one year but not more than five years	**3**	**1**	**2**
	P17	**P4**	**P13**

2009	Minimum lease payable	Interest	Principal
Within one year	P14	P1	P13
After one year but not more than five years	19	2	17
	P33	P3	P30

Leases as Lessor

The Group leases some of its machinery and equipment under finance lease agreements to a third party logistics provider. The Group provides the lessee the option to purchase the equipment at the end of the lease term.

The current finance lease receivables included under "Trade and other receivables" in the consolidated statements of financial position are as follows:

	December 31, 2009		
	Minimum lease receivable	Interest	Principal
Within one year	P5	P -	P5

The Group does not have future lease receivable under finance lease as of December 31, 2010.

b. Operating Leases

Leases as Lessor
The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 17). These non-cancellable leases will expire up to year 2014. 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, 2010, 2009 and 2008, the future minimum lease receipts under non-cancellable operating leases are as follows:

	2010	2009	2008
Within one year	**P380**	P78	P94
After one year but not more than five years	**541**	62	114
After five years	**52**	-	-
	P973	P140	P208

Rent income recognized in profit or loss amounted to P267, P545 and P402 in 2010, 2009 and 2008, respectively.

Leases as Lessee
The Group leases a number of office, warehouse and factory facilities under operating leases. The leases typically run for a period of two to seven 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, 2010, 2009 and 2008, non-cancellable operating lease rentals are payable as follows:

	2010	2009	2008
Within one year	**P866**	P35	P290
After one year but not more than five years	**2,412**	109	748
More than five years	**7,196**	409	35
	P10,474	P553	P1,073

36. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2010. Valuations are obtained on a periodic basis.

Retirement costs (benefits) charged by the Parent Company to operations amounted to (P371), P65 and P422 in 2010, 2009 and 2008, respectively, while those charged by the subsidiaries amounted to P656, P529 and P435 in 2010, 2009 and 2008, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service costs.

The components of retirement costs recognized in profit or loss in 2010, 2009 and 2008 and the amounts recognized in the consolidated statements of financial position as of December 31, 2010 and 2009 are as follows:

	2010	2009	2008
Current service cost	**P652**	P486	P532
Interest cost	**1,082**	992	834
Expected return on plan assets	**(1,170)**	(868)	(772)
Net actuarial loss (gain)	**(282)**	(64)	49
Effect of curtailment	**3**	(24)	-
Amortization of transitional liability	-	66	173
Past service costs	-	6	41
Net retirement costs	**P285**	P594	P857
Actual return on plan assets	**P25,920**	P6,099	P477

The retirement costs are recognized in the following line items in the consolidated statements of income:

	Note	**2010**	2009	2008
Cost of sales	*27*	**P143**	P123	P144
Selling and administrative expenses	*28*	**142**	471	713
	30	**P285**	P594	P857

The reconciliation of the assets and liabilities recognized in the consolidated statements of financial position is as follows:

	Note	**2010**	2009
Present value of defined benefit obligation		**P18,386**	P12,362
Fair value of plan assets		**43,964**	15,178
		(25,578)	(2,816)
Unrecognized actuarial gain	*4*	**25,846**	3,271
Unrecognized past service costs		**(1)**	(1)
Net retirement liabilities		**P267**	P454

Net retirement assets and liabilities in 2010 are included as part of "Prepaid and other current assets" and "Others" under "Other noncurrent assets" accounts amounting to P221 and P147, respectively (Notes 12 and 20), and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P503 and P132, respectively as of December 31, 2010 (Notes 22 and 24).

Net retirement assets and liabilities in 2009 are included as part of "Prepaid expenses and other current assets" and "Others" under "Other noncurrent assets" accounts amounting to P150 and P160, respectively (Notes 12 and 20), and under "Accounts payable and accrued expenses - others" and "Other noncurrent liabilities" accounts amounting to P572 and P192, respectively (Notes 22 and 24).

The movements in the present value of defined benefit obligation are as follows:

	2010	2009
Balance at beginning of year	**P12,362**	P11,080
Benefit obligation of a new subsidiary	**4,264**	-
Interest cost	**1,346**	992
Current service cost	**652**	486
Past service costs	**-**	4
Benefits paid	**(2,324)**	(1,817)
Actuarial losses	**1,919**	1,628
Effect of curtailment	**163**	(11)
Translation adjustments	**4**	-
Balance at end of year	**P18,386**	P12,362

The movements in the fair value of the plan assets are as follows:

	2010	2009
Balance at beginning of year	**P15,178**	P10,232
Plan assets of a new subsidiary	**4,443**	-
Expected return	**1,469**	868
Contributions by employer	**698**	660
Benefits paid	**(2,324)**	(1,813)
Effect of curtailment	**41**	-
Actuarial gains	**24,451**	5,231
Translation adjustments	**8**	-
Balance at end of year	**P43,964**	P15,178

Plan assets consist of the following:

	In Percentages	
	2010	2009
Stock trading portfolio	**2**	4
Fixed income portfolio	**52**	62
Others	**46**	34

As of December 31, 2010, the plan assets include 551,670 common shares of the Parent Company with fair market value per share of P163.80.

As of December 31, 2009, the plan assets include 10,000 Class "A" common shares and 20,000 Class "B" common shares of the Parent Company with fair market values per share of P68.50 for Class "A" and Class "B" common shares.

On October 5, 2009, SMCRP exchanged on a one-for-one basis its 6,715,543 Class "A" common shares and 78,606,542 Class "B" common shares to Series "1" preferred shares of the Parent Company at an issue price of P75.00 per share. The fair market value per preferred share was P87.00 as of December 31, 2010.

SMCRP's 38.19% and 21% investment in shares of stock of BOC as of December 31, 2010 and 2009, respectively, is included in the above list of plan assets under "Others".

The overall expected rate of return is determined based on historical performance of investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2010	2009
Discount rate	**5 - 8**	8 - 11
Salary increase rate	**8**	8
Expected return on plan assets	**10**	10

The historical information for the current and previous four annual periods is as follows:

	2010	2009	2008	2007	2006
Present value of the defined benefit obligation	**P18,386**	P12,362	P11,080	P11,332	P14,236
Fair value of plan assets	**43,964**	15,178	10,232	10,726	10,241
Deficit (excess) in the plan	**(25,578)**	(2,816)	848	606	3,995
Experience adjustments on plan liabilities	**(132)**	927	6	933	(188)

The Group expects to contribute P285 to its defined benefit plans in 2011.

37. Cash Dividends

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P6.75 per share and P0.70 per share as of December 31, 2010 and 2009, respectively.

Cash dividends declared by the Parent Company's BOD to preferred shareholders amounted to P6.00 per share as of December 31, 2010.

On February 10, 2011, the Parent Company's BOD declared cash dividends at P1.50 per share, payable on February 18, 2011 to all preferred shareholders as of February 4, 2011.

On March 14, 2011, the Parent Company's BOD declared cash dividends at P0.35 per share, payable on April 11, 2011 to all common shareholders as of March 28, 2011.

38. Basic and Diluted Earnings Per Share

Basic and Diluted EPS is computed as follows:

	Note	**2010**	2009	2008
Income from continuing operations attributable to equity holders of the Parent Company		**P20,091**	P57,799	P13,935
Dividends on preferred shares for the period (a)		**(5,823)**	(1,281)	-
Net income from continuing operations attributable to common shareholders (b)		**14,268**	56,518	13,935
Income from discontinued operations attributable to equity holders of the Parent Company (c)	*8*	-	-	5,413
Net income attributable to common shareholders of the Parent Company (d)		**P14,268**	P56,518	P19,348
Weighted average number of common shares outstanding (in millions) - basic (e)		**2,310**	2,942	3,157
Effect of dilution- common		**14**	17	12
Weighted average number of common shares outstanding (in millions) - diluted (f)		**2,324**	2,959	3,169
Common:				
Basic EPS from continuing operations (b/e)		**P6.18**	P19.21	P4.41
Basic EPS from discontinued operations (c/e)		-	-	1.72
		P6.18	P19.21	P6.13
Diluted EPS from continuing operations (b/f)		**P6.14**	P19.10	P4.40
Diluted EPS from discontinued operations (c/f)		-	-	1.71
		P6.14	P19.10	P6.11

39. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets and certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2010	2009	2008
Trade and other receivables	**P12,241**	P558	P728
Inventories	**2,178**	1,085	(4,100)
Prepaid expenses and other current assets	**(3,686)**	(874)	759
Accounts payable and accrued expenses	**7,581**	6,393	1,779
Income and other taxes payable and others	**(5,202)**	(8,345)	(457)
	P13,112	(P1,183)	(P1,291)

b. Acquisition of subsidiaries - SMC Global, SRC, Petron, TCCI, PHC, PSCL, BellTel, TADHC, ULCBM, AGNP, IGI and SMPI-GSIS JVC in 2010 and JHK Investments and HLC in 2009 (Note 5).

	Note	**2010**	2009
Cash and cash equivalents		**P42,729**	P193
Trade and other receivables - net		**32,953**	1,243
Inventories		**35,315**	664
Prepaid expenses and other current assets		**4,599**	23
Investment and advances - net		**16,092**	-
Property, plant and equipment - net		**175,650**	1,430
Investment properties - net		**121**	-
Assets held for sale		**823**	-
Other intangible assets - net		**9,279**	20
Deferred tax assets		**430**	72
Other noncurrent assets - net		**23,437**	-
Drafts and loans payable		**(34,987)**	(839)
Accounts payable and accrued expenses		**(28,114)**	(2,076)
Income and other taxes payable		**(1,267)**	-
Current maturities of long-term debt - net of debt issue costs		**(9,193)**	-
Deferred tax liabilities		**(2,539)**	(40)
Long-term debt - net of current maturities and debt issue costs		**(43,452)**	-
Other noncurrent liabilities		**(151,777)**	(88)
Non-controlling interests		**(25,518)**	(211)
Net assets		**44,581**	391
Cash and cash equivalents		**(42,729)**	(193)
Goodwill in subsidiaries	*5, 19*	**24,456**	1,296
Investment at equity		**(1,444)**	-
Revaluation increment		**(1,396)**	-
Gain on acquisition of a subsidiary	*5, 33*	**(4,490)**	-
Net cash flows		**P18,978**	P1,494

40. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group until 2010. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date. The current portion of subscriptions receivable as of December 31, 2010 and 2009 amounted to P170 and P141, respectively, presented as part of "Non-trade" under "Trade and other receivables" account (Note 10). The noncurrent portion of P1,002 and P363 as of December 31, 2010 and 2009, respectively, is reported as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account (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:

	2010	
	Number of Shares	**Weighted Average Exercise Price**
Class "A"		
Subscribed during the year	**24,323,050**	**P60.31**
Cancelled during the year	**(173,250)**	**(59.09)**
Class "B"		
Subscribed during the year	**1,272,800**	**P58.39**
Cancelled during the year	**(11,600)**	**(50.45)**

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company shall be considered as common shares without distinction.

	2009		2008	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Class "A"				
Subscribed during the year	2,189,450	P42.46	3,745,100	P42.36
Cancelled during the year	(248,100)	(50.62)	(3,125,900)	(53.07)
Class "B"				
Subscribed during the year	2,688,750	44.92	2,602,450	41.53
Cancelled during the year	(383,700)	(60.18)	(2,602,450)	(62.10)

The average market prices of the shares granted were P70.96, P49.95 and P49.83 per share in 2010, 2009 and 2008, respectively, for Class "A" common shares and P68.69, P52.84 and P48.87 per share in 2010, 2009 and 2008, respectively, for Class "B" common shares.

The average remaining contractual life of the ESPP was 1.55, 1.41 and 0.60 years as of December 31, 2010, 2009 and 2008, respectively, for Class "A" common shares and 0.83, 1.66 and 0.46 years as of December 31, 2010, 2009 and 2008, respectively, for Class "B" common shares.

LTIP

The Parent Company also maintains LTIP for executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its 10-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

On June 26, 2008, the Parent Company approved the grant of stock options to 742 executives consisting of 7,456,452 shares based on the closing price of the Parent Company's share, computed in accordance with the provisions of LTIP. Also on June 25, 2009, the Parent Company approved the grant of stock options to 755 executives consisting of 5,750,941 shares.

Options to purchase 14,038,733 shares and 17,211,921 shares in 2010 and 2009, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled about 13,232,699 shares and 3,230,094 shares in 2010 and 2009, 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:

	2010	
	Number of Share Stock Options	**Weighted Average Exercise Price**
Class "A"		
Balance at beginning of year	**22,054,784**	**P57.39**
Exercised during the year	**(8,734,635)**	**(58.74)**
Expired during the year	**(180,290)**	**(56.94)**
Balance at end of year	**13,139,859**	**P56.50**
Class "B"		
Balance at beginning of year	**11,998,933**	**P70.21**
Exercised during the year	**(4,503,677)**	**(70.83)**
Expired during the year	**(266,520)**	**(74.39)**
Balance at end of year	**7,228,736**	**P69.66**

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company shall be considered as common shares without distinction.

	2009		2008	
	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	20,203,940	P56.71	16,056,434	P62.36
Granted during the year	4,922,958	58.05	5,219,517	40.50
Exercised during the year	(2,711,190)	(52.61)	(29,170)	(56.53)
Expired during the year	(360,924)	(62.58)	(1,042,841)	(62.58)
Balance at end of year	22,054,784	P57.39	20,203,940	P56.71
Class "B"				
Balance at beginning of year	11,911,370	P69.94	10,359,853	P76.79
Granted during the year	843,627	58.05	2,236,935	40.50
Exercised during the year	(518,904)	(41.30)	-	-
Expired during the year	(237,160)	(84.71)	(685,418)	(77.39)
Balance at end of year	11,998,933	P70.21	11,911,370	P69.94

The shares covered by the LTIP are offered for subscription to the participants for three years from approval of the LTIP by the SEC.

The fair value of equity-settled share options granted is estimated as at the date of grant using Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The inputs to the model used to measure the fair value of the shares granted in 2009 are as follows:

	2009 Grant	
	Class "A"	Class "B"
Dividend yield	2.41%	2.41%
Expected volatility	53%	43%
Historical volatility	53%	43%
Risk-free interest rate	5.15% to 7.76%	5.15% to 7.76%
Expected life option	1 to 8 years	1 to 8 years
Weighted average share price	58.05	58.05

The weighted average fair value of options granted in 2009 was P19.24 for Class "A" common shares and P16.19 for Class "B" common shares.

The range of exercise prices for options outstanding was P58.05 to P40.50 as of December 31, 2010 and 2009 for Class "A" common shares and P58.05 to P40.50 as of December 31, 2010 and 2009 for Class "B" common shares.

The average remaining contractual life of the LTIP was 1.05, 1.11 and 1.43 years as of December 31, 2010, 2009 and 2008, respectively, for Class "A" common shares and 0.83, 0.63 and 1.30 years as of December 31, 2010, 2009 and 2008, respectively, for Class "B" common shares.

Share-based payment charged to operations, included under "Administrative expenses - others" account, amounted to P315, P236 and P258 in 2010, 2009 and 2008, respectively.

