SAN MIGUEL BREWERY INC.
A subsidiary of San Miguel Corporation

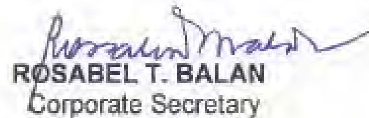
February 8, 2012

Philippine Stock Exchange, Inc.
Philippine Stock Exchange Plaza
Ayala Triangle
Ayala Avenue, Makati City

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

Gentlemen:

We submit herewith the Company's Audited Consolidated Financial Statements for the year ended December 31, 2011 which were filed with the Securities and Exchange Commission today.



Very truly yours,

ROSABEL T. BALAN
Corporate Secretary

COVER SHEET

CS200711828

S.E.C. Registration Number

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES (A Subsidiary of San Miguel Corporation)

(Company's Full Name)

No. 40 San Miguel Avenue Mandaluyong City

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

Noemi L. Ronquillo

Contact Person

632-3000

Company Telephone Number

12 31

Month *Day*

AAFS

FORM TYPE

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of San Miguel Brewery Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Brewery Inc. and Subsidiaries as at December 31, 2011 and 2010, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2011, in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO., CPAs

JOSE P. JAVIER, JR.
Partner
CPA License No. 0070807
SEC Accreditation No. 0678-AR-1, Group A, valid until March 30, 2014
Tax Identification No. 112-071-224
BIR Accreditation No. 08-001987-16-2011
Issued February 4, 2011; valid until February 3, 2014
PTR No. 3174013MA
Issued January 2, 2012 at Makati City

February 7, 2012
Makati City, Metro Manila

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Millions)

		December 31	
	Note	**2011**	2010
ASSETS			
Current Assets			
Cash and cash equivalents	*6, 32, 33*	**P18,279**	P15,076
Trade and other receivables - net	*4, 7, 27, 32, 33*	**4,977**	4,366
Inventories	*4, 8*	**3,370**	3,557
Prepaid expenses and other current assets	*4, 9, 29, 32, 33*	**996**	1,149
Total Current Assets		**27,622**	24,148
Noncurrent Assets			
Investments - net	*10, 32, 33*	**132**	135
Property, plant and equipment - net	*4, 11*	**20,214**	19,635
Investment property - net	*4, 12*	**664**	1,379
Intangible assets - net	*4, 13*	**36,063**	36,136
Deferred tax assets	*4, 18*	**341**	68
Other noncurrent assets - net	*4, 14, 27, 28, 29, 32, 33*	**6,387**	5,620
Total Noncurrent Assets		**63,801**	62,973
		P91,423	P87,121
LIABILITIES AND EQUITY			
Current Liabilities			
Drafts and loans payable	*15, 32, 33*	**P1,857**	P1,644
Accounts payable and accrued expenses	*16, 27, 32, 33*	**7,296**	6,833
Income and other taxes payable	*18*	**2,606**	2,263
Current maturities of long-term debt, net of debt issue costs	*17, 32, 33*	**13,577**	-
Total Current Liabilities		**25,336**	10,740
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*17, 32, 33*	**37,962**	51,364
Deferred tax liabilities	*18*	**35**	89
Other noncurrent liabilities	*4, 29*	**216**	107
Total Noncurrent Liabilities		**38,213**	51,560

Forward

	Note	December 31 2011	2010
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	*19*	**P15,410**	P15,410
Additional paid-in capital		**515**	515
Cumulative translation adjustments	*33*	**(672)**	(542)
Retained earnings	*34*	**10,618**	7,286
		25,871	22,669
Non-controlling Interests	*2*	**2,003**	2,152
Total Equity		**27,874**	24,821
		P91,423	P87,121

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)

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	*27*	**P71,910**	P67,575	P51,009
COST OF SALES	*20, 27*	**36,819**	34,505	26,261
GROSS PROFIT		**35,091**	33,070	24,748
SELLING AND ADMINISTRATIVE EXPENSES	*21*	**(14,620)**	(14,519)	(8,737)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*15, 17, 24*	**(4,132)**	(3,983)	(2,600)
INTEREST INCOME		**658**	696	538
INCOME FROM ACQUISITION OF ASSETS AT FAIR VALUE	*10*	**-**	2,418	-
IMPAIRMENT LOSSES ON NONCURRENT ASSETS	*26*	**(30)**	(3,694)	-
OTHER INCOME (CHARGES) - Net	*25*	**402**	1,247	(19)
INCOME BEFORE INCOME TAX		**17,369**	15,235	13,930
INCOME TAX EXPENSE	*18*	**5,187**	4,862	3,897
NET INCOME		**P12,182**	P10,373	P10,033
Attributable to:				
Equity holders of the Parent Company		**P11,962**	P11,768	P10,033
Non-controlling interests		**220**	(1,395)	-
		P12,182	P10,373	P10,033
Basic and Diluted Earnings Per Share	*30*	**P0.78**	P0.76	P0.65

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(In Millions)

	Note	**2011**	2010	2009
NET INCOME		**P12,182**	P10,373	P10,033
LOSS ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**(145)**	(565)	-
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	*33*	**(1)**	1	-
NET GAIN ON CASH FLOW HEDGES	*33*	**-**	-	64
INCOME TAX EXPENSE	*18*	**-**	-	(19)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - NET OF TAX		**(146)**	(564)	45
TOTAL COMPREHENSIVE INCOME FOR THE YEAR - NET OF TAX		**P12,036**	P9,809	P10,078
Comprehensive Income Attributable to:				
Equity holders of the Parent Company		**P11,832**	P11,226	P10,078
Non-controlling interests		**204**	(1,417)	-
		P12,036	P9,809	P10,078

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)
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								
				Cumulative Translation Adjustments						
	Note	Capital Stock	Additional Paid-in Capital	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
As of January 1, 2011		**P15,410**	**P515**	**(P543)**	**P -**	**P1**	**P7,286**	**P22,669**	**P2,152**	**P24,821**
Loss on exchange differences on translation of foreign operations		**-**	**-**	**(129)**	**-**	**-**	**-**	**(129)**	**(16)**	**(145)**
Net loss on available-for-sale financial assets, net of tax	*33*	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**	**-**	**(1)**
Other comprehensive loss		**-**	**-**	**(129)**	**-**	**(1)**	**-**	**(130)**	**(16)**	**(146)**
Net income for the year		**-**	**-**	**-**	**-**	**-**	**11,962**	**11,962**	**220**	**12,182**
Total comprehensive income (loss) for the year		**-**	**-**	**(129)**	**-**	**(1)**	**11,962**	**11,832**	**204**	**12,036**
Cash dividends	*34*	**-**	**-**	**-**	**-**	**-**	**(8,630)**	**(8,630)**	**(353)**	**(8,983)**
As of December 31, 2011		**P15,410**	**P515**	**(P672)**	**P -**	**P -**	**P10,618**	**P25,871**	**P2,003**	**P27,874**

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company								Non-controlling Interests	Total Equity
				Cumulative Translation Adjustment							
		Capital Stock	Additional Paid-in Capital	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings	Total			
As of January 1, 2010		P15,410	P515	P -	P -	P -	P3,993	P19,918		P -	P19,918
Loss on exchange differences on translation of foreign operations		-	-	(543)	-	-	-	(543)		(22)	(565)
Net gain on available-for-sale financial assets, net of tax	*33*	-	-	-	-	1	-	1		-	1
Other comprehensive income (loss)		-	-	(543)	-	1	-	(542)		(22)	(564)
Net income for the year		-	-	-	-	-	11,768	11,768		(1,395)	10,373
Total comprehensive income (loss) for the year		-	-	(543)	-	1	11,768	11,226		(1,417)	9,809
Acquisition of a subsidiary	*10*	-	-	-	-	-	-	-		3,884	3,884
Addition to non-controlling interests		-	-	-	-	-	-	-		(1)	(1)
Cash dividends	*34*	-	-	-	-	-	(8,475)	(8,475)		(314)	(8,789)
As of December 31, 2010		P15,410	P515	(P543)	P -	P1	P7,286	P22,669		P2,152	P24,821
As of January 1, 2009		P15,410	P515	P -	(P45)	P -	P3,130	P19,010		P -	P19,010
Gain on cash flow hedges, net of tax	*33*	-	-	-	45	-	-	45		-	45
Net income for the year		-	-	-	-	-	10,033	10,033		-	10,033
Total comprehensive income for the year		-	-	-	45	-	10,033	10,078		-	10,078
Cash dividends	*34*	-	-	-	-	-	(9,170)	(9,170)		-	(9,170)
As of December 31, 2009		P15,410	P515	P -	P -	P -	P3,993	P19,918		P -	P19,918

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)