41. Financial Risk Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

The Group's principal non-trade related financial instruments include cash and cash equivalents, AFS financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, 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 Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's long-term borrowings and investment securities. Investments acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the Group's operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;
- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P910 and P301 in 2010 and 2009, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at December 31, 2010 and 2009, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2010	**<1 year**	**1-<2 years**	**>2-<3 years**	**>3-<4 years**	**>4-<5 years**	**>5 years**	**Total**
Fixed rate							
Philippine peso-denominated	P6,963	P15,004	P476	P29,249	P1,234	P27,322	P80,248
Interest rate	6.73% - 9.33%	6.5% - 9.33%	7.25% - 9.33%	7.25% - 9.33%	5.4885% - 9.33%	7% - 10.5%	
Floating rate							
Philippine peso-denominated	1,667	2,000	1,000	800	11,550	-	17,017
Interest rate	PDST-F +margin	PDST-F +margin	PDST-F +margin	PDST-F +margin	PDST-F +margin		
Foreign currency-denominated (expressed in Philippine peso)	4,092	4,080	3,583	3,520	58,721	-	73,996
Interest rate	LIBOR, THBFIX and VNIBOR +margin	LIBOR, THBFIX and VNIBOR +margin	LIBOR and THBFIX +margin	LIBOR and THBFIX +margin	LIBOR +margin		
	P12,722	**P21,084**	**P5,059**	**P33,569**	**P71,505**	**P27,322**	**P171,261**

December 31, 2009	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated	P -	P -	P14,545	P -	P23,670	P2,810	P41,025
Interest rate			6.50% - 8.25%		7.25% - 8.875%	10.50%	
Floating rate							
Philippine peso-denominated	-	400	1,400	400	800	-	3,000
Interest rate		PDST-F +margin	PDST-F +margin	PDST-F +margin	PDST-F +margin		
Foreign currency-denominated (expressed in Philippine peso)	1,081	1,081	28,335	119	59	-	30,675
Interest rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	THBFIX, VNIBOR +margin; and discount from PBOC lending rate	LIBOR, THBFIX, VNIBOR +margin	THBFIX +margin	THBFIX +margin		
	P1,081	P1,481	P44,280	P519	P24,529	P2,810	P74,700

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 are as follows:

	2010		2009	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,456**	**P63,812**	US$2,817	P130,134
Trade and other receivables	**299**	**13,120**	96	4,413
Noncurrent receivables	**3**	**151**	101	4,656
	1,758	**77,083**	3,014	139,203
Liabilities				
Drafts and loans payable	**139**	**6,065**	137	6,332
Accounts payable and accrued expenses	**965**	**42,290**	98	4,528
Long-term debt (including current maturities)	**1,333**	**73,995**	664	30,674
Finance lease liabilities	**2,636**	**115,556**	-	-
Other noncurrent liabilities	**1**	**35**	-	-
	5,074	**237,941**	899	41,534
Net foreign currency-denominated monetary assets (liabilities)	**(US$3,316)**	**(P160,858)**	US$2,115	P97,669

The Group reported net foreign exchange gains (losses) amounting to P8,366, (P2,256) and (P7,298) in 2010, 2009 and 2008, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2008	47.52
December 31, 2009	46.20
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, 2010 and 2009:

2010	**P1 decrease in the US dollar exchange rate**		**P1 increase in the US dollar exchange rate**	
	Effect on Income before Income Tax	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P29,066)**	**(P20,462)**	**P29,066**	**P20,462**
Trade and other receivables	**(7,634)**	**(5,438)**	**7,634**	**5,438**
Noncurrent receivables	**(29)**	**(23)**	**29**	**23**
	(36,729)	**(25,923)**	**36,729**	**25,923**
Drafts and loans payable	**2,592**	**74**	**(2,592)**	**(74)**
Accounts payable and accrued expenses	**12,905**	**289**	**(12,905)**	**(289)**
Long-term debt (including current maturities)	**16,873**	**940**	**(16,873)**	**(940)**
Finance lease liabilities	**2,636**	-	**(2,636)**	-
Other noncurrent liabilities	**1**	**1**	**(1)**	**(1)**
	35,007	**1,304**	**(35,007)**	**(1,304)**
	(P1,722)	**(P24,619)**	**P1,722**	**P24,619**

2009	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	(P2,685)	(P1,743)	P2,685	P1,743
Trade and other receivables	(7)	(93)	7	93
Noncurrent receivables	(100)	(61)	100	61
	(2,792)	(1,897)	2,792	1,897
Drafts and loans payable	69	109	(69)	(109)
Accounts payable and accrued expenses	8	95	(8)	(95)
Long-term debt (including current maturities)	600	424	(600)	(424)
	677	628	(677)	(628)
	(P2,115)	(P1,269)	P2,115	P1,269

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

The Parent Company enters into commodity derivative transactions on behalf of its subsidiaries and affiliates to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2010 and 2009.

2010

	Carrying Amount	Contractual Cash Flow	1year or less	> 1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	**P125,188**	**P125,188**	**P125,188**	**P -**	**P -**	**P -**
Trade and other receivables - net	**75,904**	**75,904**	**75,904**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**249**	**249**	**249**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**193**	**193**	**193**	**-**	**-**	**-**
AFS financial assets	**3,597**	**3,597**	**-**	**3,597**	**-**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**24,783**	**24,783**	**-**	**24,783**	**-**	**-**
Financial Liabilities						
Drafts and loans payable	**74,128**	**75,057**	**75,057**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**69,198**	**69,198**	**69,198**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**71**	**71**	**71**	**-**	**-**	**-**
Long-term debt (including current maturities)	**168,927**	**209,335**	**22,250**	**28,947**	**126,378**	**31,760**
Finance lease liabilities (including current portion)	**208,407**	**314,678**	**11,794**	**18,479**	**60,458**	**223,947**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, ARO and IRO)	**16,168**	**16,168**	**-**	**16,168**	**-**	**-**

2009

	Carrying Amount	Contractual Cash Flow	1year or less	> 1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	P209,411	P209,411	P209,411	P -	P -	P -
Trade and other receivables - net	49,082	49,082	49,082	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	202	202	202	-	-	-
AFS financial assets	351	351	-	351	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	5,933	5,933	-	-	5,933	-
Financial Liabilities						
Drafts and loans payable	56,789	56,925	56,925	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities)	30,708	30,708	30,708	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	111	111	111	-	-	-
Long-term debt (including current maturities)	72,962	89,747	4,836	5,318	75,526	4,067
Finance lease liabilities	30	33	14	19	-	-
Other noncurrent liabilities (excluding noncurrent retirement liabilities)	19,393	19,393	-	7,803	11,590	-

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk. The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments
The Group recognizes provision for impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as of December 31, 2010 and 2009, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	Note	**2010**	2009
Cash and cash equivalents	*9*	**P125,188**	P209,411
Trade and other receivables - net	*10*	**75,904**	49,082
Derivative assets	*12*	**249**	202
Financial assets at FVPL	*12*	**193**	-
AFS financial assets	*14*	**3,597**	351
Noncurrent receivables and deposits - net	*20*	**24,783**	5,933
		P229,914	P264,979

The credit risk for cash and cash equivalents, derivative assets, financial assets at FVPL and AFS financial assets is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below.

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken in all dressing plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder value.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and cumulative translation adjustments are excluded from capital for purposes of capital management.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

There were no changes in the Group's approach to capital management during the year.

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, 2010 and 2009:

	2010		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P125,188**	**P125,188**	P209,411	P209,411
Trade and other receivables - net	**75,904**	**75,904**	49,082	49,082
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**249**	**249**	202	202
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**193**	**193**	-	-
AFS financial assets	**3,597**	**3,597**	351	351
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**24,783**	**24,783**	5,933	5,933
Financial Liabilities				
Drafts and loans payable	**74,128**	**74,128**	56,789	56,789
Accounts payable and accrued expenses (excluding current retirement liabilities in 2010 and 2009 and IRO in 2010)	**69,198**	**69,198**	30,708	30,708
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**71**	**71**	111	111
Long-term debt (including current maturities)	**168,927**	**182,030**	72,962	77,773
Finance lease liabilities (including current portion)	**208,407**	**208,407**	30	30
Other noncurrent liabilities (excluding noncurrent retirement liabilities in 2010 and 2009 and ARO and IRO in 2010)	**16,168**	**15,764**	19,393	17,854

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables and Noncurrent Receivables and Deposits. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Drafts and Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of drafts and loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of December 31, 2010 and 2009, discount rates used range from 1.3% to 5.7% and 4.3% to 8.0%, 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 that are categorized into those accounted for as hedges and those that are not designated as hedges are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments Accounted for as Hedges

Cash Flow Hedges

Commodity Options

In 2008, the Group has outstanding bought and sold options designated as hedge of forecasted purchases of fuel oil with a notional quantity of 12,000 metric tons. The call and put options were exercised at various calculation dates in 2009 with specified quantities on each calculation date. These option contracts were used to hedge the commodity price risk of the Group's commitments. There was no ineffective portion on these hedges. The amount charged to profit or loss in 2009 amounted to P159.

As of December 31, 2010 and 2009, the Group has no outstanding options designated as hedge on the purchase of commodity.

Other Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of commodity and currency derivatives entered into by the Group.

Currency Forwards
As of December 31, 2010, the Group has outstanding non-deliverable foreign currency forward contracts to hedge existing and anticipated US$ denominated receivables. These forwards have an aggregate notional amount of US$110 with various maturities in 2011. As of December 31, 2010, the net negative fair value of these currency forwards amounted to P8.

The Group has no outstanding currency forward contracts as of December 31, 2009.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2010 and 2011. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of December 31, 2010 and 2009 is 450 and 1,875 metric tons, respectively. As of December 31, 2010 and 2009, the positive fair value of these swaps amounted to P16 and P60, respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of December 31, 2010 and 2009 of 49,532 and 59,874 metric tons, respectively. These options can be exercised at various calculation dates in 2010 and 2011 with specified quantities on each calculation date. As of December 31, 2010 and 2009, the net positive (negative) fair value of these options amounted to P54 and (P6), respectively.

Embedded Derivatives

The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

Embedded Currency Forwards
As of December 31, 2010 and 2009, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$244 and US$112, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2010 and 2009, the net positive fair value of these embedded currency forwards amounted to P127 and P73, respectively.

Embedded Currency Options
As of December 31, 2010 and 2009, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$26 and US$36, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. As of December 31, 2010 and 2009, the net negative fair value of these embedded currency options amounted to P11 and P36, respectively.

For the years ended December 31, 2010, 2009 and 2008, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P660, P962 and (P10,718), respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Balance at beginning of year	**P91**	(P2,162)
Net changes in fair value of derivatives:		
Designated as accounting hedges	**-**	77
Non-accounting hedges	**660**	914
	751	(1,171)
Less fair value of settled instruments	**573**	(1,262)
Balance at end of year	**P178**	P91

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, 2010 and 2009. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

2010

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P3**	**P246**	**P249**
Financial assets at FVPL	**193**	**-**	**193**
AFS financial assets	**2,477**	**1,120**	**3,597**
Financial Liabilities			
Derivative liabilities	**-**	**71**	**71**

2009

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P65	P137	P202
AFS financial assets	239	112	351
Financial Liabilities			
Derivative liabilities	11	100	111

As of December 31, 2010 and 2009, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The disclosure on fair value hierarchy is only presented for December 31, 2010 and 2009 as comparative information is not required in 2009, which was the first year of application of the amended PFRS 7.

43. Registration with the Board of Investments (BOI)

- SMPFC

  SMFI
  SMFI was registered with the BOI on a non-pioneer status as a New Producer of Animal Feeds for its Mariveles, Bataan plant and as a New Producer of Chicken (Dressed) for its Orion, Bataan farm in August 2006 and July 2007, respectively.

  Under the terms of SMFI's BOI registration and subject to certain requirements as provided in the Omnibus Code of 1987, SMFI is entitled to incentives which included, among others, ITH for a period of four (4) years from January 2007 for Animal Feeds and from October 2007 for Dressed Chicken (can be extended to maximum of 8 years provided certain conditions are met).

  SMFI's (formerly Monterey) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investment Code of 1987 on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which included, among others, income tax holiday (ITH) for a period of six (6) years, extendable under certain conditions to eight (8) years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

  PF-Hormel
  The existing registration of PF-Hormel with the BOI was made on May 18, 2006 in accordance with the provisions of the Omnibus Investments Code of 1987 as a new producer of processed meat products on a non-pioneer status. Under the terms of this new registration, PF-Hormel is entitled to certain tax incentives, including ITH for four years from July 2007, or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration.

  PF-Hormel's new registered activity with the BOI commenced commercial operations in July 2007 and began to avail tax incentives since then.

- Petron

Isomerization and Gas Oil Hydrotreater Units

On January 7, 2004, the BOI approved Petron's application under RA 8479, otherwise known as the Downstream Oil Industry Deregulation Act (RA 8479), for new investments at its Bataan Refinery for an Isomerization Unit and a Gas Oil Hydrotreater ("Project"). The BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from January 2005 for the Project and March 2005 for LVN Isomerization or actual start of commercial operations, whichever is earlier.

b. Duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

d. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.

e. Exemption from real property tax on production equipment or machinery.

f. Exemption from contractor's tax.

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 (Executive Order 226) as: (1) a non-pioneer, new export producer status of Mixed Xylene; (2) a pioneer, new export product status of Benzene and Toluene; and (3) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 70% of the production of the mentioned petrochemical products every year except for the produced propylene.

As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

a. ITH: (1) for four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron's highest attained production volume for the last three (3) years; (2) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (3) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations.

c. Simplification of custom procedures.

d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Custom rules and regulations provided firm exports at least 70% of production output.

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration.

f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.

g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% production.

h. Petron may qualify to import capital equipment, spare parts, and accessories at zero duty from date of registration up to June 5, 2006 pursuant to Executive Order (EO) No. 313 and its Implementing Rules and Regulations.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for five years without extensions or bonus year from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart.

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.

f. Exemption from real property tax on production equipment or machinery.

g. Exemption from contractor's tax.

Grease Manufacturing Plant

In December 2005, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization of the firm's Grease Manufacturing Plant in Pandacan, Manila. The BOI is extending the following major incentives:

a. ITH for a period of five years without extension or bonus year from March 2006 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to base figure of 845 metric tons of grease product representing Petron's highest attained sales volume prior to rehabilitation.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.

f. Exemption from real property tax on production equipment or machinery.

g. Exemption from contractor's tax.

70 MW Coal-Fired Power Plant (Limay, Bataan)

On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (Executive Order No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid.

b. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.

c. Zero percent (0%) duty from date of registration up to June 16, 2011 for imported capital equipment, spare parts and accessories.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

44. Events After the Reporting Date

a. *Increase in BOC ownership*

On January 13, 2011, SMPI acquired additional 7.16% of the outstanding capital stock of BOC, by way of a 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 for a total consideration of P876.

The said acquisition has been approved by SMPI's BOD in its meeting held on December 8, 2010.

b. *Purchase of Manila North Harbour Port Inc.*

On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal Inc. for the purchase of 35% of Manila North Harbour Port Inc.'s outstanding and issued capital stock.

c. *SMC Global issuance of bonds*

On January 28, 2011, SMC Global carried out a US$300, 7%, 5 year bond issue under Regulations of the U.S. Securities Act of 1933, as amended. SMC Global has filed an application for listing of the bond issue in the Singapore Exchange Securities Trading Limited and does not intend to register any securities subject of the proposed bond issue under the U.S. Securities Act and the Philippine Securities Regulation Code.

d. *SMPFC*

On January 20, 2011, the SEC favorably considered SMPFC's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of P10.00 per share.