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		**P17,369**	P15,235	P13,930
Adjustments for:				
Interest expense and other financing charges	*24*	**4,132**	3,983	2,600
Depreciation, amortization and others	*22*	**2,619**	2,064	1,694
Retirement costs	*29*	**493**	434	168
Provision (reversal) of allowance for impairment losses on receivables, inventory and others	*7, 8*	**270**	294	(236)
Impairment losses on noncurrent assets	*26*	**30**	3,694	-
Income from acquisition of assets at fair value	*10*	**-**	(2,418)	-
Interest income		**(658)**	(696)	(538)
Loss (gain) on sale of property and equipment, investment property and intangible assets	*25*	**(392)**	7	4
Operating income before working capital changes		**23,863**	22,597	17,622
Decrease (increase) in:				
Trade and other receivables		**(808)**	476	368
Inventories		**227**	202	266
Prepaid expenses and other current assets		**(72)**	(203)	165
Increase (decrease) in:				
Accounts payable and accrued expenses		**411**	465	309
Other taxes payables		**(12)**	(29)	(439)
Cash generated from operations		**23,609**	23,508	18,291
Interest paid		**(3,906)**	(3,753)	(1,708)
Income taxes paid		**(5,157)**	(4,467)	(4,187)
Contributions paid		**(202)**	(376)	(372)
Net cash flows provided by operating activities		**14,344**	14,912	12,024

Forward

	Note	**2011**	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property, plant and equipment	*11*	**(P1,778)**	(P956)	(P626)
Acquisitions of investment property	*12*	**(29)**	(1)	-
Proceeds from sale of property and equipment, investment property and intangible assets		**1,106**	13	5
Acquisition of subsidiaries, net of cash received	*10*	**-**	(16,464)	(32,000)
Increase in intangible assets and other noncurrent assets		**(2,257)**	(1,032)	(1,559)
Interest received		**656**	694	535
Net cash flows used in investing activities		**(2,302)**	(17,746)	(33,645)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**341**	457	-
Long-term borrowings		**-**	13,469	38,356
Payments of short-term borrowings		**(194)**	(484)	-
Dividends paid to non-controlling shareholders		**(361)**	(300)	-
Increase (decrease) in other noncurrent liabilities		**2**	(83)	(39)
Cash dividends paid	*34*	**(8,630)**	(8,475)	(9,170)
Net cash flows provided by (used in) financing activities		**(8,842)**	4,584	29,147
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**3**	(237)	(4)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,203**	1,513	7,522
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**15,076**	13,563	6,041
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**P18,279**	P15,076	P13,563

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Corporation)

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

1. Reporting Entity

San Miguel Brewery Inc. (SMB or the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 26, 2007. The accompanying consolidated financial statements comprise the financial statements of the Company and its Subsidiaries (collectively referred to as the Group). The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange, Inc. (PSE). The Group is primarily engaged in manufacturing, selling and distribution of fermented and malt-based beverages. The Group is also engaged in acquiring, developing and licensing trademarks and intellectual property rights and in the management, sale, exchange, lease and holding for investment of real estate of all kinds including buildings and other structures. The registered office address of the Company is No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

San Miguel Corporation (SMC) is the ultimate parent company of the Group.

2. Basis of Preparation

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 7, 2012.

Basis of Measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale (AFS) financial assets are measured at fair value; and
- defined benefit liability (asset) is measured as the net total of the fair value of the plan assets, less unrecognized actuarial (losses) gains and the present value of the defined benefit obligation.

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest Held by the Company	Proportion of Ownership Interest Held by the Subsidiaries	Effective Equity Interest of the Company *	Line of Business
Iconic Beverages, Inc. (IBI) (a)	Philippines	100	-	100	Licensing trademarks
San Miguel Brewing International Ltd. (SMBIL) (b)	British Virgin Islands	100	-	100	Manufacture and sale of beer
Neptunia Corporation Limited (NCL) (b)	Hong Kong	-	100	100	Investment holding
San Miguel Company Limited (b)	Hong Kong	-	100	100	Investment holding
San Miguel Company Limited Taiwan Branch (b)	Taiwan	-	100	100	Beer distribution
San Miguel Brewery Hong Kong Limited (SMBHK) (b)	Hong Kong	-	65.8	65.8	Manufacture and sale of beer
Ravelin Limited (b)	Hong Kong	-	100	65.8	Property holding
Best Investments International, Inc. (b)	British Virgin Islands	-	100	65.8	Investment holding
Hong Kong Brewery Limited (b)	Hong Kong	-	100	65.8	Dormant
San Miguel Shunde Holdings Limited (SMSH) (b)	Hong Kong	-	92	60.5	Investment holding
San Miguel (Guangdong) Brewery Company Limited (SMGB) (b)	People's Republic of China	-	100	60.5	Manufacture and sale of beer
San Miguel (Guangdong) Limited (SMGL) (b)	Hong Kong	-	93	61.2	Investment holding
Guangzhou San Miguel Brewery Company Limited (GSMB) (b)	People's Republic of China	-	70	42.8	Beer distribution
San Miguel (China) Investment Company Limited (SMCIC) (b)	People's Republic of China	-	100	100	Investment holding
San Miguel (Baoding) Brewery Company Limited (SMBB) (b)	People's Republic of China	-	100	100	Manufacture and sale of beer
San Miguel (Baoding) Utility Company Limited (SMBU) (b)	People's Republic of China	-	100	100	Power generation
San Miguel Holdings (Thailand) Ltd (SMHTL) (b)	Thailand	-	49	49	Investment holding
San Miguel Beer (Thailand) Limited (SMBTL) (b)	Thailand	-	100	49	Manufacture and sale of beer
San Miguel Marketing (Thailand) Limited (SMMTL) (b)	Thailand	-	100	100	Trading

Forward

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest Held by the		Effective Equity Interest of the Company *	Line of Business
		Company	Subsidiaries		
Dragon Island Investments Limited (DIIL) (b)	British Virgin Islands	-	100	100	Investment holding
San Miguel (Vietnam) Limited (SMVL) (b)	Bermuda	-	100	100	Investment holding
San Miguel Brewery Vietnam Limited (SMBVL) (b)	Republic of Vietnam	-	100	100	Manufacture and sale of beer
San Miguel Malaysia Pte. Ltd (b)	Malaysia	-	100	100	Holding
PT. Delta Djakarta Tbk. and Subsidiary (PTD) (b)	Republic of Indonesia	-	58.3	58.3	Manufacture and sale of beer
Brewery Properties Inc. (BPI) (c)	Philippines	40	-	40	Property holding
Brewery Landholdings, Inc. (BLI) (c)	Philippines	-	100	40	Property holding

** Represents the ultimate equity interest in the subsidiary at the level of the Company after taking into consideration the dilutive effects of the non-controlling interests at the various intervening levels of ownership.*

(a) *Consolidated effective April 29, 2009.*
(b) *Consolidated effective January 29, 2010.*
(c) *Consolidated effective November 10, 2010.* The Company has the ability to govern BPI's financial and operating policies and conduct activities in order that the Company may obtain benefits from its operations. As such and in accordance with PAS 27, *Consolidated and Separate Financial Statements*, BPI is consolidated to the Company.

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

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

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

Non-controlling interests represent the interests not held by the Group in PTD, SMHTL, SMBHK and BPI in 2011 and 2010.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these 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:

- 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 revised 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 PFRSs 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 better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the International Accounting Standards Board (IASB) amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. 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.

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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments*, which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7, Financial Instruments Disclosures)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.

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

- Presentation of Items of Other Comprehensive Income *(Amendments to PAS 1, Presentation of Financial Statements).* The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and, (c) change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs 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*. PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008). The new standard is effective for annual periods beginning on or after January 1, 2013.

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

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

- PFRS 13, *Fair Value Measurement*. PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs 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 PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The new standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted and is required to be disclosed.

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

- PAS 28, *Investments in Associates and Joint Ventures* (2011). PAS 28 (2011) supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5 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*. 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.

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 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.

<u>*Financial Assets*</u>

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 are classified under this category (Note 9).

The carrying amounts of financial assets under this category amounted to P41 and P54 as of December 31, 2011 and 2010, respectively (Note 33).

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables 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 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 are included in this category (Notes 6, 7, 14 and 27).

The combined carrying amounts of financial assets under this category amounted to P23,301 and P19,453 as of December 31, 2011 and 2010, respectively (Note 33).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments 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 equity. 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 "Investments" account are classified under this category (Note 10).

The carrying amounts of financial assets under this category amounted to P132 and P135 as of December 31, 2011 and 2010, respectively (Note 33).

Financial Liabilities

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

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

The Group's derivative liabilities are classified under this category (Note 16).

The carrying amounts of financial liabilities under this category amounted to P11 and P8 as of December 31, 2011 and 2010, respectively (Note 33).

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

Included in this category are the Group's liabilities arising from its trade or borrowings such as drafts and loans payable, accounts payable and accrued expenses, current maturities of long-term debt and long-term debt (Notes 15, 16, 17 and 27).

The combined carrying amounts of financial liabilities under this category amounted to P60,674 and P59,819 as of December 31, 2011 and 2010, respectively (Note 33).

Debt Issue Costs

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

As 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 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 the 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 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 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 assets 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; costs are determined using the moving-average method;
Materials and supplies	-	at cost, using the moving-average method.

Net realizable value of finished goods is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Net realizable value of goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Net realizable value of 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 ten (10) years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

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 and is presented under "Income from Acquisition of Assets at Fair Value" in the consolidated statements of income. 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 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 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.

Business Combination under Common Control
Business combinations arising from transfers of interests in entities that are or that become under the control of the stockholders that control the Group during the period is accounted for using book values. The acquiree's assets and liabilities are recognized at book values and results of operation are included in the consolidated financial statements as if the acquisition has occurred at the beginning of the period.

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

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

Non-controlling Interests

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

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and 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 property, 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
Machinery and equipment	5 - 50
Buildings and improvements	5 - 50
Transportation equipment	3 - 70
Leasehold improvements	5 - 50 or term of the lease, whichever is shorter
Office equipment, furniture and fixtures	2 - 10
Tools and small equipment	2 - 10

The remaining useful lives, residual values, 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 amount 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 Property

Investment property consists of properties held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is 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

The useful lives, residual values and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at each financial period.

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 or 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 allowance for impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the related expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method used for an intangible asset with a finite useful life are reviewed at least at each 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 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
Land use rights	25 - 50 or term of the lease, whichever is shorter

The Group assessed the useful life of trademarks, licenses and brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Trademarks, licenses 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.

Impairment of Non-financial Assets

The carrying amounts of investments, property, plant and equipment, investment property, deferred containers, and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Trademarks, licenses and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between

knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

Provisions

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

Share Capital

Common Shares

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

Revenue Recognition

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

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.

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

Rent. Revenue from investment property is recognized on a straight-line basis over the term of the lease. Rent income is included as part of other income.

Others. Revenue is recognized when earned.

Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Share-based Payment Transactions

Under SMC's Employee Stock Purchase Plan (ESPP), employees of the Group receive remuneration in the form of share-based payment transactions, whereby the employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments direct to the Group's employees are accounted for as equity-settled transactions. SMC charges the Group for the costs related to such transactions with its employees. The amount is charged to operations by the Group.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expense recognized for share-based transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment agreement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

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

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

Operating Lease
Group as Lessee. Leases which do not substantially transfer to the Group 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 substantially transfer 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 Company and some of its subsidiaries have separate funded, noncontributory retirement plan, administered by a trustee, covering all 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 present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

Foreign Currency

Foreign Currency Translations

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

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date 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 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 other comprehensive income related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the “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, 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 and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at 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 law 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" in the consolidated statements of financial position.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or 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 Share (EPS)

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

Diluted EPS is computed by adjusting the net income for the period attributable to equity holders of the Company and the weighted average number of issued and outstanding common shares during the period, for the effects of all dilutive common shares.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 5 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group uses 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 in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's consolidated financial position at reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

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 P559, P709 and P603 in 2011, 2010 and 2009, respectively (Notes 20 and 21). Rental income recognized as part of other income amounted to P66, P79, and P18 in 2011, 2010 and 2009, respectively (Note 25).

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

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 P1,158 and P937 as of December 31, 2011 and 2010, respectively. The carrying amount of trade and other receivables amounted to P4,977 and P4,366 as of December 31, 2011 and 2010, respectively (Notes 7, 32 and 33).

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 P244 and P277 as of December 31, 2011 and 2010, respectively. The carrying amount of inventories amounted to P3,370 and P3,557 as of December 31, 2011 and 2010, respectively (Note 8).

Financial Assets and Financial Liabilities. The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. 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 33.

Estimated Useful Lives of Investment Property, Deferred Containers and Property, Plant and Equipment. The Group estimates the useful lives of investment property, deferred 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 property, deferred 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 property, deferred 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 property, deferred containers and property, plant and equipment would increase recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Investment property, net of accumulated depreciation and impairment losses amounted to P664 and P1,379 as of December 31, 2011 and 2010, respectively (Note 12). Property, plant and equipment, net of accumulated depreciation and amortization and impairment losses, amounted to P20,214 and P19,635 as of December 31, 2011 and 2010, respectively (Note 11). Accumulated depreciation, amortization and impairment losses of investment property and property, plant and equipment amounted to P38,319 and P38,113 as of December 31, 2011 and 2010, respectively (Notes 11 and 12).

Deferred containers, net of accumulated amortization included under “Other noncurrent assets” account in the consolidated statements of financial position amounted to P6,095 and P5,396 as of December 31, 2011 and 2010, respectively. Accumulated amortization of deferred containers amounted to P5,526 and P4,269 as of December 31, 2011 and 2010, respectively (Note 14).

Fair Value of Investment Property. 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 property amounted to P1,046 and P1,993 as of December 31, 2011 and 2010, respectively (Note 12).

Estimated Useful Lives of Intangible Assets with Finite Lives. 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 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 P846 and P827 as of December 31, 2011 and 2010, respectively (Note 13).

Impairment of Trademarks, Licenses, and Brand Names with Indefinite Lives. The Group determines whether trademarks, licenses, and brand names are impaired at least annually. This requires the estimation of the value in use of the trademarks, licenses 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, licenses and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of trademarks, licenses, and brand names with indefinite useful lives amounted to P35,217 and P35,309 as of December 31, 2011 and 2010, respectively (Note 13).

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 recorded 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 value of acquired land as well as liabilities assumed at the date of the acquisition. The judgments made in the context of the purchase price allocation can materially impact the Group's future profit or loss. The Group's acquisitions have resulted in land.

The fair value of land arising from business combination as of December 31, 2010 amounted to P6,829 (Notes 10, 11 and 12).

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 is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P341 and P68 as of December 31, 2011 and 2010, respectively (Note 18).

Impairment of Non-financial Assets. PFRS require that an impairment review be performed on investments, property, plant and equipment, investment property, deferred containers and intangible assets with finite useful lives 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 financial performance.

Accumulated impairment losses of property, plant and equipment, investment property and intangible assets with finite useful lives amounted to P10,950 and P11,632 as of December 31, 2011 and 2010, respectively. The aggregate amount of property, plant and equipment, investment property, deferred containers and intangible assets with finite useful lives amounted to P27,819 and P27,237 and as of December 31, 2011 and 2010, respectively (Notes 11, 12, 13 and 14).

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 29 to the consolidated financial statements and include discount rate, expected return on plan assets and future 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 pension obligations.

The Group has a net cumulative unrecognized actuarial losses amounting to P2,710 and P2,395 as of December 31, 2011 and 2010, respectively (Note 29).

Asset Retirement Obligation. Determining asset retirement obligation requires estimation of the cost of dismantling property, plant and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as of December 31, 2011 and 2010.

5. Segment Information

Operating Segments

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

With the acquisition of SMBIL, the Group is organized in two major operating segments - domestic and international operations.

The domestic operations produce and market fermented and malt-based beverages within the Philippines. It also distributes its products to some export markets.

The international operations also produce and market fermented and malt-based beverages in several foreign markets.

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 revenue of the Group.

Financial information about the operating segments follow:

	For the Year Ended December 31, 2011			
	Domestic	International	Eliminations	Total
Sales				
External sales	**P58,677**	**P13,233**	**P -**	**P71,910**
Inter-segment sales	**50**	**-**	**(50)**	**-**
Total Sales	**P58,727**	**P13,233**	**(P50)**	**P71,910**
Results				
Segment results	**P20,018**	**P453**	**P -**	**P20,471**
Interest expense and other financing charges				**(4,132)**
Interest income				**658**
Impairment losses on noncurrent assets				**(30)**
Other income - net				**402**
Income tax expense				**(5,187)**
Net income				**P12,182**
Attributable to:				
Equity holders of the Parent Company				**P11,962**
Non-controlling interests				**220**
Net income				**P12,182**

	As of December 31, 2011			
	Domestic	International	Eliminations	Consolidated
Other Information				
Segment assets	**P53,130**	**P18,596**	**(P14,190)**	**P57,536**
Trademarks and brand names				**33,394**
Other assets				**152**
Deferred tax assets				**341**
Consolidated Total Assets				**P91,423**
Segment liabilities	**P4,264**	**P2,519**	**(P170)**	**P6,613**
Drafts and loans payable				**1,857**
Current maturities of long-term debt - net of debt issue costs				**13,577**
Long-term debt - net of current maturities and debt issue costs				**37,962**
Income and other taxes payable				**2,606**
Dividends payable and others				**899**
Deferred tax liabilities				**35**
Consolidated Total Liabilities				**P63,549**
Capital expenditures	**P1,667**	**P111**	**P -**	**P1,778**
Depreciation	**774**	**462**	**-**	**1,236**
Noncash items other than depreciation	**1,243**	**140**	**-**	**1,383**
Loss on impairment of noncurrent assets	**-**	**30**	**-**	**30**