On January 26, 2011, the PSE approved, subject to certain conditions, the application of SMPFC to list up to 15,000,000 preferred shares with a par value of P10.00 per share to cover 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.

SMPFC, through the underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares with 5-year maturity at an offer price of P1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by SMPFC's BOD. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events). Unless the preferred shares are redeemed by 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.

e. *Top Frontier*

On February 2, 2011, the BOD of Top Frontier declared cash dividends amounting to P139.50 per share or a total of P363 to preferred shareholders of record as of February 2, 2011. The cash dividend was paid on February 10, 2011.

45. Other Matters

a. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

- Deficiency Excise Tax

  On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on 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 the opinion of management and its legal counsel, the Parent Company has strong legal grounds to contest the assessments.

  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. An independent Certified Public Accountant (CPA) commissioned by the CTA to conduct an examination, verification and audit to validate the documents supporting the claim for refund has submitted a report stating, among other things, that the claim is properly supported by the relevant documents.

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, had been consolidated and are now deemed submitted for decision by the CTA.

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. An independent CPA was likewise commissioned by the CTA in this case for the purpose of conducting an examination, verification and audit of the documents supporting the aforesaid claim. In a report recently submitted to the CTA, the independent CPA stated that the second claim is properly supported by the relevant documents.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy". The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of March 14, 2011, 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, under CTA case number 7953, also in relation to the contested assessments. This case is now undergoing trial.

On January 7, 2011, the CTA 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 over paid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007.

- Tax Credit Certificates Cases

  In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron's use of P659 worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron is contesting the BIR's assessment before the CTA. In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments-registered companies, Petron is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality The Commissioner of Internal Revenue's motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a P284 assessment against Petron for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In August 2006, the CTA denied Petron's petition, ordering it to pay the BIR P580 representing the P284 unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine Supreme Court ("SC") nullified the assessment against Petron and declared Petron as a valid transferee of the TCCs. The BIR filed a motion for reconsideration, which remains pending.

In May 2002, the BIR issued a P254 assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. In May 2007, the CTA second division denied Petron's petition, ordering Petron to pay the BIR P601 representing Petron's P254 unpaid deficiency excise taxes for the taxable years 1995 to 1998, and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA *en banc*, which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending as of March 14, 2011.

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to P911.

- Pandacan Terminal Operations

  In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a Memorandum of Understanding ("MOU") with the City of Manila and DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, Petron filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

  The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("Ordinance 8119"), which applied to the entire City of Manila. Ordinance 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the "February 13 Resolution"), the Supreme Court also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their relocation plans to the RTC.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 ("Ordinance 8187"), which repealed Ordinance 8027 and Ordinance 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending as of March 14, 2011.

- Oil Spill Incident in Guimaras

  On August 11, 2006, M/T Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice ("DOJ") and the Special Board of Marine Inquiry ("SBMI"), both agencies found the owners of M/T Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

- Bataan Realty Property Tax Cases

  Petron has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of P86.4 covering Petron's isomerization and gas oil hydrotreater facilities which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law per the Board of Investments Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for P17 relating to the leased foreshore area on which the pier of Petron's Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of

P2,168 allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron's non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Petron timely contested the assessments by filing appeals with the Local Board of Assessment Appeals ("LBAA"), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of Petron, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by Petron, the Central Board of Assessment Appeals ("CBAA"), in August 2008, remanded the case to the LBAA for factual determination, effectively granting Petron's appeal and reversing the LBAA's dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of P1,731 made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

b. *Top Frontier*

On November 27, 2009, Top Frontier acquired 857,115,914 common shares of the issued and outstanding common shares of the Parent Company for a total of P64,284. To acquire an additional 327,000,000 Class "B" common shares of the Parent Company under the SPA with Q-Tech Alliance Holdings Inc. (Q-Tech), Top Frontier conducted a tender offer before such acquisition pursuant to the 35% threshold under the mandatory provisions of the Securities Regulation Code.

Under the tender offer, Top Frontier accepted a total of 49,629,119 Class "A" common shares and 31,773,965 Class "B" common shares tendered by the Parent Company's shareholders at the offer price of P75.00 per share, for a total consideration of P6,105. On April 13, 2010, Top Frontier acquired 327,000,000 Class "B" common shares of the Parent Company held by Q-Tech at the price of P66.00 per share. The tendered shares and the 327,000,000 Class "B" common shares were crossed in the PSE on April 13, 2010. As of December 31, 2010, Top Frontier had total shareholdings of 1,265,518,998 common shares of the Parent Company.

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.

Top Frontier entered into an Option Agreement with 44 Corporations in 2009 wherein Top Frontier has exclusive right to acquire 476,722,639 Class "A" and 16,652,544 Class "B" common shares of the Parent Company at P75.00 per share for which Top Frontier paid an amount of US$200 as advances. The call option may be exercised by Top Frontier until November 12, 2012. Any further extension of the term of the option period shall require the written consent and approval of both parties.

c. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2010 amounted to P237.

Amount authorized but not yet disbursed for capital projects as of December 31, 2010 is approximately P4,856.

d. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of P43.84 in 2010 and P46.20 in 2009 for consolidated statements of financial position accounts; and average rates of P45.12, P47.64 and P44.47 in 2010, 2009 and 2008, respectively, for income and expense accounts.

C. List of properties owned and leased by SMC

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
BEVERAGE BUSINESS							
1	SAN MIGUEL BREWERY, INC.						
	A. DOMESTIC						
	Breweries						
	Polo Brewery	Marulas, Valenzuela City, Metro Manila	Owned	Good			
	San Fernando Brewery	Brgy. Quebiawan, McArthur Highway, San Isidro, San Fernando, Pampanga	Owned	Good			
	Sta. Rosa Brewery	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good			
	Bacolod Brewery	Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental	Owned	Good			
	Mandaue Brewery	National Highway, Brgy.Tipolo, Mandaue City	Owned	Good			
	Davao Brewery	Brgy. Darong, Sta. Cruz, Davao del Sur	Owned	Good			
	Sales/Area Offices and Warehouses						
	Central North Luzon Area	SMC Complex, Brgy. Quebiawan, McArthur Highway, San Fernando, Pampanga	Owned	Good			
	Central North Luzon Area	Carmen East, Rosales, Pangasinan	Owned	Good			
	Central North Luzon Area	Caranglaan Dist., Dagupan City, Pangasinan	Owned	Good			
	Central North Luzon Area	Naguilian Road, San Carlos Heights, Brgy. Irisan, Baguio City, Benguet	Owned	Good			
	Central North Luzon Area	Pennsylvania Ave., Brgy. Madayegdeg, San Fernando, La Union	Owned	Good			
	Central North Luzon Area	Brgy. San. Fermin, Cauayan, Isabela	Owned	Good			
	Central North Luzon Area	National Road, Brgy. Mabini, Santiago City, Isabela	Owned	Good			
	Central North Luzon Area	San Andres St., San Angelo Subdivision, Sto. Domingo, Angeles City, Pampanga	Owned	Good			
	Central North Luzon Area	Maharlika Road, Bitas, Cabanatuan City, Nueva Ecija	Owned	Good			
	Central North Luzon Area	Brgy. 22, San Guillermo, San Nicolas, Ilocos Norte	Owned	Good			
	Central North Luzon Area	Cabanatuan S.O. - No. 140, Bitas, Cabanatuan City	Land & Building-Rented	Good	70,153.65	March 31, 2013	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Cagayan Valley Rd., Brgy. Sta. Cruz, Guiguinto, Bulacan	Owned	Good			
	Greater Manila Area North	Gapan-Olongapo Rd., Poblacion San Isidro, Nueva Ecija	Owned	Good			
	Greater Manila Area North	A. Cruz St., Brgy. 96, Caloocan City	Owned	Good			

	Greater Manila Area North	Honorio Lopez Blvd., Guidote St., Tondo, Manila	Owned	Good			
	Greater Manila Area North	Brgy. Mangga, Cubao , Quezon City	Owned	Good			
	Greater Manila Area North	Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila	Owned	Good			
	Greater Manila Area North	Quirino Highway, Novaliches, Quezon City, Metro Manila	Owned	Good			
	Greater Manila Area North	Tondo S.O. - Guidote St., Tondo Manila	Land-Rented	Good	56,387.68	October 15, 2013	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Valenzuela S.O. - Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila	Land & Land Improvement-Rented	Good	266,932.05	April 30, 2013	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Novaliches S.O. - Quirino Highway, Novaliches, Quezon City, Metro Manila	Land & Buildings-Rented	Good	619,290.00	December 31, 2012	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Bottle Segregation Site - Maysilo, Malabon	Open Space-Rented	Good	100,000.00	September 30, 2013	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Bottle Segregation Site - Portrero, Malabon	Open Space-Rented	Good	171,000.00	September 30, 2013	Renewable upon mutual agreement of both parties
	Greater Manila Area South	Brgy. 425, Zone 43, Sampaloc District, Manila	Owned	Good			
	Greater Manila Area South	M. Carreon St., Brgy. 864, Sta. Ana District, Manila	Owned	Good			
	Greater Manila Area South	Manila East Rd., Brgy. Dolores, Taytay, Rizal	Owned	Good			
	Greater Manila Area South	No. 100 Bernabe Subd., Brgy. San Dionisio, Sucat, Parañaque City, Metro Manila	Owned	Good			
	Greater Manila Area South	Mercedes Ave., Pasig City, Metro Manila	Owned	Good			
	Greater Manila Area South	Pasig S.O. - Mercedes Ave., Pasig City, Metro Manila	Land & Warehouse -Rented	Good	664,453.10	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	South Luzon Area	Silangan Exit, Canlubang, Calamba City, Laguna	Owned	Good			
	South Luzon Area	Maharlika Highway, Brgy. Isabang, Lucena City, Quezon	Owned	Good			
	South Luzon Area	Maharlika Highway, Brgy. Villa Bota, Gumaca, Quezon	Owned	Good			
	South Luzon Area	Maharlika Highway, Brgy. Concepcion Grande Pequeña, Naga City, Camarines Sur	Owned	Good			
	South Luzon Area	Brgy. Mandaragat, Puerto Princesa City, Palawan	Owned	Good			
	South Luzon Area	Aurora Quezon and Calderron St., Brgy. Labangan, San Jose, Occidental Mindoro	Owned	Good			
	South Luzon Area	Brgy. Lankaan II, Governor's Drive, Dasmariñas, Cavite	Owned	Good			
	South Luzon Area	National Rd., Brgy. Balagtas, Batangas City, Batangas	Owned	Good			
	South Luzon Area	Ayala Highway, Brgy.	Owned	Good			

		Balintawak, Lipa City, Batangas					
	South Luzon Area	Corner Gogon and Patricio Streets, Bgy. Cruzada, Legaspi City, Bicol	Owned	Good			
	South Luzon Area	Tirona Highway, Habay, Bacoor, Cavite	Owned	Good			
	South Luzon Area	T. de Castro St., Zone 8, Bulan, Sorsogon	Owned	Good			
	South Luzon Area	Matungao, Tugbo, Masbate City	Owned	Good			
	South Luzon Area	Brgy. Bulilan Norte, Pila, Laguna	Owned	Good			
	South Luzon Area	Legazpi S.O. - Corner Cogon and Patricio Streets, Bgy. Cruzada, Legaspi City, Bicol	Land & Land Improvements-Rented	Good	264,000.00	December 31, 2013	Renewable upon mutual agreement of both parties
	South Luzon Area	Dasmarinas S.O. - Brgy. Langkaan II, Governors Drive, Dasmarinas, Cavite	Warehouse -Rented	Good	260,115.43	January 31, 2014	Renewable upon mutual agreement of both parties
	South Luzon Area	Bacoor S.O. - Tirona Highway, Habay 1, Bacoor, Cavite	Warehouse -Rented	Good	173,992.60	March 31, 2013	Renewable upon mutual agreement of both parties
	South Luzon Area	Bulan S.O. - T. de Castro St., Zone 8, Bulan, Sorsogon	Warehouse -Rented	Good	44,642.86	January 31, 2014	Renewable upon mutual agreement of both parties
	South Luzon Area	Masbate S.O. - Magtungao, Tugbo, Masbate City	Warehouse -Rented	Good	77,142.86	January 31, 2013	Renewable at the option of the lessee
	South Luzon Area	Pila S.O. - Brgy. Bulilan Norte, National Highway, Pila, Laguna	Warehouse -Rented	Good	267,857.14	September 30, 2013	Renewable upon mutual agreement of both parties
	South Luzon Area	Sta. Rosa Bottling Plant - Sta. Rosa Industrial Complex, Brgy. Pulong, Sta. Cruz, Sta. Rosa City, Laguna	Owned	Good			
	Negros	Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental	Owned	Good			
	Negros	Muelle Loney St., Brgy. Legaspi, Iloilo City	Owned	Good			
	Negros	National Hi-way, Brgy. 4, Himamaylan City, Negros Occidental	Owned	Good			
	Negros	Flores St., Brgy. Sum-Ag, Bacolod City, Negros Occidental	Owned	Good			
	Negros	Brgy., Camansi Norte, Numancia, Aklan	Owned	Good			
	Negros	Brgy. Libas, Roxas City, Capiz	Owned	Good			
	Negros	Brgy. Pulang Tubig, Dumaguete City	Owned	Good			
	Negros	Samar Region Office - San Bartolome St., Catbalogan, Samar	Office Space-Rented	Good	25,000.00	September 30, 2012	Renewable upon mutual agreement of both parties
	Negros	Dumaguete Region Office - Brgy. Pulang Tubig, Dumaguete City	Land Improvement-Rented	Good	38,223.43	January 31, 2015	Renewable at the option of the lessee
	Negros	Dumaguete S.O. - Brgy. Pulang Tubig, Dumaguete City	Warehouse -Rented	Good	77,948.70	January 01, 2015	Renewable upon mutual agreement of both parties
	Negros	Tagbilaran S.O. - Graham Ave., Tagbilaran City	Warehouse -Rented	Good	75,000.00	February 28, 2014	Renewable upon mutual agreement of both parties
	Visayas	National Highway, Brgy. Tipolo, Mandaue City	Owned	Good			
	Visayas	Access Rd., Fatima Village, Brgy. 73 (formerly part of Brgy. Sagcahan), Tacloban City, Leyte	Owned	Good			