	For the Year Ended December 31, 2010			
	Domestic	International	Eliminations	Total
Sales				
External sales	P55,786	P11,789	P -	P67,575
Inter-segment sales	48	-	(48)	-
Total Sales	P55,834	P11,789	(P48)	P67,575
Results				
Segment results	P18,563	(P12)	P -	P18,551
Interest expense and other financing charges				(3,983)
Interest income				696
Impairment losses on noncurrent assets				(3,694)
Income from acquisition of assets at fair value				2,418
Other income - net				1,247
Income tax expense				(4,862)
Net income				P10,373
Attributable to:				
Equity holders of the Parent Company				P11,768
Non-controlling interests				(1,395)
Net income				P10,373

	As of December 31, 2010			
	Domestic	International	Eliminations	Consolidated
Other information				
Segment assets	P49,124	P18,621	(P14,239)	P53,506
Trademarks and brand names				33,393
Other assets				154
Deferred tax assets				68
Consolidated Total Assets				P87,121
Segment liabilities	P3,569	P2,681	(P219)	P6,031
Drafts and loans payable				1,644
Long-term debt - net of debt issue costs				51,364
Income and other taxes payable				2,263
Dividends payable and others				909
Deferred tax liabilities				89
Consolidated Total Liabilities				P62,300
Capital expenditures	P730	P226	P -	P956
Depreciation	739	655	-	1,394
Noncash items other than depreciation	458	212	-	670
Loss on impairment of noncurrent assets	-	3,694	-	3,694

As of and for the year ended December 31, 2009, the Group has determined that it operates as one segment only (both in terms of business and geography).

6. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash in banks and on hand	**P2,802**	P1,828
Short-term investments	**15,477**	13,248
	P18,279	P15,076

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

7. Trade and Other Receivables

This account consists of:

	Note	**2011**	2010
Trade			
Receivables		**P5,549**	P4,567
Amounts owed by related parties	*27*	**25**	33
Nontrade			
Amounts owed by related parties	*27*	**105**	87
Others		**456**	616
		6,135	5,303
Less allowance for impairment losses		**1,158**	937
		P4,977	P4,366

"Others" include receivables from employees, advance payments to suppliers, insurance claims and various receivables.

Trade receivables are non-interest bearing and are generally on a 7 to 30-day credit term.

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

	Note	**2011**	2010
Balance at beginning of year		**P937**	P644
Charges for the year	*21*	**206**	154
Adjustments		**15**	-
Reversal of unused amounts		**-**	(103)
Allowance for impairment losses through business combination		**-**	255
Cumulative translation adjustments		**-**	(13)
Balance at end of year		**P1,158**	P937

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

2011	**Trade**	**Owed by Related Parties**	**Others**	**Total**
Current	**P4,624**	**P96**	**P391**	**P5,111**
Past due				
Less than 30 days	**290**	**2**	**19**	**311**
30 - 60 days	**123**	**-**	**2**	**125**
61 - 90 days	**93**	**16**	**3**	**112**
Over 90 days	**419**	**16**	**41**	**476**
	P5,549	**P130**	**P456**	**P6,135**

2010	Trade	Owed by Related Parties	Others	Total
Current	P3,684	P43	P546	P4,273
Past due				
Less than 30 days	233	8	10	251
30 - 60 days	206	1	14	221
61 - 90 days	96	16	13	125
Over 90 days	348	52	33	433
	P4,567	P120	P616	P5,303

Allowance for impairment losses related to amounts owed by related parties as of December 31, 2011 and 2010 amounted to P64 and P47, respectively (Note 27).

As of December 31, 2011, various collaterals for trade receivables amounting to P4,253 such as bank guarantees, time deposits and real estate mortgage are held by the Group for credit limits exceeding P0.275.

8. Inventories

This account at net realizable value consists of:

	2011	2010
Finished goods and goods in process	**P1,270**	P1,293
Materials and supplies	**1,055**	907
Containers	**1,045**	1,357
	P3,370	P3,557

The cost of finished goods and goods in process as of December 31, 2011 and 2010 amounted to P1,272 and P1,297, respectively. The cost of materials and supplies as of December 31, 2011 and 2010 amounted to P1,146 and P920, respectively. The cost of containers as of December 31, 2011 and 2010 amounted to P1,196 and P1,617, respectively.

The write-down of inventories recognized as expense amounted to P64, P214 and P57 for the years ended December 31, 2011, 2010 and 2009, respectively.

9. Prepaid Expenses and Other Current Assets

This account consists of:

	Note	**2011**	2010
Prepaid taxes and licenses		**P670**	P677
Prepaid insurance		**44**	34
Derivative assets	*32, 33*	**41**	54
Prepaid rentals		**23**	24
Retirement asset	*29*	**-**	221
Others		**218**	139
		P996	P1,149

"Others" include prepaid supplies, prepaid promotional expenses and other miscellaneous prepaid expenses.

10. Investments and Acquisitions of Subsidiaries

Acquisitions of Subsidiaries

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

a. SMBIL

The Company completed its purchase of the international beer and malt-based beverages business of SMC on January 29, 2010, with the Company acquiring the shares of San Miguel Holdings Limited (SMHL), a wholly-owned subsidiary of SMC, in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL (SMBIL Shares). The SMBIL Shares were acquired by the Company for a purchase price of US$302 (peso equivalent: P13,941), after adjustments in accordance with the terms of the Share Purchase Agreement entered by the Company, SMC and SMHL in December 2009 for the SMBIL Shares (SPA). As a result, SMBIL became a wholly-owned subsidiary of the Company.

The acquisition of SMBIL is in line with the Company's goal to improve the growth and returns of its business as a whole and broaden its geographic participation by integrating both the domestic and international beer business.

From the date of acquisition, SMBIL has contributed revenue of P11,789 to the Group's results as of December 31, 2010 (Note 5).

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

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

	US Dollar	Peso Equivalent
Consideration transferred	**$302**	**P13,941**
Assets		
Cash and cash equivalents	101	4,677
Trade and other receivables - net	42	1,919
Inventories	20	933
Prepaid expenses and other current assets	8	352
Investment property - net	26	1,219
Property, plant and equipment - net	247	11,390
Other noncurrent assets	102	4,735
Liabilities		
Loans payable	(37)	(1,724)
Accounts payable and accrued expenses	(57)	(2,648)
Income and other taxes payable	(10)	(452)
Other noncurrent liabilities	(5)	(203)
Total identifiable net assets at fair value	**437**	**20,198**
Non-controlling interests measured at proportionate interest in identifiable net assets	**(83)**	**(3,839)**
	354	**16,359**
Bargain Purchase Gain	**($52)**	**(P2,418)**

Trade and Other Receivables
The fair value of the trade and other receivables amounts to P1,919. The gross amount of trade receivables is P2,174, of which P255 was expected to be uncollectible at the acquisition date.

Contingent Consideration
As stated in the earn-out scheme in the SPA, SMB shall pay an amount subject to the achievement of the target cumulative EBITDA and target cumulative Sales Volume for 2010, 2011 and 2012 by SMBIL and certain subsidiaries of SMBIL. The fair value of contingent consideration was determined to be zero as of December 31, 2011 and 2010, based on the statistical analysis of the historical budget and actual performance and based on the analysis of the historical trends of Sales Volumes and EBITDA.

Acquisition - Related Costs
The Group incurred acquisition-related costs of P14, which have been included in administrative expenses in the consolidated statements of income for the year ended December 31, 2010.

Bargain Purchase Gain
The net identifiable assets including the non-controlling interest measured at proportionate interest in identifiable net assets exceeds the consideration transferred resulting in a bargain purchase gain.

b. BPI

On November 10, 2010, the Company and SMC executed a Deed of Absolute Sale of Shares (Deed) for the purchase by the Company of all the shares of SMC in BPI (BPI Shares), at the aggregate purchase price of P6,829 (Purchase Price). Of the Purchase Price, P6,629 [which correspond to the appraised value of the 128 titles of certain parcels of land used in the domestic beer operations of the Company (Land) that were transferred in the name of BPI], has been paid by the Company to SMC upon execution of the Deed. The balance shall be paid by the Company to SMC 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 purchase of the BPI Shares will allow the Company to increase its asset base while at the same time efficiently expand its facilities, increase plant capacities and improve distribution capabilities given that BPI owns the lands where a substantial portion of the Company's major operating investments are located.

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

Consideration transferred	**P6,829**
Assets	
Cash	1
Trade and other receivables	7
Other current assets	28
Investment property	1,036
Liabilities	
Accounts payable and accrued expenses	(193)
Income and other taxes payable	(4)
Total identifiable net assets at fair value	**875**
Non-controlling interest measured at proportionate interest in identifiable net assets	**(239)**
Fair value adjustment to investment property	**6,193**
	6,829
Goodwill (Bargain Purchase Gain)	**P -**

The fair value of investment property represents the purchase price of P6,829, which is equivalent to the appraised value of the Land.