	Visayas	Graham Ave., Tagbilaran City, Bohol	Owned	Good			
	Visayas	San Bartolome St., Catbalogan, Samar	Owned	Good			
	Mindanao	Brgy. Darong Sta. Cruz, Davao del Sur	Owned	Good			
	Mindanao	Ulas Crossing, Ulas, Davao City	Owned	Good			
	Mindanao	National Highway, Brgy. Magugpo, Tagum City	Owned	Good			
	Mindanao	Sergio Osmeña, Brgy. Poblacion, Koronadal City	Owned	Good			
	Mindanao	National Highway, Brgy. Lagao, Gen. Santos City	Owned	Good			
	Mindanao	National Highway, Brgy. Luyong Bonbon, Opol, Misamis Oriental	Owned	Good			
	Mindanao	R.T. Lim Blvd., Baliwasan, Zamboanga City	Owned	Good			
	Mindanao	Fort Poyohan, Molave St., Butuan City, Agusan del Norte	Owned	Good			
	Mindanao	Brgy. Mangangoy, Bislig City, Surigao del Sur (building only)	Owned	Good			
	Mindanao	Brgy. Bongtod, Tandag City, Surigao del Sur	Owned	Good			
	Mindanao	J.P. Rizal Ave., Poblacion, Digos City	Owned	Good			
	Mindanao	National Highway, Sta. Felomina, Dipolog City	Owned	Good			
	Mindanao	Pandan, Sta. Filomena, Iligan City	Owned	Good			
	Mindanao	Baybay, Liloy, Zamboanga del Norte	Owned	Good			
	Mindanao	Butuan Region Office - Fort Poyohan, Molave St., Butuan City, Agusan del Norte	Land & Land Improvement-Rented	Good	80,408.99	May 31, 2015	Renewable upon mutual agreement of both parties
	Mindanao	Ozamis Region Office - Bonifacio St., Lam-an, Ozamis City, Misamis Occidental	Land & Building-Rented	Good	42,000.00	July 31, 2012	Renewable upon mutual agreement of both parties
	Mindanao	Iligan S.O. - Pandan, Sta. Filomena, Iligan City	Warehouse-Rented	Good	70,000.00	September 30, 2012	Renewable upon mutual agreement of both parties
	Mindanao	Liloy S.O. - Baybay, Liloy, Zamboanga del Norte	Warehouse-Rented	Good	50,000.00	September 30, 2012	Renewable upon mutual agreement of both parties
	Mindanao	Dipolog S.O. - Sta. Filomena, Dipolog City	Warehouse-Rented	Good	57,000.00	September 30, 2012	Renewable upon mutual agreement of both parties
	Mindanao	National Highway, Brgy. Darong, Sta. Cruz, Davao	Parking Space-Rented	Good	50,000.00	October 31, 2012	Renewable at the option of the lessee
	Terminal						
	Bataan Malt Terminal (land, building, machineries & equipment, furnitures & fixtures)	Mariveles, Bataan	Building & Facilities-Owned; Land-Rented	Good	460,000.00	December 16, 2013	Renewable upon mutual agreement of both parties
	Investment Properties	HAD Flora St. Brgy. Estefania, Bacolod City	Owned	Good			
		No. 31 Rosario St., Brgy. Granada, Bacolod City	Owned	Good			
		Brgy. Penabatan, Pulilan, Bulacan	Owned	Good			
		L26 B11, Brgy. Sto.Domingo, Sta.Rosa, Laguna	Owned	Good			
		Brgy. Estefanía, Bacolod City (TCT 092-	Owned	Good			

		2011004583)					
		No. 047 Brgy. Estefanía, Bacolod City (TCT 092-2011010662)	Owned	Good			
	Head Office						
	Office Space	40 San Miguel Ave., Mandaluyong City	Owned	Good			
	B. INTERNATIONAL						
	Breweries						
	San Miguel Beer (Thailand) Ltd.	89 Moo2, Tivanon Rd., Baan Mai, Muang , Pathumtani 12000	Owned	Good			
	PT Delta Djakarta Tbk	Inspeksi Tarum Barat Desa Setia Darma Tambun Bekasi	Owned	Good			
	San Miguel Brewery Hong Kong Limited	22 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong	Owned	Good			
	San Miguel (Guangdong) Brewery Co.,Ltd	San Miguel Road 1#, Longjiang Town, Shunde District, Guangdong Province, China	Owned	Good			
	San Miguel (Baoding) Brewery Co. Ltd.	Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China	Owned	Good			
	San Miguel Brewery Vietnam Ltd.	Quoc Lo 1 , Suoi Hiep , Dien Khanh , Khanh Hoa	Owned	Good			
	Sales/Area Offices and Warehouses						
	San Miguel Brewery Limited	9th Floor, Citimark Building , No.28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, NT, Hong Kong	Owned	Good			
	San Miguel Brewery Limited	San Miguel Industrial Building, Nos. 9-11 Shing Wan Road, Tai Wai, Shatin, NT, Hong Kong	Owned	Good			
	Guangzhou San Miguel Brewery Co. Ltd.						
	Shantou Sales Office	Room 803 and Room 804, underground parking, Huamei Garden, Shantou City	Owned	Good			
	Guangzhou Office	4th Floor,100 Liwan Road, Liwan District, Guangzhou, Guangdong Privince, China	Office Space-Rented	Good	RMB 121,098.00	January 31, 2013	Renewable upon mutual agreement of both parties
	Pingsha Warehouse	2nd Floor,NO.1,E building,Junhe Street,Baiyun district,Guangzhou City	Warehouse -Rented	Good	RMB 1,875.00	December 31, 2012	Renewable upon mutual agreement of both parties
	San Miguel Baoding Brewery Company Limited						
	Shijiazhuang Sales Office	Room 3-502,11 Building,25 Donggang Road, Century Park east District, Shijiazhuang City, Hebei Province, China	Office Space-Rented	Good	RMB 2,000.00	June 30, 2012	Renewable upon mutual agreement of both parties
	Handan Sales Office	Room 2-101,8 Buiding,xinghuaxiaoqu, Xingtai City, Hebei Province, China	Office Space-Rented	Good	RMB 1,500.00	December 31, 2012	Renewable upon mutual agreement of both parties
	San Miguel China Investment Company Limited	Room 1805 , Zhongyu Building, Jia 6 Gongti Bei Lu , Chaoyang DistrictBeijing 1000027, China	Office Space-Rented	Good	RMB 30,267.27	October 23, 2013	Renewable upon mutual agreement of both parties
	San Miguel Marketing Thailand Limited						

	North sales office	403/8 Lumpoon Road, Wadked , Amphor Muang , Lumpoon	Office Space-Rented	Good	THB 10,530.00	October 31, 2012	Renewable upon mutual agreement of both parties
	South sales office (Phuket)	14/4 Moo 4 , Tambon Wichit Amphor Muang, Phuket	Office Space-Rented	Good	THB 18,948.00	September 30, 2013	Renewable upon mutual agreement of both parties
	South sales office (Samui)	44/38 Moo 1 Tambon Maenam,Amphur Koh Samui Suratthani	Office Space-Rented	Good	THB 15,789.47	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Northeast sales office	44/50 Moo 3 Chataphadung Rd, Amphur Muang Khonkean	Office Space-Rented	Good	THB 8,422.00	December 31, 2012	Renewable upon mutual agreement of both parties
	Warehouse Pattaya	263/91 Moo 12 Tambon Nongprue Banglamung Chonburi	Warehouse -Rented	Good	THB 174,628.63	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Pattaya sales office	324 Moo 12 Tambon Nongprue Banglamung Chonburi	Office Space-Rented	Good	THB 14,705.88	September 30, 2012	Renewable upon mutual agreement of both parties
	San Miguel Brewery Vietnam Limited						
	San Miguel Brewery Vietnam Ltd.	Quoc Lo 1 , Suoi Hiep , Dien Khanh, Khanh Hoa	Land-Rented	Good	VND 4,320,000.00	November 01, 2024	Renewable upon mutual agreement of both parties
	Ho Chi Minh Sales Office	422-424 Ung Van Khiem , Ward 25, Binh Thanh Dist, HCM City	Office Space-Rented	Good	US$ 10,719.00	March 01, 2013	Renewable upon mutual agreement of both parties
	Da Nang Sales Office	26 Nguyen Van Linh , Da Nang City	Office Space-Rented	Good	VND 133,000,000.00	July 15, 2012	Renewable upon mutual agreement of both parties
	Nha Trang Sales Office	48 B Yersin , Nha Trang City	Office Space-Rented	Good	VND 70,000,000.00	July 31, 2012	Renewable upon mutual agreement of both parties
	Ho Chi Minh warehouse	111A 13 National Road , Ward 26, Binh Thanh Dist	Warehouse -Rented	Good	VND 23,874,000.00	August 12, 2012	Renewable upon mutual agreement of both parties
	PT Delta Djakarta/JDI						
	Admin Office For Region 2	Plaza Pasific Blok A1 No.22 Bolevard Raya Barat Kelapa Gading Streets Jakarta Utara 14240	Office Space-Rented	Good	RP 8,240,741.00	July 01, 2012	Renewable upon mutual agreement of both parties
	Admin Office For Region 3	Perumahan Villa Bukit Mas Mediterian Blok K5 Bukit Pakis Timur III streets Dukuh Pakis-Surabaya 60255	Office Space-Rented	Good	RP 5,902,778.00	May 31, 2012	Renewable upon mutual agreement of both parties
	Admin Office For Region 5	Srigala No.37 streets Makasar	Office Space-Rented	Good	RP 9,259,259.00	July 31, 2012	Renewable upon mutual agreement of both parties
	San Miguel Brewery Hong Kong	22 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong	Land-Rented	Good	HKD 172,860.00	Year 2047	Renewable upon mutual agreement of both parties
	Power Plant	Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China	Owned	Good			
	Investment Properties						
	Guangzhou San Miguel Brewery	Room 302, Haitao Building, Marine Fisheries Pier, North Binhai Avenue, Haikou City	Owned	Good			
	Guangzhou San Miguel Brewery	1th-4th Floor, Xianda Building, Shuichan Pier, North Binhai Avenue, Haikou City	Owned	Good			

	San Miguel (China) Investment Co. Ltd.	1-7A, 1-11A, 1-12A, 1-9C, 1-7C Parkview Tower Chaoyang District Beijing 100027, China	Owned	Good			
2	GINEBRA SAN MIGUEL, INC.						
	Cabuyao Plant	Silangan Industrial Estate, Bgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good			
	Lucena Plant	Bgy. Gulang-gulang, Lucena City, Quezon	Owned	Good			
	Sta. Barbara Plant	Tebag West, Sta. Barbara, Pangasinan	Owned	Good			
	Cebu Plant	Subandaku, Mandaue City, Cebu	Owned	Good			
	Distileria Bago, Inc. (Alcohol Distillery)	Km 13.5 Bgy. Taloc, Bago City, Negros Occidental	Owned	Good			
	San Miguel Properties Centre (SMPC) Bldg.	3rd, 5th & 6th Floors SMPC Bldg., St. Francis Ave., Ortigas Centre, Mandaluyong City	Owned	Good			
	Valenzuela Sales Office	#8 T.Santiago St., Canumay West, Plastic City, Valenzuela	Rented	Good	214,512.79	December 31, 2012	Renewable at the option of the lessee
	Cainta Sales Office	167 Felix Ave. Brgy. Sto. Domingo Cainta Rizal	Rented	Good	667,700.00	March 31, 2014	Renewable upon mutual agreement of both parties
	San Fernando Sales Office	Brgy. San Isidro, McArthur Highway, San Fernando, Pampanga	Rented	Good	45,044.16	June 30, 2012	No renewal effective July 2012
	DOS Pampanga Warehouse	San Fernando, Pampanga	Rented	Good	90,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	San Jacinto Warehouse	Bo. Macayug, San Jacinto, Pangasinan	Rented	Good	555,600.00	December 31, 2012	Renewable at the option of the lessee
	SMDCI Warehouse	Bo. Maimpis, San Fernando, Pampanga	Owned	Good			
	Porac Warehouse	Sta. Cruz, Porac, Pampanga	Rented	Good	227,500.00	December 31, 2012	Renewable upon mutual agreement of both parties
	Pua's Warehouse	San Fermin, Cauayan, Isabela	Rented	Good	387,240.00	December 31, 2012	Renewable at sole option of the lessee
	GMV Cold Storage	107 North Main Avenue, LTI, Brgy. Biñan, Biñan Laguna	Rented	Good	147,000.00	March 14, 2013	Renewable upon mutual agreement of both parties
	SMC-SL Warehouse	Silangan Industrial Estate, Bgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good			
	Alliance Warehouse	Bgy. Pulo, Cabuyao, Laguna	Rented	Good	2,075,346.00	May 31, 2013	Renewable upon mutual agreement of both parties
	GMV Warehouse	107 North Main Avenue, LTI, Brgy. Biñan, Biñan Laguna	Rented	Good	42,000.00	March 14, 2012	Contract shall subsist from month to month and shall continue to govern if the parties continue their relations upon expiry of the term without the parties having executed a written renewal

	STMI Warehouse	Bgy. Lawa, Calamba City, Laguna	Rented	Good	1,089,010.00	Continuing unless terminated and agreed by both parties	Lessee has the option to renew the contract under the terms and conditions as may be agreeable to both parties
	Tabangao Depot	Bgy. Tabangao, Batangas City	Owned	Good			
	Cotta Depot	Bgy. Cotta, Lucena City	Owned	Good			
	Calamba Plant	Sito Pulang Lupa, Makiling, Calamba Laguna	Owned	Good			
	Newport Industries	Sito Pulang Lupa, Makiling, Calamba Laguna	Rented	Good	1,543,572.91	December 31, 2020	Lesee has the option to extend lease for two years from expiry date under same terms and conditions.
	Polo Tolling Warehouse	SMBB Polo Brewery, Brgy. BBB Valenzuela City	Owned	Good			
	East Pacific Star Tolling - Ligao	Km 503 Hacienda Mitra, Paulog, Ligao City, Albay	Owned	Good			
	Banlic Warehouse	Bgy. Banlic, Cabuyao, Laguna	Rented	Good	167,090.00	May 24, 2012	Contract shall subsist from month to month and shall continue govern if the parties continue their relations upon expiry of the term without the parties having executed a written renewal.
	Pittland Warehouse	Brgy. Pittland, Cabuyao	Rented	Good	336,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	San Miguel PET and Brewery Plant-Cebu	San Miguel Brewery Complex, SMBD Hi-way, Mandaue City	Owned	Good			
	Davao Sales Office	Brgy. Talomo, Ulas, Davao City	Owned	Good			
	SMCSL Warehouse K, J, I, A	Ouano, Mandaue City	Owned	Good			
	VENSU Ventures (DOS GENSAN)	National Highway (Back of Land Bank, near BFAR Office) Brgy. City Heights, General Santos City	Rented	Good	30,000.00	August 31, 2012	Renewable upon mutual agreement of both parties
	Pacific Bay Premium Water (DOS ILO-ILO)	2nd Floor, Pacific Bay Building, Brgy. Balabago, Jaro, Iloilo City	Rented	Good	28,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Ouano Depot	Ouano Manduae City	Owned	Good			
	Pagadian Sales Office	BF Araw Avenue, Tiguma, Pagadian City	Rented	Good	7,589.90	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties

	Cagayan de Oro Sales Office	Unit 118, LYL Apartment, Kimwa Compound, Barangay Baloy, Cagayan de Oro City	Rented	Good	11,848.21	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	SMC-SL Batangas Bay Terminal Inc.	Bauan, Batangas	Owned	Good			
	Southbay Bulk Terminal, Inc.	Calaca, Batangas	Rented	Good	1,858,698.60	December 31, 2012	Renewable at the option of the lessee
FOOD BUSINESS							
1	SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES						
	JMT Corporate Condominium Building	ADB Avenue, Ortigas Center, Pasig City	Owned	Good			
	Feeds & Poultry Iloilo Office	Melliza St., Brgy. Zamora, Iloilo City	Owned	Good			
	Manufacturing Plants/Facilities/Farms/Hatcheries/ Cold Storage						
	Processed Meats Cavite Plant	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite	Owned	Good			
	Mabini Flourmill	Brgy. Bulacan, Mabini, Batangas	Owned	Good			
	Tabangao Flourmill	Brgy. Tabangao, Batangas City	Owned	Good			
	Pampanga Poultry Dressing Plant	SMC Complex, Bo. Quebiawan, San Fernando, Pampanga	Owned	Good			
	Cebu Poultry Dressing Plant	Brgy. Canduman, Mandaue City	Owned	Good			
	Davao Poultry Dressing Plant	Toril, Sirawan, Davao City	Owned	Good			
	Feeds Spent Drying and Rendering Plant	SMC Complex, San Fernando, Pampanga	Owned	Good			
	Feeds Spent Drying Plant	Mc Arthur Hi-way, Valenzuela City	Owned	Good			
	Bulacan Feedmill	Brgy. Magmarale, San Miguel, Bulacan	Owned	Good			
	Laguna Feedmill	Brgy. Malitlit, Sta. Rosa, Laguna	Owned	Good			
	Tarlac Feedmill	Luisita Industrial Park, San Miguel, Tarlac City	Owned	Good			
	BMEG Pangasinan Feedmill	Km. 189, Brgy. Bued, Binalonan, Pangasinan	Owned	Good			
	Isabela Feedmill	Brgy. Soyung, Echague, Isabela	Owned	Good			
	Bataan Feedmill	Mindanao Avenue, cor 10th Avenue, BEZ, Mariveles, Bataan	Owned	Good			
	General Santos Feedmill	SMPFC Cmpd., Rivera St., Brgy. Calumpang, Gen. Santos City	Owned	Good			
	Cagayan de Oro Feedmill	Brgy. Baloy, Tablon, Cagayan de Oro City	Owned	Good			
	Bukidnon Feedmill	Milmar Compound, Impalutao, Impasug-ong, Bukidnon	Owned	Good			
	Magnolia Plant	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite	Owned	Good			
	Magnolia Ice Cream Plant	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good			
	Cabuyao Poultry Plant	Banay-banay, Cabuyao, Laguna	Owned	Good			
	Monterey Meat Plant	Governor's Drive, Langkaan, Dasmariñas, Cavite	Owned	Good			
	Processed Meats Indonesia Plant	Jl. Raya Bogor Km. 37	Owned	Good			

		Sukamaju, Cilodong, Indonesia					
	Bin Duong Feedmill and Farm	Cau Sat Hamlet, Lai Hung Village, Ben Cat, Binh Duong, Vietnam	Owned	Good			
	Processed Meats Vietnam Plant	An Tay, Ben Cat, Binh Duong, Vietnam	Owned	Good			
	Calamba Hatchery	Brgy. Licheria, Calamba City	Owned	Good			
	Bulacan Hatchery	Km. 37, Pulong Buhangin, Sta. Maria, Bulacan	Owned	Good			
	San Pablo Poultry Farm	San Rafael, San Pablo, Laguna	Owned	Good			
	Grandparent Hatchery	Kapitan Bayong, Impasug-ong, Bukidnon	Owned	Good			
	Orion Experimental Training Farm	Brgy. General Lim, Orion, Bataan	Owned	Good			
	Calauan Experimental Farms	SMC Cmpd., Brgy. Mabacan, Calauan, Laguna	Owned	Good			
	Angat Hog Farm	Brgy. Pulong Yantok, Angat, Bulacan	Owned	Good			
	Alfonso Hog Farm	Buck Estate & Brgy. Amuyong, Alfonso, Cavite	Owned	Good			
	Quilo Hog Farm	Lot No. 2489, Quilo, Ibaan, Batangas	Owned	Good			
	Sta. Maria Hog Farm	Brgy. Guyong, Sta. Maria, Bulacan	Owned	Good			
	Isabela Cattle Farm	Bo. San Luis, Cauayan, Isabela	Owned	Good			
	Calamias Hog Farm	Tulay na Patpat, Ibaan, Batangas	Owned	Good			
	Lipa Hog Farm	Barrio San Jose Patay, Lipa, Batangas	Owned	Good			
	San Miguel Farm	Magmarale, San Miguel, Bulacan	Owned	Good			
	Sumilao Farm	San Vicente, Sumilao, Bukidnon	Owned	Good			
	Polomolok Cattle Farm	Matinao, Polomolok, South Cotabato	Owned	Good			
	Processed Meats Marikina Warehouse	JP Rizal St., Bo. San Roque, Marikina City	Owned	Good			
	Processed Meats Fairview Cold Storage	34 Consul St., Fairview Park Subdivision, Fairview, Quezon City	Owned	Good			
	Otis Warehouse	Mendiola Ext., Otis, Pandacan, Manila	Owned	Good			
	Foreshore (FLOUR)/Warehouse/Sales & Administration Offices						
	BMEG Pangasinan Feedmill (lot only)	Km. 189, Brgy. Bued, Binalonan, Pangasinan	Owned	Good			
	Bataan Feedmill (lot only)	Mindanao Avenue, cor 10th Avenue, BEZ, Mariveles, Bataan	Rented	Good	786,508.80	March 31, 2054	Renewable for a maximum of 25 years after the expiration of the contract
	Cagayan de Oro Feedmill (lot only)	Brgy. Baloy, Tablon, Cagayan de Oro City	Rented	Good	175,712.50	December 31, 2012	Renewable at the option of either party
	Pampanga Poultry Dressing Plant (lot only)	SMC Complex, Bo. Quebiawan, San Fernando, Pampanga	Owned	Good			
	Great Food Solutions Commissary	Lapu-Lapu Ave. cor. North Bay Blvd., Navotas, Metro Manila	Rented	Good	1,612,096.12	July 01, 2012	Renewable upon mutual agreement of both parties
	Orion Experimental Training Farm (lot only)	Brgy. General Lim, Orion, Bataan	Owned	Good			
	Polomolok Cattle Farm (lot only)	Matinao, Polomolok, South Cotabato	Owned	Good			

	Mabini (foreshore)	Brgy. Bulacan, Mabini, Batangas	Rented	Good	14,166.67	December 21, 2014	No presumption of renewal or continuance
	Tabangao (foreshore)	Brgy. Tabangao, Batangas City	Rented	Good	2,412.16	August 22, 2024	No presumption of renewal or continuance
	Food Group Consolidated Warehouse	403 F. Legaspi Street, Maybunga, Pasig City	Rented	Good	3,139,839.33	October 31, 2013 for SMIS; June 30, 2012 for Flour	Renewable upon mutual agreement of both parties for SMIS; Automatic renewal on a month-to-month basis for Flour
	Food Group Admin Office	SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig City	Owned	Good			
	Food Group Purchasing Office	4F JMT Corp. Cond. ADB Avenue, Ortigas Center, Pasig City	Rented	Good	158,664.00	June 30, 2013	Renewable upon mutual agreement of both parties
	Bulacan Warehouse - Flour	Sta. Rita, Guiguinto, Bulacan	Rented	Good	66,206.20	February 26, 2013	SMMI has option to renew, provided that a written notice of renewal is given at least 60 days prior to expiration
	Pampanga - Poultry	RRK Building, Jose Abad Santos Ave., Dolores, City of San Fernando, Pampanga	Rented	Good	119,000.00	September 30, 2012	Renewable upon mutual agreement of both parties
	Polytrade Warehouse - Poultry	Lagundi, Mexico, Pampanga	Rented	Good	91,779.97	June 30, 2012	Renewable upon mutual agreement of both parties
	Pangasinan - Poultry	Brgy. San Vicente, San Jacinto, Pangasinan	Rented	Good	22,321.43	December 31, 2012	Renewable upon mutual agreement of both parties
	Bataan - Poultry	Brgy. Tumalo, Hermosa, Bataan	Rented	Good	20,000.00	January 30, 2015	Renewable upon mutual agreement of both parties
	Isabela - Poultry	Purol 5, Brgy. Rizal, Santiago City, Isabela	Rented	Good	76,000.00	May 31, 2013	Renewable upon mutual agreement of both parties
	Zambales - Poultry	Brgy. Mangan-vaca, Subic, Zambales	Rented	Good	5,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	VAO Office - Poultry	San Roque, Sto. Tomas, Batangas	Rented	Good	94,080.00	January 31, 2012	Automatic renewal
	Laguna - Poultry	3rd Flr Dencris Bus. Center, Brgy. Halang, Calamba City, Laguna	Rented	Good	4,236,106.00	August 31, 2015	Automatic renewal
	MIPC Office - Poultry	Anderson Bldg. II, Parian, Calamba City, Laguna	Rented	Good	537,600.00	August 31, 2012	Automatic renewal
	Quezon - Poultry	Brgy. Lagalag, Tiaong, Quezon	Rented	Good	2,214,000.00	May 31, 2012	Automatic renewal
	Albay - Poultry	Brgy. Anislag, Daraga, Albay	Rented	Good	33,000.00	Continuing unless terminated and agreed by both parties	Automatic renewal
	Bohol - Poultry	Albur Dressing Plant, Eastern Poblacion, Alburquerque, Bohol	Rented	Good	7,200.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties

	Pavia Warehouse - Poultry	19 B San Jose St., Cogon Dist., Tagbilaran City	Rented	Good	7,166.67	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Leyte - Poultry	Robledo Compound, Real St., Brgy. Campitik, Palo, Leyte	Rented	Good	22,144.52	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Bacolod - Poultry	Door 3 & 4, VCY Center, Hilado Extension, Kamagong St., Bacolod City	Rented	Good	31,590.00	July 15, 2013	Automatic renewal
	Dumaguete - Poultry	2F THS Bldg., Real St., Brgy. 7, North Hi-way, Dumaguete Ciy, Negros Oriental	Rented	Good	9,821.43	December 31, 2015	Automatic renewal
	LTE Transport Warehouse - Poultry	Dumaguete City, Negros Occidental	Rented	Good	18,285.71	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	San Roberto Warehouse - Poultry	Hacienda Maquina, Silay City, Negros Occidental	Rented	Good	28,600.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Tacloban - Poultry	Brgy. 79, Marasbaras, Tacloban, Leyte	Rented	Good	7,200.00	December 31, 2014	Renewable upon mutual agreement of both parties
	Cebu - Poultry	6th Flr Clotilde Bldg., Casuntingan, Mandaue City	Rented	Good	112,500.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Ormoc - Poultry	Door 4, 2nd Flr Tan Bldg., Lilia Ave., Cogon, Ormoc	Rented	Good	8,300.00	January 01, 2013	Renewable upon mutual agreement of both parties
	Davao - Poultry and Great Food Solutions	2nd Flr. ARC Bldg., cor Dakudao Ave. and Lakandula St., Agdao, Davao City	Rented	Good	125,200.00	December 31, 2014	Renewable upon mutual agreement of both parties
	Zamboanga - Poultry	Door #2, Nuño Bldg, MCLL Highway, Guiwan, Zamboanga City	Rented	Good	15,915.00	December 31, 2012	Renewable upon mutual agreement of both parties
	Cagayan de Oro - Poultry, Feeds and Great Food Solutions	3rd Flr, HBL Bldg., Gusa, Cagayan de Oro City	Rented	Good	104,196.43	June 30, 2014	Automatic renewal on a month-to-month basis
	Bukidnon - Poultry	Gellor Bldg., Propia St., Malaybalay City	Rented	Good	53,571.43	November 15, 2012	Automatic renewal on a month-to-month basis
	Ozamis - Poultry	Mialen, Clarin, Misamis Occidental	Rented	Good	7,642.86	December 31, 2014	Automatic renewal on a month-to-month basis
	Butuan - Poultry	Km 9, Tag-ibo, Butuan City	Rented	Good	5,892.86	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Bulacan Sales Office - Feeds	Cabiawan St., Banga 1st, Plaridel, Bulacan	Rented	Good	179,250.00	December 31, 2012	Renewable at the option of either party
	Cebu Office - Feeds	Ground Flr., GSMI Bldg., Subangdaku, Mandaue City	Rented	Good	35,000.00	December 31, 2012	Renewable at the option of either party
	Bacolod Sales Office - Feeds	JA Building, San Patricio, Brgy. Banago, Bacolod	Rented	Good	37,000.00	December 31, 2012	Renewable at the option of either

		City					party
	Tacoma - Feeds	Tacoma & 2nd St., Port Area, Manila	Rented	Good	539,166.67	December 31, 2012	Renewable at the option of the lessee
	PNOC - Feeds	Mainaga, Mabini, Batangas	Rented	Good	1,150,833.33	December 31, 2012	Renewable at the option of the lessee
	G1 Airmoving Logistics - Feeds	3270 Merville, MIA District, Brgy. 201, Pasay City	Rented	Good	65,833.33	April 15, 2013	Renewable at the option of the lessee
	NFA Isabela - Feeds	Northern Philippine Grains Complex,Echague, Isabela	Rented	Good	119,642.86	October 17, 2012	Renewable at the option of the lessee
	Fortune Warehouse - Feeds	Bacnotan, La Union	Rented	Good	117,857.14	September 15, 2012	Renewable at the option of the lessee
	Alejo Sim - Feeds	Nancayasan, Urdaneta City, Pangasinan	Rented	Good	227,500.00	September 15, 2012	Renewable at the option of the lessee
	William Sim - Feeds	Nancayasan, Urdaneta City, Pangasinan	Rented	Good	292,200.00	June 30, 2012	Renewable at the option of the lessee
	UGMC Warehouse - Feeds	Cabatuan, Isabela	Rented	Good	346,500.00	October 31, 2012	Renewable at the option of the lessee
	JNPL Morning Star Warehouse - Feeds	Brgy. Rizal, Moncada, Tarlac	Rented	Good	165,990.00	September 30, 2012	Renewable at the option of the lessee
	YKK Warehouse - Feeds	Mabini, Moncada, Tarlac	Rented	Good	167,970.00	June 26, 2012	Renewable at the option of the lessee
	Warensburg Warehouse - Feeds	Mariveles, Bataan	Rented	Good	140,000.00	July 23, 2012	Renewable at the option of the lessee
	Paddad Warehouse - Feeds	Brgy. Victoria, Alicia, Isabela	Rented	Good	77,000.00	June 15, 2012	Renewable at the option of the lessee
	Masaya Warehouse - Feeds	Brgy. Masaya, Rosario, Batangas	Rented	Good	195,960.00	December 31, 2012	Renewable at the option of the lessee
	Malitlit Warehouse - Feeds	Brgy. Malitlit, Sta. Rosa, Laguna	Rented	Good	140,400.00	December 31, 2012	Renewable at the option of the lessee
	Isarog Logistics & Property Management Corp. - Feeds	Pili, Camarines Sur	Rented	Good	86,785.71	August 15, 2012	Renewable at the option of the lessee
	PKS Shipping - Feeds	Sitio Tawagan, Tayud Consolacion, Cebu	Rented	Good	366,750.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	San Miguel Shipping and Lighterage - Feeds	Looc, Mandaue City, Cebu	Owned	Good			
	Rocksun Warehouse - Feeds	Marasbaras, Tacloban City	Rented	Good	10,333.33	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	5's Feed Milling Corp. - Feeds	Brgy. Loboc, Lapaz, Iloilo City	Rented	Good	195,833.33	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee

	SIAIN Warehouse - Feeds	Brgy. Loboc, Lapaz, Iloilo City	Rented	Good	136,166.67	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Bassett Land, Inc. - Feeds	Sitio Tawagan, Tayud Consolacion, Cebu	Rented	Good	261,250.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	MARBEMCO - Feeds	Marvick Compound, Sitio Tawagan, Tayud Consolacion, Cebu	Rented	Good	573,001.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	LMDC Enterprises Co. - Feeds	Brgy. Guaan, Leganes, Iloilo City	Rented	Good	785,156.25	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Cabigon Mktg. Realty Dev. Corp. - Feeds	87 Senator Enage St., Tacloban City	Rented	Good	40,000.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	KIMWA Warehouse - Feeds	KIMWA Cmpd., Baloy, Cagayan de Oro City	Rented	Good	1,111,256.25	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	MITIMCO Warehouse - Feeds	Mitimco Cmpd., Baloy, Cagayan de Oro City	Rented	Good	494,182.37	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	CATIMCO Warehouse - Feeds	Puntod, Cagayan de Oro City	Rented	Good	1,085,165.73	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Manzano Warehouse - Feeds	Puntod, Cagayan de Oro City	Rented	Good	160,714.29	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Anakciano Warehouse - Feeds	Valencia City, Bukidnon	Rented	Good	281,250.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Tan Warehouse - Feeds	Lam-an, Ozamiz City	Rented	Good	50,083.33	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	MIMIJOE - Feeds	Ladislawa Village, Buhangin, Davao City	Rented	Good	278,712.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee

	LSL Multi-Serve Company - Feeds	Km 8 Pareñas Compound, Diversion Road, Buhangin, Davao City	Rented	Good	391,875.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Greenhills Milling Corporation - Feeds	MCLL Highway, Culianan, Zamboanga City	Rented	Good	221,620.93	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	GFI Warehouse - Feeds	Polomolok, South Cotabato	Rented	Good	227,678.57	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Pampanga Livestock Selling Station - Fresh Meats	Sta. Barbara, Bacolor, Pampanga	Rented	Good	50,000.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Batangas Livestock Selling Station - Fresh Meats	Brgy. San Felix., Sto. Tomas, Batangas	Rented	Good	50,790.00	July 31, 2012	Automatic renewal
	Tacloban Office - Fresh Meats	17 Justice Romualdez, Tacloban City	Rented	Good	3,500.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Mandaue Office - Fresh Meats	SFI Bldg., S. E. Jayme St., Paknaan, Mandaue City. Cebu	Rented	Good	6,989.98	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Iloilo Office - Fresh Meats	F. Palmares St., Passi City, Iloilo	Rented	Good	1,000.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Jaro Office - Fresh Meats	Sambag, Jaro, Iloilo City	Rented	Good	2,829.24	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Davao Office - Fresh Meats	Marapangi, Toril, Davao City	Rented	Good	5,000.00	Continuing unless terminated and agreed by both parties	Renewable at the option of either party
	Misamis Oriental - Fresh Meats	Sta. Ana, Tagoloan, Misamis Oriental	Rented	Good	13,000.00	Continuing unless terminated and agreed by both parties	Automatic renewal on a month-to-month basis
	South Cotabato Office - Fresh Meats	Purok 3, Brgy. Glamang, Polomolo, South Cotabato	Rented	Good	137,568.85	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Bukidnon Live Operations Office - Fresh Meats	Gellor Bldg., Propia St., Malaybalay City	Rented	Good	53,571.43	November 15, 2012	Automatic renewal on a month-to-month basis

	Cebu Office - Great Food Solutions	PSO Bldg., SMC Complex, Highway, Tipolo, Mandaue City	Rented	Good	36,000.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Pasig Office - San Miguel Integrated Sales	El Magnifico Bldg., No. 19 General Atienza St., San Antonio Village, Pasig City	Owned	Good			
	Pampanga Office - San Miguel Integrated Sales	2F Rickshaw Arcade, Greenfield Square, Km. 76, Mc Arthur Highway, Sindalan, San Fernando City, Pampanga	Rented	Good	21,000.00	September 15, 2012	Renewable upon mutual agreement of both parties
	Laguna Office - San Miguel Integrated Sales	Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Rented	Good	31,332.50	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Bacolod Office - San Miguel Integrated Sales	William Lines Warehouse, Magsaysay cor. Araneta Sts., Singcang, Bacolod City	Rented	Good	18,000.00	December 31, 2012	Renewable upon mutual agreement of both parties
	Iloilo Office - San Miguel Integrated Sales	YK Marine Bldg., Iloilo Fishing Port Complex, Brgy. Tanza, Bay-bay, Iloilo City	Rented	Good	12,430.00	December 31, 2012	Renewable upon mutual agreement of both parties
	Mandaue Office - San Miguel Integrated Sales	2nd Flr. Planters Bldg., West Office, SMC Shipping & Lighterage Comp., Ouano Wharf, Mandaue City, Cebu	Owned	Good			
	Tacloban Office - San Miguel Integrated Sales	Barangay No. 91, Abucay, Tacloban City	Rented	Good	14,666.67	October 31, 2012	Renewable upon mutual agreement of both parties
	Cagayan de Oro Office - San Miguel Integrated Sales	Door 5, Banyan Place, Alwana Compound, Cugman, Cagayan de Oro City	Rented	Good	24,200.00	August 31, 2012	Renewable upon mutual agreement of both parties
	Bandung Office - San Miguel Pure Foods Indonesia	3rd Flr Jl. Soekarno Hatta No. 606 Bandung	Rented	Good	IDR 2,775,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Surabaya Office - San Miguel Pure Foods Indonesia	Perumahan Citra Harmoni Block C1 No. 25 Trosobo Sidoarjo Jawa Timur	Rented	Good	IDR 2,666,666.70	May 05, 2012	Renewable upon mutual agreement of both parties
	Yogyakarta Office - San Miguel Pure Foods Indonesia	Jl. Palagan Tentara Pelajar Gg. Gambir No. 100B, Sleaman-Yogyakarta	Rented	Good	IDR 1,388,888.89	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Ho Chi Minh Admin Office - San Miguel Hormel Vietnam	6F Mekong Tower, 235-241 Ward 13, Tan Binh, Ho Chi Minh City	Rented	Good	VND 45,600,000.00	August 01, 2015	Renewable upon mutual agreement of both parties
	Long An Sales Office - San Miguel Hormel Vietnam	High Way 1A, 1 Hamlet, My Yen, Ben Luc, Long An	Rented	Good	VND 7,000,000.00	May 15, 2014	Renewable upon mutual agreement of both parties
	Ho Chi Minh Sales Office - San Miguel Hormel Vietnam	Tan Thanh Tay, Cu Chi District, Ho Chi Minh City	Rented	Good	VND 5,500,000.00	November 30, 2013	Renewable upon mutual agreement of both parties
	Tay Ninh Sales Office - San Miguel Hormel Vietnam	Long Binh, Long Thanh Nam, Hoa Thanh, Tay Ninh	Rented	Good	VND 3,000,000.00	June 09, 2013	Renewable upon mutual agreement of both parties
	Chau Thanh Sales Office - San Miguel Hormel Vietnam	Phuoc Hoa, Phuoc Thanh, Chau Thanh, Tien Giang	Rented	Good	VND 6,000,000.00	December 31, 2013	Renewable upon mutual agreement of both parties
	Go Cong Tay Sales Office - San Miguel Hormel Vietnam	Tan Thanh, Thanh Nhut, Go Cong Tay, Tien Giang	Rented	Good	VND 3,000,000.00	March 15, 2014	Renewable upon mutual agreement

							of both parties
	Trang Bom Sales Office - San Miguel Hormel Vietnam	39/2 An Hoa, Tay Hoa, Trang Bom, Dong Nai	Rented	Good	VND 4,000,000.00	June 30, 2012	Renewable upon mutual agreement of both parties
	Xuan Loc District Sales Office - San Miguel Hormel Vietnam	Bao Hoa Village, Xuan Loc District, Dong Nai	Rented	Good	VND 3,500,000.00	November 30, 2012	Renewable upon mutual agreement of both parties
	Tan Phu Sales Office - San Miguel Hormel Vietnam	160 Tho Lam 2, Phu Xuan, Tan Phu, Dong Nai	Rented	Good	VND 2,909,090.91	April 14, 2013	Renewable upon mutual agreement of both parties
	Vinh Long Sales Office - San Miguel Hormel Vietnam	194/2 Pham Hung St., Ward 9, Vinh Long	Rented	Good	VND 4,800,000.00	May 31, 2014	Renewable upon mutual agreement of both parties
	Soc Trang Sales Office - San Miguel Hormel Vietnam	Dong Hai, Dai Hai, Ke Sach, Soc Trang	Rented	Good	VND 2,800,000.00	March 31, 2013	Renewable upon mutual agreement of both parties
	Tra Vinh Sales Office - San Miguel Hormel Vietnam	Xom Trang, Nguyet Hoa, Chau Thanh, Tra Vinh	Rented	Good	VND 4,500,000.00	December 18, 2013	Renewable upon mutual agreement of both parties
	Bac Ninh Sales Office - San Miguel Hormel Vietnam	Dinh Bang Village, Tu Son District, Bac Ninh	Rented	Good	VND 13,800,000.00	December 31, 2012	Renewable upon mutual agreement of both parties
	Bao Loc Sales Office - San Miguel Hormel Vietnam	1023 Tran Phu Road, Loc Tien, Bao Loc,Lam Dong	Rented	Good	VND 4,000,000.00	December 31, 2013	Renewable upon mutual agreement of both parties
	Duc Trong Sales Office - San Miguel Hormel Vietnam	5 Thon An Hiep I, Lien Hiep, Duc Trong, Lam Dong	Rented	Good	VND 3,181,818.18	January 31, 2013	Renewable upon mutual agreement of both parties
	Dak Lak Sales Office - San Miguel Hormel Vietnam	Tan Hoa Ward, Buon Ma Thuoc City, Dak Lak	Rented	Good	VND 5,000,000.00	August 04, 2012	Renewable upon mutual agreement of both parties
	Binh Dinh Sales Office - San Miguel Hormel Vietnam	150 Tran Phu Street, Tuy Phuoc Town, Tuy Phuoc District, Binh Dinh	Rented	Good	VND 1,818,181.82	June 14, 2013	Renewable upon mutual agreement of both parties
	Ben Tre Sales Office - San Miguel Hormel Vietnam	Phu Nhon, Thi Tran Chau Than, Cau Than, Ben Tre	Rented	Good	VND 2,727,272.73	July 19, 2013	Renewable upon mutual agreement of both parties
	Ha Noi Sales Office - San Miguel Hormel Vietnam	116 Thanh Liet, Thanh Tri, Ha Noi	Rented	Good	VND 4,500,000.00	August 15, 2013	Renewable upon mutual agreement of both parties
	Cold Storage / Reefer Vans/Depots						
	Vifel Ice Plant and Cold Storage Inc. - Poultry and Purefoods-Hormel	North Bay Blvd., Navotas, Metro Manila	Rented	Good	4,712,945.86	July 1, 2012 for Poultry and June 30, 2012 for PF Hormel	Renewable at the option of the lessee for Poultry; Automatic renewal on a month-to-month basis for PF Hormel
	Diaz Dressing Plant - Poultry	Km. 104, Brgy. Tabuating, San Leonardo, Nueva Ecija	Rented	Good	682,236.61	October 31, 2012	Renewable at the option of the lessee
	Kenwood Construction - Poultry and Fresh Meats	Brgy. San Vicente, San Jacinto, Pangasinan	Rented	Good	918,104.46	December 31, 2012	Renewable at the option of the lessee
	Lolim Dressing Plant - Poultry	Brgy. Mabilao, San Fabian, Pangasinan	Rented	Good	712,128.00	December 31, 2012	Renewable at the option of the lessee
	ARS Dressing Plant - Poultry	Purok 5, Brgy. Rizal, Santiago City, Isabela	Rented	Good	79,250.00	December 31, 2012	Automatic renewal
	Aces AMS Integrated Poultry Processing Corporation - Poultry	Km. 342, Purok III, Garit Norte, Echague, Isabela	Rented	Good	427,000.00	December 31, 2012	Automatic renewal
	New Vreed Dressing Plant - Poultry	Brgy. Mangan-vaca, Subic, Zambales	Rented	Good	80,600.00	March 31, 2013	Renewable at the option of the lessee
	Integrated Meat and Poultry Processing, Inc. - Poultry	Brgy. Tumalo, Hermosa, Bataan	Rented	Good	625,165.00	January 31, 2015	Renewable at the option of the lessee
	Adriano Dressing Plant - Poultry	95 Landicho St., Brgy. Balasing, Sta. Maria, Bulacan	Rented	Good	89,500.00	May 31, 2013	Renewable at the option of the lessee

	Mayharvest Corp. - Poultry	Caysio, Sta. Maria, Bulacan	Rented	Good	612,856.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Poltyrade Sales and Services, Inc. - Poultry and Fresh Meats	Lagundi, Mexico, Pampanga	Rented	Good	1,476,750.00	June 30, 2012	Renewable at the option of the lessee for Poultry; Continuing unless terminated and agreed by both parties for Fresh Meats
	SG Farms - Poultry	San Simon, Pampanga	Rented	Good	179,110.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	V & F Ice Plant and Cold Storage, Inc. - Poultry, Fresh Meats and Purefoods-Hormel	San Roque, Sto. Tomas, Batangas and Antipolo	Rented	Good	11,690,453.15	Poultry - July 31, 2012, Fresh Meats - July 1, 2012 and PF Hormel - May 1, 2012	Automatic renewal
	Gallintina Industrial Corp. - Poultry	GIC Compound, Brgy. Tagbong, Pili, Camarines Sur	Rented	Good	132,000.00	June 30,2012	Automatic renewal on a month-to-month basis
	Palmas Agribusiness Inc. - Poultry	Brgy. Anislag, Daraga, Albay	Rented	Good	29,166.67	Continuing unless terminated and agreed by both parties	Automatic renewal
	Johanna's Chicken Processing Center - Poultry	Brgy. Bocohan, Lucena City and Brgy. Lagalag, Tiaong, Quezon	Rented	Good	2,041,200.00	June 30,2012	Automatic renewal
	Silangan Poultry Farms - Poultry	Brgy. San Jose and Brgy. Kayumangi, Lipa City, Batangas	Rented	Good	240,000.00	April 30,2012	Automatic renewal
	Cariño & Sons Agri-Dev't Inc.- Poultry	Brgy. Aya, San Jose, Batangas	Rented	Good	4,326,178.00	September 30, 2013	Automatic renewal
	MKC Poultry Dressing Plant - Poultry	Brgy. Tagburos, Puerto Princesa City, Palawan	Rented	Good	240,000.00	Continuing unless terminated and agreed by both parties	Automatic renewal
	Technofreeze, Inc. - Poultry	114 East Science Drive, Laguna Techno Park, Biñan, Laguna	Rented	Good	5,508,545.00	August 31, 2012	Automatic renewal
	Malogo Agri-ventures & Management Service Corporation - Poultry	Hacienda Binunga, Brgy. Guinhalaran, Silay City, Negros Occidental	Rented	Good	73,200.00	June 30, 2015	Automatic renewal
	First Farmers Food Corp. - Poultry	Brgy. Dos Hermanos, Talisay City, Negros Occidental	Rented	Good	65,000.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Corden Agro Industries - Poultry	Brgy. Tungay, Sta, Barbara, Iloilo	Rented	Good	129,000.00	June 30, 2015	Automatic renewal
	FBIC Reefer Corporation - Poultry	Dumaguete City, Negros Oriental	Rented	Good	11,846.43	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties

	Quest Blast Freezing and Cold Storage Corp. - Poultry	Brgy. Canduman, Mandaue City, Cebu	Rented	Good	86,877.20	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Big Blue Logistic Corporation - Poultry, Fresh Meat and PureFoods-Hormel	S. E. Jayme St., Pakna-an, and Zuellig Ave., North Reclamation Area, Subangdaku, Mandaue City, Cebu	Rented	Good	315,162.17	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Coldlink Asia Logistics Corp. - Poultry	PC Suico St., Tabok, Mandaue City, Cebu	Rented	Good	328,651.77	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	3G Logistics and Storage, Inc. - Poultry and Fresh Meats	Hernan Cortes St., Tipolo, Mandaue City, Cebu	Rented	Good	582,632.02	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Tsumetai Corp. - Poultry	Cabancalan, Mandaue City. Cebu	Rented	Good	84,812.16	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Cebu Sherilin Agro-Industrial Corp. - Poultry	Brgy. Pangdan, Naga City, Cebu	Rented	Good	196,458.25	May 31, 2015	Renewable upon mutual agreement of both parties
	Elim Dressing Plant - Poultry	Mialen, Clarin, Misamis Occidental	Rented	Good	135,750.00	December 31, 2014	Automatic renewal
	Green Pine Dressing Plant - Poultry	Km 9, Tag-ibo, Butuan City	Rented	Good	87,916.67	December 31, 2012	Automatic renewal
	St. Jude Dressing Plant - Poultry	Mohon, Tagoloan, Misamis Oriental	Rented	Good	44,600.00	July 31, 2013	Automatic renewal
	MK Business Ventures - Poultry	Boalan, Zamboanga City	Rented	Good	97,000.00	December 31, 2012	Renewable upon mutual agreement of both parties
	ECA Cold Storage - Poultry and Fresh Meats	Brgy. Banisil, Tambler, General Santos City	Rented	Good	350,000.00	December 31, 2013	Renewable upon mutual agreement of both parties
	Davao Fresh Foods Corporation - Poultry	Km. 20 Los Amigos, Tugbok, Davao City	Rented	Good	44,800.00	December 31, 2012	Renewable upon mutual agreement of both parties
	Polar Bear Freezing & Storage - Poultry and Fresh Meats	Phividec Industrial Estate, Sugbongcogon, Tagoloan, Misamis Oriental	Rented	Good	775,833.33	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Polar Bear Cold Storage - Poultry and Fresh Meats	Davao Fishing Port Complex, Brgy. Daliao, Toril, Davao City	Rented	Good	461,928.63	December 31, 2012	Renewable upon mutual agreement of both parties
	Koldstor Centre Philippines, Inc. - Fresh Meats, Purefoods-Hormel and Magnolia	Anabu Hills Industrial Estate, Anabu I-C, Imus, Cavite	Rented	Good	33,491,925.79	Continuing unless terminated and agreed by both parties for Fresh Meats and PF-Hormel; July 31, 2012 for Magnolia	Renewable upon mutual agreement of both parties for Fresh Meats; Continuing unless terminated and agreed by both parties for PF Hormel; Automatic renewal for Magnolia
	METS Logistics, Inc. - Fresh Meats and Purefoods-Hormel	Governor's Drive, Bo. Bancal, Carmona, Cavite	Rented	Good	682,050.41	June 30, 2012	Automatic renewal on a month-to-month basis

	Rombe Philippines, Inc. - Fresh Meats	Dampol 1st, Pulilan, Bulacan	Rented	Good	359,500.00	August 31, 2012	Automatic renewal
	Icon Reefer Corp. - Fresh Meats	Unit 526 5F Valero Plaza Building, Salcedo Village, Makati City and F. Palmares St., Passi City, Iloilo	Rented	Good	26,400.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Supreme Aqua Resources Corporation - Fresh Meats	17 Justice Romualdez St., Tacloban City	Rented	Good	64,806.40	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Sunpride Foods, Inc. - Fresh Meats	SFI Bldg., S.E. Jayme St., Pakna-an, Mandaue City, Cebu	Rented	Good	52,000.00	Continuing unless terminated and agreed by both parties	Renewable at the option of the lessee
	Jentec Storage, Inc. - Fresh Meats	Diit Rd., Brgy. 99, Tacloban City	Rented	Good	14,984.29	May 15, 2013	Renewable upon mutual agreement of both parties
	Everest Cold Storage, Inc. - Fresh Meats	Sambag, Jaro, Iloilo City	Rented	Good	230,000.00	February 28, 2013	Renewable upon mutual agreement of both parties
	ECA Resources, Inc. - Fresh Meats	Brgy. Banisil, Tambler, General Santos City	Rented	Good	140,286.76	December 31, 2013	Renewable upon mutual agreement of both parties
	Royal Cargo Combined Logistics Inc. -Purefoods-Hormel	7001 Emilio Aguinaldo Hi-way, Salitran1, Dasmariñas, Cavite	Rented	Good	1,661,308.56	October 31, 2012	Automatic renewal
	UTS Logistics & Distribution Co., Inc. - Purefoods-Hormel	New Cavite Industrial Center, Stateland Subd., Brgy. Manggahan Gen. Trias, Cavite	Rented	Good	732,317.95	June 30, 2012	Automatic renewal
	PT Haga Jaya Kemasindo Sarana - San Miguel Pure Foods Indonesia	Graha Cempaka, Mas Block C-28, Jl. Letjend Suprato, Jakarta Pusat	Rented	Good	IDR 33,050,000.00	November 11, 2012	Renewable upon mutual agreement of both parties
	Tiga Raksa Satria- San Miguel Pure Foods Indonesia	3rd Flr. Jl. Soekarno Hatta No. 606 Bandung	Rented	Good	IDR 1,950,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	PT. Sewu Segar Nusantara	Jl. Beringin Bendo Kawasan Industri Ragam II Kav. 8 RT 06/08 Taman Sepayang Surabaya	Rented	Good	IDR 33,000,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Alex H - San Miguel Pure Foods Indonesia	Jl. Raya Bogor Km.37, Sukamaju, Cilodong, Depok	Rented	Good	IDR 972,222.21	February 01, 2013	Renewable upon mutual agreement of both parties
	Joko P - San Miguel Pure Foods Indonesia	Jl. Ring Road Utara Pandega Patma DP 16D Yogyakarta	Rented	Good	IDR 2,766,666.60	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Cebu - San Miguel Integrated Sales	SMC-SL Compound, Ouano Wharf, Brgy. Looc, Mandaue City	Rented	Good	110,250.00	December 31, 2012	Renewable upon mutual agreement of both parties
PACKAGING BUSINESS							
	A. DOMESTIC						
1	SAN MIGUEL YAMAMURA PACKAGING CORPORATION						
	Main Office, SMYPC Trading and SMYPC Contract Packaging	SMPC Bldg., St. Francis Ave., Ortigas	Owned	Good			
	SMYPC Rightpak Plant	Canlubang Industrial Estate, Canlubang, Laguna	Owned	Good			

	SMYPC Metal Container Plant	Bgy. San Francisco de Malabon, Gen. Trias, 4107 Cavite	Owned	Good			
	SMYPC Cebu Bev. Packaging Plant, SMYPC Mandaue Glass Plant, SMYPC MCLP Mandaue and SMYPC Mandaue Plastics Plant	SMC Mandaue Complex, Hi-way, Tipolo, Mandaue City, Cebu	Owned	Good			
	SMYPC Davao Bev. Packaging Plant	SMC Complex, Darong, Sta. Cruz, Davao City	Owned	Good			
	SMYPC San Fernando Bev. Packaging Plant	Barangay Maimpis, City of San Fernando, Pampanga (Gate 2, SMC PET Plant)	Owned	Good			
	SMYPC Pet Recycling Plant and SMYPC MCLP San Fernando	SMC San Fernando Complex, Quebiauan, San Fernando City	Owned	Good			
	SMYPC Canlubang PET & Caps Plant	Canlubang Industrial Estate, Canlubang, Laguna	Owned	Good			
	SMYPC Manila Glass Plant	Muelle dela Industria St., Binondo Manila	Owned	Good			
	SMYPC Manila Plastics Plant and SMYPC Glass Business Office	Tomas Claudio St., Beata, Pandacan, Manila	Owned	Good			
	SMYPC Leasing Operation and SMYPC MCLP Canlubang	Silang Canlubang Industrial Park, Canlubang Laguna	Owned	Good			
	SMYPC Glass Business Office	023 Halayhay, Tanza, Cavite, 4108	Owned	Good			
2	SAN MIGUEL YAMAMURA ASIA CORPORATION	Km 12, Aguinaldo Highway, Imus, Cavite	Owned	Good			
3	SMC YAMAMURA FUSO MOLDS CORPORATION	Governor Dr., Bo. De Fuego, Bgy. San Francisco, Gen. Trias, Cavite	Owned	Good			
4	SAN MIGUEL PAPER PACKAGING CORPORATION	Dr. A Santos Avenue, Sucat, Parañaque City	Owned	Closed			
5	MINDANAO CORRUGATED FIBREBOARD, INC.	Km 12 Sasa, Davao City	Owned	Good			
	B. INTERNATIONAL						
6	SAN MIGUEL YAMAMURA PACKAGING INTERNATIONAL LTD. AND SAN MIGUEL YAMAMURA GLASS (VIETNAM) LTD.	9/F Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, N.T. Hongkong, PRC	Land Use Rights	Good			
7	ZHAOQING SAN MIGUEL YAMAMURA GLASS COMPANY LTD.	12 North Avenue, Housha St., Zhaoqing City Guangdong Province, PRC 526020	Land Use Rights	Good			
8	FOSHAN SAN MIGUEL YAMAMURA PACKAGING COMPANY LTD.	3 Dongdi Road, Junan Township, Guangdong Province, PRC	Land Use Rights	Good			
9	PT SAN MIGUEL YAMAMURA UTAMA INDOPLAS	Jalan Jababeka V 42-43, Kawasan Industri Jababeka, Cikarang, Bekasi 17832, Indonesia	Land Use Rights	Good			
10	SAN MIGUEL YAMAMURA HAIPHONG GLASS COMPANY LTD.	17-A Ngo Quyen St., Ngo Quyen District, Haiphong City, Vietnam	Land Use Rights	Good			
11	SAN MIGUEL YAMAMURA PHU THO PACKAGING COMPANY LTD.	1 Le Van Khuong Street, Hiep Thanh Ward, District 12, Ho Chi Minh City, Vietnam	Owned	Good			
12	SAN MIGUEL YAMAMURA PLASTICS FILMS SDN. BHD.	No. 172, Jalan Usaha 5, lots 83, 84, 85, 75, 76 Ayer Keroh Industrial	Land Lease Rights	Good			

		Estate, 75450 Melaka, Malaysia					
13	SAN MIGUEL YAMAMURA PACKAGING AND PRINTING SDN. BHD. AND PACKAGING RESEARCH CENTRE SDN. BHD.	Lot 5078 and 5079, Jalan Jenjarum 28/39, Seksyen 28, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia	Owned	Good			
14	SAN MIGUEL YAMAMURA WOVEN PRODUCTS SDN. BHD.	Lot 9 and 10, Jalan Usuha 4, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia	Owned	Good			
15	SAN MIGUEL YAMAMURA KNOX PTY. LTD. COSPAK PTY. LTD.	1 Culverston Road Minto NSW 2566, Australia	Rented	Good	AUD 107,372.00	July 31, 2020	Renewable upon mutual agreement of both parties
16	COSPAK PLASTICS PTY. LTD.	21 Huntsmore Road Minto NSW 2566, Australia	Rented	Good	AUD 21,446 - Unit 1 AUD 16,546.75 - Unit 2	Nov 30, 2022 - Unit 1 Oct 31, 2023 - Unit 2	Renewable upon mutual agreement of both parties
17	COSPAK NZ LTD. PREMIER PLASTICS LTD.	27 Ross Reid Place East Tamaki Auckland New Zealand 2013	Rented	Good	NZD 75,640.00	September 30, 2018	Renewable upon mutual agreement of both parties
FUEL AND OIL BUSINESS							
1	PETRON CORPORATION						
	Terminals and Depots						
	Depot	J.P.de Carreon St. Punta Aparri, Cagayan	Rented except Building & Facilities	Good	11,103.09	December 31, 2021	Renewable at the option of the lessor
	Depot	PFDA CMPD., Navotas, M.M.	Rented except Building & Facilities	Good	57,361.61	December 31, 2039	Renewable upon mutual agreement of both parties
	Depot	Parola, Brgy. Maunlad, Puerto Princesa City, Palawan	Rented Except Building & Facilities	Good	4,548.83	November 30, 2020	Renewable at the option of the lessee
	Depot	Brgy. Camangi, Pasacao Camarines Sur	Rented except Building & Facilities	Good	95,166.67	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Depot	Poro Pt.,San Fernado, La Union	Rented except Building & Facilities	Good	42,103.26	November 30, 2020	Renewable upon mutual agreement of both parties
	Depot	Gen. Trias, Rosario, Cavite	Rented except Building & Facilities	Good	211,420.00	August 31, 2018	Renewable at the option of the lessee
	Depot	Tandayag, Amlan, Negros Oriental	Rented except Building and Facilities	Good	21,504.05	November 30, 2018	Renewable at the option of the lessee
	Depot	Bo. San Patricio, Bacolod City, Negros Occidental	Rented except Building & Facilities	Good	198,256.65	August 22, 2031	Renewable at the option of the lessee
	Depot	Lapuz, Iloilo City	Rented except Building & Facilities	Good	435,993.66	August 31, 2018	Renewable upon mutual agreement of both parties
	Depot	LIDE, Isabel, Leyte	Rented except Building & Facilities	Good	151,250.00	December 31, 2012	Yearly renewal

	Depot	MEPZ, Lapu- lapu City	Rented except Building & Facilities	Good	50,250.00	August 31, 2020	Renewable upon mutual agreement of both parties
	Depot	Bo. Linao, Ormoc City, Leyte	Rented except Building & Facilities	Good	36,710.48	June 30, 2025	Renewable upon mutual agreement of both parties
	Depot	Arnaldo Blvd., Culasi, Roxas, City	Rented except Building & Facilities	Good	20,789.28	December 31, 2012	Renewable upon mutual agreement of both parties
	Depot	Anibong, Tacloban City	Rented except Building & Facilities	Good	148,875.90	August 31, 2018	Renewable at the option of the lessee
	Depot	Graham Ave., Tagbiliran, Bohol	Rented except Building & Facilities	Good	14,795.60	August 31, 2018	Renewable at the option of the lessee
	Depot	Km. 9, Bo. Pampanga, Davao City	Rented except Buildings & Facilities	Good	127,022.20	August 31, 2018	Renewable at the option of the lessee
	Depot	Purok Cabu, Bawing, General Santos City	Rented except Buildings & Facilities	Good	257,500.39	September 01, 2035	Renewable at the option of the lessee
	Depot	Bo. Tuminobo, Iligan City, Lanao del Norte	Rented except Building & Facilities	Good	8,391.66	August 31, 2018	Renewable at the option of the lessee
	Depot	Jimenez, Misamis Occidental	Rented except Building and Facilities	Good	29,755.52	March 02, 2020	Renewable upon mutual agreement of both parties
	Depot	Talisay, Nasipit, Agusan del Norte	Rented except Building and Facilities	Good	19,783.00	August 31, 2016	Renewable upon mutual agreement of both parties
	Depot	Tagoloan, Misamis Oriental	Rented except Building and Facilities	Good	66,346.03	December 31, 2020	Renewable at the option of the lessee
	Depot	Bgy. Campo Islam, Lower Calarian, Zamboanga City	Rented except Building and Facilities	Good	25,133.65	August 31, 2018	Renewable at the option of the lessee
	Depot (LPG Operation)	Lakandula Drive, brgy. Bonot, Legaspi City	Rented except Building & Facilities	Good	36,100.66	August 31, 2018	Renewable at the option of the lessee
	Depot (Gasul - San Fernando)	San Fernando, Pampanga	Rented except Building and Facilities	Good	8,104.36	August 31, 2018	Renewable at the option of the lessee
	Sales Office	Roxas St., Brgy. Ilaya, Calapan City, Oriental Mindoro	Rented	Good	18,343.00	June 14, 2012	Renewable upon mutual agreement of both parties
	Sales Office	1020 A Mabini St., San Jose, Occidental Mindoro	Rented	Good	6,655.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Terminal	Bo. Mainaga, Mabini, Batangas	Rented except Building & Facilities	Good	35,000.00	August 31, 2018	Renewable at the option of the lessee