Acquisition-related Costs
The Group incurred acquisition-related costs of P2, which have been included in administrative expenses in the consolidated statements of income for the year ended December 31, 2010.

c. IBI

IBI owns the beer and malt-based beverages brands, including related trademarks, copyrights, patents and other intellectual property rights and know-how used by the Company in its domestic beer and malt-based beverage business. IBI became a wholly-owned subsidiary of the Company with the Company's acquisition of SMC's shares in IBI in April 2009, comprising 100% of the outstanding capital stock of IBI, for a total purchase price of P32,000.

The acquisition of IBI would enable the Company to exercise full control over its brands pursuant to its strategic initiative to secure the Company's main competitive advantage.

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

Consideration transferred	**P32,000**
Assets	
Receivables	80
Trademarks and brand names	10,000
Liabilities	
Accounts payable and accrued expenses	(70)
Other taxes payable	(10)
Total identifiable net assets at fair value	**10,000**
Fair value adjustment to trademarks and brand names	**22,000**
	32,000
Goodwill (Bargain Purchase Gain)	**P -**

The fair value of trademarks and brand names represents the purchase price of P32,000, which was agreed to by the Company after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by UBS Investments Philippines, Inc.

Investments

AFS financial assets amounting to P132 and P135 as of December 31, 2011 and 2010, respectively, pertain to investments in shares of stock and club shares carried at fair value (Note 33).

11. Property, Plant and Equipment

The movements in this account are as follows:

	Land	Machinery and Equipment	Buildings and Improvements	Transportation Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Tools and Small Equipment	Construction in Progress	Total
Cost:									
December 31, 2009	P -	P17,299	P3,551	P384	P76	P375	P9	P335	P22,029
Assets acquired through business combination	8,071	18,568	8,041	239	18	354	329	46	35,666
Additions for the year	-	625	78	208	-	52	7	(14)	956
Disposals/reclassifications	-	(442)	(24)	(26)	-	(61)	(192)	-	(745)
Cumulative translation adjustments	49	(462)	(248)	(5)	-	(12)	(14)	1	(691)
December 31, 2010	8,120	35,588	11,398	800	94	708	139	368	57,215
Additions for the year	-	1,256	51	151	173	23	7	117	1,778
Disposals/reclassifications	-	(772)	(154)	11	5	(20)	(33)	(318)	(1,281)
Cumulative translation adjustments	(50)	463	168	3	-	2	1	-	587
December 31, 2011	**8,070**	**36,535**	**11,463**	**965**	**272**	**713**	**114**	**167**	**58,299**
Accumulated depreciation and amortization:									
December 31, 2009	-	13,990	1,563	303	44	356	8	-	16,264
Assets acquired through business combination	-	6,902	1,986	196	18	260	283	-	9,645
Additions for the year	-	1,075	229	53	3	27	7	-	1,394
Disposals/reclassifications	-	(427)	(24)	(27)	-	(43)	(179)	-	(700)
Cumulative translation adjustments	-	(172)	(63)	(5)	-	(10)	(12)	-	(262)
December 31, 2010	-	21,368	3,691	520	65	590	107	-	26,341
Additions for the year	-	934	184	71	11	32	4	-	1,236
Disposals/reclassifications	-	(360)	(27)	(39)	-	(33)	(32)	-	(491)
Cumulative translation adjustments	-	95	31	1	1	1	-	-	129
December 31, 2011	**-**	**22,037**	**3,879**	**553**	**77**	**590**	**79**	**-**	**27,215**

Forward

	Land	Machinery and Equipment	Buildings and Improvements	Transportation Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Tools and Small Equipment	Construction in Progress	Total
Accumulated impairment losses:									
Assets acquired through business combination	P -	P5,225	P2,299	P6	P -	P23	P13	P -	P7,566
Additions for the year	-	2,248	1,574	6	-	20	-	-	3,848
Disposals/reclassifications	-	(16)	-	-	-	(1)	8	-	(9)
Cumulative translation adjustments	-	(113)	(51)	-	-	(1)	(1)	-	(166)
December 31, 2010	-	7,344	3,822	12	-	41	20	-	11,239
dditions for the year	-	4	-	-	-	-	1	-	5
Disposals/reclassifications	-	(640)	(145)	-	-	(1)	(1)	-	(787)
Cumulative translation adjustments	-	285	125	1	-	1	1	-	413
December 31, 2011	**-**	**6,993**	**3,802**	**13**	**-**	**41**	**21**	**-**	**10,870**
Net book value:									
December 31, 2010	P8,120	P6,876	P3,885	P268	P29	P77	P12	P368	P19,635
December 31, 2011	**P8,070**	**P7,505**	**P3,782**	**P399**	**P195**	**P82**	**P14**	**P167**	**P20,214**

Depreciation and amortization charged to operations amounted to P1,236, P1,394 and P716 in 2011, 2010 and 2009, respectively (Notes 20, 21 and 22). No interest was capitalized in 2011 and 2010.

12. Investment Property

The movements in investment property, including the effects of currency translation adjustments are as follows:

	Land and Land Improvements	Buildings and Improvements	Total
Cost:			
Assets acquired through business combination	P1,508	P412	P1,920
Additions for the year	-	1	1
Disposals/reclassifications	17	(39)	(22)
Currency translation adjustments	32	(19)	13
December 31, 2010	1,557	355	1,912
Additions for the year	28	1	29
Disposals/reclassifications	(1,008)	-	(1,008)
Currency translation adjustments	(36)	1	(35)
December 31, 2011	**541**	**357**	**898**
Accumulated depreciation and amortization:			
Assets acquired through business combination	39	111	150
Additions for the year	7	6	13
Disposals/reclassifications	-	(5)	(5)
Currency translation adjustments	(2)	(6)	(8)
December 31, 2010	44	106	150
Additions for the year	10	6	16
Disposals/reclassifications	(1)	-	(1)
Currency translation adjustments	-	1	1
December 31, 2011	**53**	**113**	**166**
Accumulated impairment losses:			
Assets acquired through business combination	340	48	388
Disposals/reclassifications	(6)	(11)	(17)
Currency translation adjustments	14	(2)	12
December 31, 2010	348	35	383
Disposals/reclassifications	(304)	-	(304)
Currency translation adjustments	(11)	-	(11)
December 31, 2011	**33**	**35**	**68**
Net book value:			
December 31, 2010	P1,165	P214	P1,379
December 31, 2011	**P455**	**P209**	**P664**

On June 10, 2011, SMBTL sold its Bangpho property in Bang Sue District, Bangkok Metropolis for THB815 (peso equivalent: P1,050). The property's original cost is THB506 (peso equivalent: P706) (Note 25).

The fair values of investment property as of December 31, 2011 and 2010 amounted to P1,046 and P1,993, respectively, which was determined based on valuations performed by independent appraisers.

13. Intangible Assets

The movements in this account are as follows:

	Trademarks and Brand Names	Licenses	Land use Rights	Computer Software and Other Intangibles	Total
Gross carrying amount:					
December 31, 2009	P32,000	P17	P -	P17	P32,034
Assets acquired through business combination	3,529	-	1,093	143	4,765
Additions for the year	-	2	-	1	3
Disposals/reclassifications	(1,917)	1,917	-	2	2
Currency translation adjustments	6	-	(37)	(6)	(37)
December 31, 2010	33,618	1,936	1,056	157	36,767
Additions for the year	-	32	-	14	46
Disposals/reclassifications	-	-	(7)	-	(7)
Currency translation adjustments	2	(93)	33	-	(58)
December 31, 2011	**33,620**	**1,875**	**1,082**	**171**	**36,748**
Accumulated amortization:					
December 31, 2009	-	3	-	11	14
Assets acquired through business combination	39	-	225	140	404
Additions for the year	-	7	18	5	30
Disposals/reclassifications	-	(3)	-	2	(1)
Currency translation adjustments	(2)	-	(6)	(6)	(14)
December 31, 2010	37	7	237	152	433
Additions for the year	-	7	32	4	43
Disposals/reclassifications	-	-	(2)	-	(2)
Currency translation adjustments	-	-	10	-	10
December 31, 2011	**37**	**14**	**277**	**156**	**484**
Accumulated impairment losses:					
December 31, 2010					
Assets acquired through business combination	131	-	256	1	388
Additions for the year	64	-	(235)	-	(171)
Disposals/reclassifications	-	-	-	1	1
Currency translation adjustments	(7)	-	(13)	-	(20)
December 31, 2010	188	-	8	2	198
Additions for the year	-	-	-	2	2
Currency translation adjustments	1	-	-	-	1
December 31, 2011	**189**	**-**	**8**	**4**	**201**
Net book value:					
December 31, 2010	P33,393	P1,929	P811	P3	P36,136
December 31, 2011	**P33,394**	**P1,861**	**P797**	**P11**	**P36,063**

Trademarks and brand names with indefinite useful lives amounted to P33,394 and P33,393 as of December 31, 2011 and 2010, respectively.

Licenses with indefinite useful lives amounted to P1,823 and P1,916 as of December 31, 2011 and 2010, respectively. Licenses with finite useful lives amounted to P38 and P13 as of December 31, 2011 and 2010, respectively.

Trademarks and Brand Names

a. Domestic Operations

   The value of the domestic trademarks and brand names represents the purchase price of P32,000 (Note 10), which was agreed to by the Company after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by UBS Investments Philippines, Inc. The Company, 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 SMB's domestic trademarks and brand names, on the basis that such methodologies require fewer assumptions and less reliance on subjective reasoning since key assumptions come from primary sources based on the Company'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.

   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 3.5% growth rate used is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections is 8% and 10% on December 31, 2011 and 2010, respectively.

b. International Operations

   SMBIL acquired the international trademarks, trade dress, know-how, copyrights, patents and other intellectual property rights used in connection with the international beer business of SMC (International IP Rights), through the assignment by SMHL of the International IP Rights to SMBIL in exchange for common shares in SMBIL totaling 2,863,636 valued at US$31.5 (peso equivalent: P1,470). The value of the International IP Rights is the same value used when the International IP Rights were assigned by SMC to San Miguel International Limited (SMIL) and 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. This was also the value used for the International IP Rights when they were assigned by SMIL to SMHL in exchange for SMHL shares.

   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 2% growth rate used is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections range from 8.9% to 14.5% and from 8.9% to 18% on December 31, 2011 and 2010, respectively.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount of trademarks and brand names is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use (terminal value) are most sensitive to the following assumption:

Discount Rate. The Group uses the weighted average cost of capital as the discount rate, which reflects management's estimate of the risk. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

Management assessed that there is no impairment loss in the value of trademarks and brand names in 2011 and 2010.

14. Other Noncurrent Assets

This account consists of:

	Note	**2011**	2010
Deferred containers - net			
Bottles		**P5,012**	P4,190
Shells		**1,083**	1,206
		6,095	5,396
Others	*27, 28, 29, 32, 33*	**292**	224
		P6,387	P5,620

"Others" include unamortized cost of pallets, kegs and CO2 cylinders, retirement asset, noncurrent portion of long-term receivable, and other noncurrent assets.

The movements in the deferred containers are as follows:

	Note	**2011**	2010
Gross carrying amount:			
Balance at beginning of year		**P9,665**	P7,343
Acquired through business combination		**-**	1,207
Additions		**2,142**	1,289
Disposals/reclassification		**(212)**	(150)
Cumulative translation adjustments		**26**	(24)
Balance at end of year		**11,621**	9,665
Accumulated amortization:			
Balance at beginning of year		**4,269**	2,257
Acquired through business combination		**-**	774
Amortization for the year	*22*	**1,301**	1,287
Disposals/reclassification		**(72)**	(33)
Cumulative translation adjustments		**28**	(16)
Balance at end of year		**5,526**	4,269
		P6,095	P5,396

15. Drafts and Loans Payable

Drafts and loans payable mainly represent unsecured short-term borrowings obtained from multinational and local banks by SMGB and SMBB which bear interest at current market rates. Interest rates for loans range from 3.65% to 7.87% and from 3.25% to 5.23% in 2011 and 2010, respectively.

16. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**2011**	2010
Trade			
Payables		**P3,121**	P3,074
Amounts owed to related parties	*27*	**1,280**	909
Nontrade			
Amounts owed to related parties	*27*	**528**	672
Derivative liabilities	*32, 33*	**11**	8
Accruals			
Interests		**892**	895
Payroll		**516**	369
Materials		**74**	42
Utilities		**58**	30
Others		**816**	834
		P7,296	P6,833

"Others" include accruals for repairs and maintenance, advertising and promotion expenses, freight, trucking and handling, contracted labor, supplies and various other payables.

17. Long-term Debt

This account consists of:

	2011	2010
a. Unsecured term notes peso-denominated:		
Series A Bonds, fixed interest rate of 8.25%	**P13,577**	P13,525
Series B Bonds, fixed interest rate of 8.875%	**22,271**	22,217
Series C Bonds, fixed interest rate of 10.50%	**2,785**	2,782
	38,633	38,524
b. Unsecured term loan foreign currency-denominated, floating interest rate based on LIBOR + margin	**12,906**	12,840
	51,539	51,364
Less current maturities	**13,577**	-
	P37,962	P51,364

a. The amount represents unsecured long-term debt incurred by the Company to finance its acquisition of SMC's interests in IBI and BPI (Note 10). Unamortized debt issue costs related to these long-term debt amounted to P167 and P276 as of December 31, 2011 and 2010, respectively.

   The Company's peso-denominated fixed rate bonds (Bonds) worth P38,800 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.

b. On January 28, 2010, the Company entered into a US$300 unsecured loan facility agreement (US$300 Term Facility). Proceeds of the loan were used to finance the Company's acquisition of the international beer and malt-based beverages business from SMC, through the Company's purchase of the SMBIL Shares, comprising 100% of the outstanding capital stock of SMBIL. Interest rate for the foreign currency-denominated loan of the Company ranges from 2.33% to 2.41% and from 2.35% to 2.54% in 2011 and 2010, respectively (Note 32). Unamortized debt issue costs related to this loan amounted to P246 and P312 as of December 31, 2011 and 2010, respectively.

The debt agreements contain, among others, covenants relating to maintenance of certain financial ratios; redemption or reduction of capital stock; and restrictions on payments of dividends, indebtedness, loans and guarantees, encumbrances and liens on properties and disposal of all or substantially all of the Company's assets. In addition, the Bonds require maintenance of controlling interest of SMC in the Company.

In 2011, the Company obtained the approval of all its lenders for its US$300 Term Facility to maintain a minimum interest coverage ratio of 4.75:1 in lieu of a current ratio of 1:1. In 2012, the Company 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 Company 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		**P588**	P384
Addition		**-**	371
Amortization	*24*	**(175)**	(167)
Balance at end of year		**P413**	P588

Repayment Schedule

As of December 31, 2011, the annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Cost	Net
2012	P13,590	P13	P13,577
2014	22,400	129	22,271
2015	13,152	246	12,906
2019	2,810	25	2,785
	P51,952	**P413**	**P51,539**

18. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2011	2010
Allowance for impairment losses on receivables	**P309**	P226
Allowance for inventory losses	**66**	82
Unrealized gains on derivatives	**(44)**	(514)
Unrealized foreign exchange gains - net	**(210)**	(223)
Others	**185**	408
	P306	(P21)

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

	2011	2010
Deferred tax assets	**P341**	P68
Deferred tax liabilities	**(35)**	(89)
	P306	(P21)

The components of income tax expense are shown below:

	2011	2010	2009
Current	**P5,514**	P4,643	P3,721
Deferred	**(327)**	219	176
	P5,187	P4,862	P3,897

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

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Income subjected to final tax	**(1.14)**	(1.37)	(1.16)
Others	**1.00**	3.28	(0.86)
Effective income tax rate	**29.86%**	31.91%	27.98%

Deferred tax relating to items that are charged to other comprehensive income amounted to P19 in 2009.

19. Capital Stock

Pursuant to the registration statement rendered effective by the SEC on April 28, 2008 and permit to sell issued by the SEC dated April 28, 2008 - 15,488,309,960 common shares of the Company were registered and may be offered for sale at an offer price of P8.00 per common share. As of December 31, 2011, the Company has a total of 15,410,478,960 issued and outstanding common shares and 831 stockholders.

20. Cost of Sales

This account consists of:

	Note	**2011**	2010	2009
Taxes and licenses		**P21,527**	P19,379	P15,686
Inventories		**10,253**	10,153	7,353
Communications, light, fuel and water		**2,270**	1,991	1,397
Personnel	*23*	**1,222**	1,174	809
Depreciation and amortization	*22*	**931**	1,007	587
Repairs and maintenance		**467**	514	340
Rent	*4, 28*	**24**	25	5
Others		**125**	262	84
		P36,819	P34,505	P26,261

Taxes and licenses include excise, real property and business taxes.