	Terminal	Petron Bataan Refinery, Limay, Bataan	Rented except Building & Facilities	Good	1,295.58	August 31, 2018	Renewable at the option of the lessee
	Terminal	Jesus St., Panadacan, Manila	Rented except Building & Facilities	Good	122,916.67	August 31, 2018	Renewable at the option of the lessee
	Terminal	Looc, Mandaue City, Cebu	Rented except Building & Facilities	Good	369,785.85	February 16, 2032	Renewable at the option of the lessee
	Terminal (Gasul – Pasig)	Bo. Ugong, Pasig, M.M	Rented except Building & Facilities	Good	799,018.36	August 31, 2018	Renewable at the option of the lessee
	Airport Installations	Davao Airport	Rented except Building & Facilities	Good	32,262.50	May 31, 2028	Renewable upon mutual agreement of both parties
	Airport Installations	Brgy. Airport, Mandurriao, Iloilo City	Rented except Building & Facilities	Good	17,800.00	May 31, 2017	Renewable upon mutual agreement of both parties
	Airport Installations	Laoag Airport	Rented except Building & Facilities	Good	3,480.00	October 31, 2029	Renewable upon mutual agreement of both parties
	Airport Installations	JOCASP, CPD, NAIA, Pasay City	Rented except Building & Facilities	Good	101,197.40	December 31, 2035	Renewable at the option of the lessee
POWER GENERATION AND DISTRIBUTION BUSINESS							
1	SAN MIGUEL ELECTRIC CORPORATION						
	1000MW Sual Coal-Fired Thermal Power Plant	Sual, Pangasinan	IPPA with PSALM	Good			
2	SOUTH PREMIERE POWER CORP.						
	1200MW Ilijan Combined Cycle Power Plant	Brgy. Ilijan, Batangas City	IPPA with PSALM	Good			
3	STRATEGIC POWER DEVT. CORP.						
	345MW San Roque Multipurpose Hydroelectric Power Plant	Brgy. San Roque, San Manuel, Pangasinan	IPPA with PSALM	Good			
TELECOMMUNICATIONS BUSINESS							
1	BELL TELECOMMUNICATION PHILIPPINES, INC.						
	Base Station	28F The World Centre 330 Sen. Gil Puyat Avenue Makati City	Building Space-Rented, Machinery & Equipment -Owned	Good	238,190.19	January 16, 2013	Yearly renewal
	Base Station	EGI Rufino Plaza Taft cor. Sen. Gil Puyat Avenue Pasay City	Building Space-Rented, Machinery & Equipment -Owned	Good	77,000.00	August 31, 2012	Yearly renewal
	Base Station	157 Lauan Street Ayala Alabang Village Muntinlupa City	Building Space-Rented, Machinery & Equipment -Owned	Good	65,578.95	September 20, 2013	Yearly renewal
	Base Station	Chrysantemum St.Barangay Loma,Binan Laguna	Owned	Good			

	Warehouse	Soler corner Calero Street, Sta.Cruz Manila	Owned	Good			
	Main Office	808 Bldg. Meralco Avenue,Brgy.San Antonio Pasig City	Owned	Good			
2	EASTERN TELECOMMUNICATIONS PHILIPPINES, INC.						
	CONDOMINUM UNIT	Pearl Drive cor. Amethyst St., Brgy. San Antonio, Pasig City, Metro Manila	Owned	Good			
	LAND/BLDG	Magenta Drive Corner Yellow St., Goodwill 2 Subdivision, Barangay San Dionisio, Paranaque City.	Owned	Good			
	LAND	Lots 2080 & 2081 along M.H. Evangilista St., Barrio San Nicolas, San Antonio, Zambales	Owned	Good			
	LAND/BLDG	Along Governor Drive Barangay Bancal, Carmona, Cavite	Owned	Good			
	LAND/BLDG	No. 1861 P. Florentino Street, Sampaloc District, Manila	Owned	Good			
	CONDOMINUM UNIT	2nd Floor, Midland Plaza, Adriatico Street, Malate District City Manila	Owned	Good			
	LAND/BLDG	Nasugbu, Batanggas	Owned	Good			
	Technical office	Telecoms Plaza, Sen. Gil Puyat Avenue Makati City, Metropolitan Manila	Buiding - Owned, Land - Rented	Good	76,160.00	July 22, 2081	Renewable upon mutual agreement of both parties
	Technical office	2nd Floor, National Press Club Building, Magallanes Drive, Intramuros, City of Manila	Rented	Good	50,005.56	February 28, 2015	Renewable upon mutual agreement of both parties
	Technical office	4th Floor, Araneta Square Mall, Bonifacio Monumento Circle, Caloocan City, Metropolitan Manila	Rented	Good	66,606.60	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Technical office	4th Floor, Old FTI Adminstration BLDG., Tauig City Metropolitan Manila	Rented	Good	19,471.00	December 31, 2015	Renewable upon mutual agreement of both parties
	Technical office	Carmela Industrial Complex Calamba, Laguna	Rented	Good	26,191.95	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Technical office	EPZA Compund, Rosario, Cavite	Rented	Good	13,481.79	December 31, 2014	Renewable upon mutual agreement of both parties
	Technical office	GoodWill II Subdivision, Parañaque City, Metropolitan Manila	Rented	Good	2,500.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Technical office	Skyfreight Building, NAIA Road, Parañaque City Metropolitan Manila	Rented	Good	23,982.90	February 28, 2014	Renewable upon mutual agreement of both parties
3	TELECOMMUNICATIONS TECHNOLOGIES PHILS., INC.						
	LAND	No. 120 Maharlika Highway (National Road), Brgy. Tallungan, Aparri, Cagayan	Owned	Good			
	LAND	Calamaniugan-Sta. Ana Highway (National Road), Brgy. Bulala,	Owned	Good			

		Calaminiugan, Cagayan Valley					
	LAND	Maharlika Highway (National Road) Brgy. Bagumbayan, Lal-Lo, Cagayan Valley	Owned	Good			
	LAND	No. 31 Rizal Street, Brgy. Centro 4 (Poblacion) Tuguegarao City	Owned	Good			
	LAND	Cabaruan Road, Barrio Cabaruan, Cauayan, Isabela	Owned	Good			
	LAND	Provincial Road, Brgy. Guinatan, Ilagan, Isabela	Owned	Good			
	LAND	Judge Taguinod corner Tumanut Streets, Brgy. Villasis, Santiago City, Isabela	Owned	Good			
	LAND	Aratal Street corner Maharlika Highway (Provincial Road), Barrio Roxas, Solano, Nueva Vizcaya	Owned	Good			
	LAND	Dumlao Blvd. corner Basa St., Brgy. Don Domingo, Maddela, Bayombong, Nueva Vizcaya	Owned	Good			
	LAND/BLDG	Jose Abad Santos Avenue, Tondo District, Manila	Owned	Good			
	LAND (Warehouse)	Corners of Comandante/Calero/Soler Streets, Sta. Cruz District, Manila (M3)	Owned	Good			
	LAND	Corners of Heroes Del 96/M Arce/Calaanan Streets, Barangay Calaanan, Caloocan City (M4)	Owned	Good			
OTHERS							
1	SAN MIGUEL CORPORATION						
	Iligan Coconut Oil Mill	Sta.Filomena, Iligan City	Owned	Good			
	Land	A. Del Rosario Ave, Brgy. Tipolo, Mandaue City	Owned	Good			
	Land	Bacolod Shrimp Processing Plant	Owned	Good			
	Land	Baguio City Bmd Warehouse	Owned	Good			
	Land	Canlubang, Laguna	Owned	Good			
	Land	Carmen S.O. Carmen East, Rosales, Pangasinan	Owned	Good			
	Land	Gen. Santos Feed Center	Owned	Good			
	Land	Gen. T. De Leon Valenzuela City	Owned	Good			
	Land	Ibazeta Farm	Owned	Good			
	Land	J. Panganiban Cam/Norte	Owned	Good			
	Land	Karaan Farm	Owned	Good			
	Land	Mandaue City, Cebu	Owned	Good			
	Land	Muelle Dela Industria St., Binondo Manila	Owned	Good			
	Land	Opol, Misamis	Owned	Good			
	Land	San Fernando Shrimp Processing Plant	Owned	Good			
	Land	San Matias, San Fernando, Pampanga	Owned	Good			
	Land	Sto. Tomas, Batangas	Owned	Good			

	Land	Tarlac S.O., San Rafael, Tarlac, Tarlac	Owned	Good			
	Land	Teresa, Rizal	Owned	Good			
	Land	Tomas Claudio St., Beata, Pandacan Manila	Owned	Good			
	Land and Building	Km. 71, Aguinaldo Highway, Amuyong, Alfonso, Cavite	Owned	Good			
	Office Building	Meralco Ave., Pasig City	Owned	Good			
	Office Building	San Miguel Ave., Mandaluyong City	Owned	Good			
	Warehouse	Northbay Blvd., Navotas, Metro Manila	Owned	Good			
	Warehouse	SMC Mandaue Complex, Hi-Way, Mandaue City	Owned	Good			
2	SAN MIGUEL PROPERTIES, INC.						
	The Legacy	Las Piñas, Metro Manila	Owned	Good			
	Bel Aldea	Gen. Trias, Cavite	Owned	Good			
	Maravilla	Gen. Trias, Cavite	Owned	Good			
	Office Spaces	PET Plans Tower, Makati	Owned	Good			
	Office Spaces	San Miguel Properties Centre, Mandaluyong	Owned	Good			
	Office Building	Edsa, Ortigas Center, Mandaluyong	Owned	Good			
	Land	Lee St., Mandaluyong City	Owned	Good			
	Land	Cabuyao, Laguna	Owned	Good			
	Land	Meralco Avenue, Pasig	Owned	Good			
	Land	Filinvest Corporate City, Muntinlupa	Owned	Good			
	Land	Canlubang, Laguna	Owned	Good			
	Land	Gen. Trias, Cavite	Owned	Good			
	Land	Alfonso, Cavite	Owned	Good			
	Land	Lubao, Pampanga	Owned	Good			
	Land	Masbate	Owned	Good			
	Land	Sta. Cruz, Davao del Sur	Owned	Good			
	Land	Boracay Is., Bo. Yapak, Malay, Aklan	Owned	Good			
	Land	Cauayan, Isabela	Owned	Good			
	Legacy Homes, Inc.						
	Villa de Calamba	Calamba, Laguna	Owned	Good			
	Primavera Hills	Liloan, Cebu	Owned	Good			
	Buenavista Homes	Jugan, Cebu	Owned	Good			
	Excel Unified Land Resources Corp.						
	Wedge Woods	Silang, Cavite	Owned	Good			
	Bright Ventures Realty, Inc.						
	Land	Mabini St., Addition Hills, San Juan	Owned	Good			
	Bel-Aldea Realty, Inc.						
	House and lot	La Loma, Quezon City	Owned	Good			
	Highriser Group, Inc.						
	Land	Pasay Road, Makati	Owned	Good			
	Dimanyan Wakes Holdings, Inc.						
	Land	Coron, Palawan	Owned	Good			
	Busuanga Bay Holdings Inc.						
	Land	Coron, Palawan	Owned	Good			
	Bulalacao Property Holdings, Inc.						
	Land	Coron, Palawan	Owned	Good			
	Calamian Prime Holdings, Inc.						

	Land	Coron, Palawan	Owned	Good			
	Palawan White Sands Holdings Corp.						
	Land	Coron, Palawan	Owned	Good			
	Coron Islands Holdings, Inc.						
	Land	Coron, Palawan	Owned	Good			
	Maison 17 Properties, Inc.						
	Land	Legaspi St., Makati City	Owned	Good			
	SMPI-GSIS Joint Venture Corporation						
	Land	Legaspi St., Makati City	Owned	Good			
	Carnell Realty, Inc.						
	Land	Lee St., Mandaluyong City	Owned	Good			
	Brillar Realty and Development Corp.						
	Land	Nasugbu, Batangas	Owned	Good			
	Grandioso Realty Corporation						
	Land	Tambler, General Santos City	Owned	Good			
3	PACIFIC CENTRAL PROPERTIES, INC.						
	Land	Limay, Combined Power Plant, Limay Bataan	Owned	Good			
	Land	Dauin, Negros Oriental	Owned	Good			
	Land	Outlook Drive, Baguio City	Owned	Good			
4	SMC SHIPPING AND LIGHTERAGE CORP.						
	Office Building	#19 Atienza St. San Antonio Village, Pasig City	Owned	Good			
	Land	Ouano Wharf, Mandaue City, Cebu	Owned	Good			
	Land and Building	Brgy. Looc,Lapu-lapu City, Cebu	Owned	Good			

Note: All owned properties are free of liens and encumbrances.

Parties to the Offer

Issuer	**SAN MIGUEL CORPORATION** 40 San Miguel Avenue, Mandaluyong City
Sole Issue Manager	**THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED** HSBC Centre, 3058 Fifth Avenue West, Bonifacio Global City, Taguig City
Joint Bookrunners	**THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED** HSBC Centre, 3058 Fifth Avenue West, Bonifacio Global City, Taguig City
	UNIONBANK OF THE PHILIPPINES UnionBank Plaza, Meralco Avenue Corner Onyx & Sapphire Roads, Ortigas Center, Pasig City
	BDO CAPITAL & INVESTMENT CORPORATION 20th Floor, South Tower, BDO Corporate Center 7899 Makati Avenue, Makati City
	CHINA BANKING CORPORATION China Bank Building 8745 Paseo de Roxas cor. Villar St., Makati City 1226
	RCBC CAPITAL CORPORATION 7/F Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City
	FIRST METRO INVESTMENT CORPORATION 45/F GT Tower International, 6813 Ayala Ave. cor. H.V. Dela Costa St. Makati City 1227
	ING BANK N.V., MANILA BRANCH 21/F Tower One and Exchange Plaza, Ayala Triangle Ayala Avenue, 1226 Makati City
	PHILIPPINE COMMERCIAL CAPITAL, INC. PCCI Corporate Center, 118 L.P. Leviste St., Salcedo Village, Makati City
	SB CAPITAL AND INVESTMENT CORPORATION 18/F Security Bank Centre, 6776 Ayala Ave., Makati City, 0719
	STANDARD CHARTERED BANK 8/F Standard Chartered Bank Building, 6788 Ayala Ave., Makati City 1226
	UNITED COCONUT PLANTERS BANK 12/F UCPB Building 7907 Makati Avenue, Makati City 1200