21. Selling and Administrative Expenses

This account consists of:

	2011	2010	2009
Selling	**P7,512**	P7,450	P3,847
Administrative	**7,108**	7,069	4,890
	P14,620	P14,519	P8,737

Selling expenses consist of:

	Note	**2011**	2010	2009
Freight, trucking and handling		**P2,289**	P2,275	P1,568
Advertising and promotion		**2,218**	2,307	554
Personnel	*23*	**1,518**	1,461	775
Rent	*4, 28*	**424**	420	415
Provision for impairment losses on receivables	*7*	**206**	154	8
Travel and transportation		**171**	167	89
Taxes and licenses		**150**	134	129
Communications, light, fuel and water		**123**	113	92
Repairs and maintenance		**98**	97	63
Depreciation and amortization	*22*	**91**	98	70
Others		**224**	224	84
		P7,512	P7,450	P3,847

Administrative expenses consist of:

	Note	**2011**	2010	2009
Personnel	*23*	**P2,512**	P2,072	P1,106
Depreciation and amortization	*22*	**1,609**	1,697	1,201
Advertising and promotion		**665**	862	630
Professional fees		**328**	184	285
Contracted services		**301**	287	139
Management fees	*31*	**299**	262	284
Repairs and maintenance		**227**	213	182
Breakages and losses		**195**	331	168
Travel and transportation		**147**	148	94
Communications, light, fuel and water		**123**	89	47
Taxes and licenses		**118**	57	58
Rent	*4, 28*	**111**	264	183
Research and development		**66**	70	45
Provision for inventory losses		**59**	169	57
Shipping expenses		**36**	33	37
Royalty		**2**	13	323
Others		**310**	318	51
		P7,108	P7,069	P4,890

22. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	**2011**	2010	2009
Cost of sales:				
Property, plant and equipment	*11, 20*	**P931**	P1,007	P587
Selling and administrative expenses:				
Property, plant and equipment	*11*	**305**	387	129
Deferred containers	*14*	**1,301**	1,287	1,041
Others	*12, 13, 14*	**94**	121	101
	21	**1,700**	1,795	1,271
		P2,631	P2,802	P1,858

"Others" include amortization of investment property, computer software and other intangible assets, pallets, kegs and CO2 cylinders.

23. Personnel Expenses

This account consists of:

	Note	**2011**	2010	2009
Salaries and wages		**P3,082**	P2,853	P1,476
Retirement costs	*29*	**493**	434	168
Other employee benefits		**1,677**	1,420	1,046
		P5,252	P4,707	P2,690

Personnel expenses are distributed as follows:

	Note	**2011**	2010	2009
Cost of sales	*20*	**P1,222**	P1,174	P809
Selling expenses	*21*	**1,518**	1,461	775
Administrative expenses	*21*	**2,512**	2,072	1,106
		P5,252	P4,707	P2,690

24. Interest Expense and Other Financing Charges

This account consists of:

	Note	**2011**	2010	2009
Interest expense	*15, 17*	**P3,908**	P3,816	P2,540
Amortization of debt issue costs	*17*	**175**	167	60
Other financing costs		**49**	-	-
		P4,132	P3,983	P2,600

25. Other Income (Charges)

This account consists of:

	Note	**2011**	2010	2009
Gain (loss) on sale of:				
Investment property	*12*	**P344**	P -	P -
Property and equipment		**44**	(7)	(4)
Intangible assets		**4**	-	-
Rental income	*4, 28*	**66**	79	18
Gain (loss) on derivatives - net	*33*	**(4)**	118	155
Foreign exchange gain (loss) - net	*32*	**(9)**	1,078	13
Bank charges		**(23)**	(21)	(201)
Others		**(20)**	-	-
		P402	P1,247	(P19)

26. Impairment Losses on Noncurrent Assets of South China and Hong Kong Operations

Impairment losses are reported in the consolidated statements of income as follows:

	2011		2010	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Provision for impairment losses:				
Property, plant and equipment	**$0.1**	**P5**	$88.2	P3,848
Intangible assets	**0.1**	**3**	1.5	64
Others	**0.5**	**22**	1.0	43
	0.7	**30**	90.7	3,955
Reversal of impairment losses	-	-	(5.4)	(261)
	$0.7	**P30**	$85.3	P3,694

a. South China Operations (SMGB and GSMB)

During 2011 and 2010, the Group noted that the decline in demand for its products in South China compared to previous forecasts in sales, as a result of fierce market competition and the operating losses that consequently arose were indications that non-current assets of the operations in South China, comprising mainly the production plant located in Shunde, Guangdong Province, trademarks and other tangible assets may be impaired.

The Group assessed the recoverable amounts of the cash-generating unit to which these assets belong (China cash-generating unit) and as a result the carrying amount of the assets in the China cash-generating unit was written down by US$0.7 (peso equivalent: P30) and US$30.9 (peso equivalent: P1,351) in 2011 and 2010, respectively, details of which are as follows:

	2011		2010	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Provision for impairment losses:				
Property, plant and equipment	**$0.1**	**P5**	$33.6	P1,467
Intangible assets	**0.1**	**2**	-	-
Others	**0.5**	**23**	0.2	9
	0.7	**30**	33.8	1,476
Reversal of impairment losses	-	-	(2.9)	(125)
	$0.7	**P30**	$30.9	P1,351

The estimates of recoverable amount were based on the assets' fair values less costs to sell, determined by reference to the observable market prices for similar assets. In estimating this amount, 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.

A reversal of an impairment loss in 2010 was made with respect to interests in leasehold land held for own use under operating leases to the carrying amount that would have been determined had no impairment loss been recognized in prior years, as there has been a favorable change in the estimates used to determine the recoverable amount.

b. Hong Kong Operations (SMBHK)

In 2010, the Group noted that the lower demand for its own brewed products and declining profitability in Hong Kong compared to previous forecasts, as a result of fierce market competition and the operating losses that consequently arose were indications that noncurrent assets of the manufacturing operations in Hong Kong, comprising mainly of the production plant, office building and a warehouse might be impaired.

The Group assessed the recoverable amounts of the cash-generating unit to which these assets belong (Hong Kong cash-generating unit) and as a result the carrying amount of the assets in the Hong Kong cash-generating unit was written down by US$54.4 (peso equivalent: P2,343), details of which are as follows:

	2010	
	US Dollar	Peso Equivalent
Provision for impairment losses:		
Property, plant and equipment	$54.6	P2,380
Intangible assets	1.5	65
Others	0.8	34
	56.9	2,479
Reversal of impairment losses	(2.5)	(136)
	$54.4	P2,343

The recoverable amount of the Hong Kong cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on the business forecasts approved by the management covering a period of five years. Cash flows beyond the five-year period are extrapolated using a steady growth rate of 2%. This growth rate does not exceed the long-term average growth rate for Hong Kong.

A reversal of an impairment loss was made with respect to interests in leasehold land held for own use under operating leases to the carrying amount that would have been determined had no impairment loss been recognized in prior years, as there has been a favorable change in the estimates used to determine the recoverable amount.

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%

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 the cash-generating unit has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

In 2011, the Group's results in Hong Kong were fairly consistent with the forecasts made in 2010. The Group assessed the recoverable amounts of the Hong Kong cash-generating unit as of December 31, 2011 and determined that neither further impairment loss nor a reversal of previous impairment loss is necessary.

27. Related Party Transactions

The Group, in the normal course of business, purchases products and services from and sells products to related parties. Transactions with related parties are made on an arm's length basis and at normal market prices.

	Relationship with Related Parties	Year	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
SMC	Parent	**2011**	**P17**	**P1,379**	**P30**	**P393**
	Company	2010	3	1,806	49	527
		2009	461	1,172	62	74
Kirin Holdings Company,	Shareholder	**2011**	**19**	**18**	**4**	**-**
Limited and subsidiaries		2010	11	105	2	-
		2009	4	33	2	7
San Miguel Yamamura	Under	**2011**	**87**	**2,858**	**24**	**737**
Packaging Corporation	common	2010	36	2,909	18	742
	control	2009	42	3,287	18	971
San Miguel Rengo Packaging	Under	**2011**	**-**	**-**	**-**	**-**
Corporation	common	2010	-	1	-	1
	control	2009	-	28	-	8
SMC Shipping and Lighterage	Under	**2011**	**12**	**459**	**1**	**68**
Corporation	common	2010	4	449	1	87
	control	2009	4	457	1	80
SMITS, Inc. and a subsidiary	Under	**2011**	**-**	**150**	**-**	**41**
	Common	2010	-	199	-	46
	control	2009	-	120	-	44
San Miguel Yamamura Asia	Under	**2011**	**15**	**890**	**2**	**408**
Corporation	common	2010	3	110	-	7
	control	2009	5	175	2	81
Ginebra San Miguel, Inc. and a	Under	**2011**	**17**	**1**	**3**	**7**
Subsidiary	common	2010	4	5	6	4
	control	2009	3	6	9	5
SMIL and subsidiaries	Under	**2011**	**2**	**63**	**-**	**6**
	common	2010	-	-	7	7
	control	2009	35	-	72	-
San Miguel Pure Foods	Under	**2011**	**68**	**11**	**25**	**24**
Company, Inc. and	common	2010	29	28	26	24
Subsidiaries	control	2009	628	23	252	25
Petron Corporation and	Under	**2011**	**140**	**936**	**19**	**109**
Subsidiaries	common	2010	-	392	-	100
	control	2009	-	-	-	-
San Miguel Properties Inc.	Under	**2011**	**-**	**46**	**1**	**-**
	common	2010	-	72	10	-
	control	2009	-	-	-	-
Others	Under	**2011**	**3**	**50**	**55**	**15**
	common	2010	-	31	1	36
	control	2009	15	78	81	10
		2011	**P380**	**P6,861**	**P164**	**P1,808**
		2010	P90	P6,107	P120	P1,581
		2009	P1,197	P5,379	P499	P1,305

All outstanding balances with these related parties are to be settled in cash within twelve months as of the reporting date. None of the balances is secured.

a. Amounts owed to related parties consist of trade payables, professional fees, insurance and management fees arising from purchases of materials, bottles, shells, cartons, reimbursement of expenses and services rendered from/by related parties.

b. Amounts owed by related parties consist of trade and nontrade receivables, share in expenses and tolling services. Amounts owed by related parties included under "Other noncurrent assets" account amounted to P34 as of December 31, 2011.

c. The compensation of key management personnel of the Group, by benefit type, follows:

	2011	2010	2009
Short-term employee benefits	**P128**	P95	P74
Retirement costs	**19**	12	4
Share-based payments	**5**	3	7
	P152	P110	P85

28. Leasing Agreements

Operating Leases

Group as Lessor

The Group leases some of its offices and machinery and equipment under operating lease arrangements to third parties. The leases typically run for a period of one to five years. Some lease agreements provide an option to renew the lease at the end of the lease term and are subject to review to reflect current market rentals.

Lease receivables for the lease of the offices and machinery and equipment are as follows:

	2011	2010
Cancellable		
Less than one year	**P2**	P11
Noncancellable		
Less than one year	**32**	30
Between one to five years	**4**	11
	36	41
	P38	P52

Rental income recognized as part of other income amounted to P66, P79, and P18 in 2011, 2010 and 2009, respectively.

Group as Lessee

The Group leases the land and buildings where some of its offices and warehouses are situated, and transportation equipment under operating lease arrangements. The leases typically run for a period of one to seven years. Some lease agreements provide an option to renew the lease at the end of the lease term and are subject to review to reflect current market rentals.

Lease payments for the lease of the land, buildings and transportation equipment are as follows:

	2011	2010	2009
Cancellable			
Less than one year	**P34**	P98	P140
Between one to five years	**173**	37	-
More than five years	**8**	50	-
	215	185	140
Noncancellable			
Less than one year	**7**	10	-
Between one to five years	**1**	6	-
	8	16	-
	P223	P201	P140

Rent expense charged to profit or loss amounted to P559, P709 and P603 in 2011, 2010 and 2009, respectively.

29. Retirement Plan

The Company and some of its subsidiaries have separate funded, noncontributory retirement plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2011. Valuations are obtained on a periodic basis.

Retirement costs charged by the Company to operations amounted to P433, P380 and P168 in 2011, 2010 and 2009, respectively, while those charged by the subsidiaries amounted to P60 and P54 in 2011 and 2010, respectively. The Group's annual contribution to the retirement plan consists of payments covering the current service cost and amortization of past service liability.

The components of retirement cost 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, 2010 and 2009, are as follows:

	Note	**2011**	2010	2009
Interest cost		**P492**	P493	P342
Current service cost		**364**	299	156
Net actuarial loss		**127**	96	-
Expected return on plan assets		**(488)**	(451)	(330)
Effect of curtailment		**(2)**	(3)	-
Net retirement cost	*23*	**P493**	P434	P168
Actual return on plan assets		**P187**	P492	P337

The retirement cost is recognized in the following line items in profit or loss:

	Note	**2011**	2010	2009
Cost of sales	*20*	**P55**	P57	P54
Selling and administrative expenses	*21*	**438**	377	114
	23	**P493**	P434	P168

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		**P7,955**	P7,425
Fair value of plan assets		**5,140**	5,216
		2,815	2,209
Unrecognized actuarial losses	*4*	**(2,710)**	(2,395)
Net retirement liability (asset)		**P105**	(P186)

The net retirement liability (asset) is recognized in the following line items in the consolidated statements of financial position:

	Note	**2011**	2010
Prepaid expenses and other current assets	*9*	**P -**	(P221)
Other noncurrent assets	*14*	**(103)**	(65)
Other noncurrent liabilities		**208**	100
		P105	(P186)

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

	2011	2010
Balance at beginning of year	**P7,425**	P5,500
Interest cost	**492**	493
Current service cost	**364**	299
Actuarial losses	**141**	701
Defined benefit obligation of a new subsidiary	**-**	662
Transfer from other plan	**-**	116
Transfer to other plan	**-**	(34)
Loss on curtailment and settlement	**(2)**	(3)
Translation adjustment	**(2)**	9
Benefits paid	**(463)**	(318)
Balance at end of year	**P7,955**	P7,425

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

	2011	2010
Balance at beginning of year	**P5,216**	P4,024
Expected return on plan assets	**488**	451
Contributions by employer	**196**	376
Plan assets of a new subsidiary	**-**	547
Transfer from other plan	**-**	116
Transfer to other plan	**-**	(34)
Translation adjustment	**(2)**	9
Actuarial gains (losses)	**(301)**	41
Benefits paid	**(457)**	(314)
Balance at end of year	**P5,140**	P5,216

Plan assets consist of the following:

	In Percentages	
	2011	2010
Fixed income portfolio	**75**	81
Stock trading portfolio	**25**	19

As of December 31, 2011 and 2010, the plan assets include marketable securities, investment in bonds, time deposit and shares of stock.

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 of the amounts for the current and previous periods are as follows:

	Group			**Company**	
	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	**P7,955**	P7,425	P5,500	P4,000	P4,175
Fair value of plan assets	**5,140**	5,216	4,024	3,662	3,407
Deficit in the plan	**(2,815)**	(2,209)	(1,476)	(338)	(768)
Experience adjustments on plan liabilities	**(141)**	(701)	(1,349)	463	769
Experience adjustments on plan assets	**(301)**	41	7	(98)	1

The Company expects to contribute P370 to its defined benefit plan in 2012.

30. Basic Earnings Per Share

Basic EPS is computed as follows:

	2011	2010	2009
Net income attributable to equity holders of the Company (a)	**P11,962**	P11,768	P10,033
Weighted average number of shares outstanding (in millions) (b)	**15,410**	15,410	15,410
Basic/diluted EPS (a/b)	**P0.78**	P0.76	P0.65

As of December 31, 2011, 2010 and 2009, the Group has no dilutive debt or equity instruments.

31. Employee Stock Purchase Plan

SMC offers shares of stocks to employees of SMC and its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to the weighted average of the daily closing prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stock, subject to certain conditions, through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully-paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

Expenses for share-based payments charged to operations under "Management fees" account amounted to P56, P24 and P3 in 2011, 2010 and 2009, respectively.

32. Financial Risk Management Objectives and Policies

Objectives and Policies

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

- Interest Rate Risk
- Foreign Currency Risk
- 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 accounts payable and accrued expenses arise directly from and are used to facilitate its daily operations.

The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. 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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

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

The 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 P132 in 2011 and 2010. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

As of 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 - 3 Years**	**> 3 - 5 Years**	**> 5 Years**	**Total**
Fixed rate				
Philippine peso-denominated	**P35,990**	**P -**	**P2,810**	**P38,800**
Interest rate	**8.25%-8.875%**	**-**	**10.5%**	**-**
Floating rate				
Foreign currency-denominated (expressed in Philippine peso)	**-**	**13,152**	**-**	**13,152**
Interest rate		**LIBOR + margin**		
	P35,990	**P13,152**	**P2,810**	**P51,952**

December 31, 2010	1 - 3 Years	> 3 - 5 Years	> 5 Years	Total
Fixed rate				
Philippine peso-denominated	P13,590	P22,400	P2,810	P38,800
Interest rate	8.25%	8.875%	10.5%	-
Floating rate				
Foreign currency-denominated (expressed in Philippine peso)	-	13,152	-	13,152
Interest rate		LIBOR + margin		
	P13,590	P35,552	P2,810	P51,952

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.

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

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

	December 31, 2011		December 31, 2010	
	US Dollar*	**Peso Equivalent**	US Dollar*	Peso Equivalent
Assets				
Cash and cash equivalents	**$110.1**	**P4,825**	$93.3	P4,093
Trade and other receivables	**56.4**	**2,474**	53.6	2,350
Noncurrent receivables	**0.2**	**11**	0.3	11
Liabilities				
Drafts and loans payable	**(42.3)**	**(1,857)**	(37.5)	(1,644)
Accounts payable and accrued expenses	**(55.8)**	**(2,444)**	(61.4)	(2,691)
Long-term debt	**(300.0)**	**(13,152)**	(300.0)	(13,152)
Net foreign currency-denominated monetary liabilities	**($231.4)**	**(P10,143)**	($251.7)	(P11,033)

** US dollar equivalent of foreign currency-denominated balances as of reporting date.*

The Group reported net foreign exchange gains (loss) amounting to (P9), P1,078 and P13 in 2011, 2010 and 2009, respectively, with the translation of these foreign currency-denominated assets and liabilities (Note 25). 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, 2009	46.20
December 31, 2010	43.84
December 31, 2011	43.84

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 as of December 31, 2011 and 2010.

	Effect on Income before Income Tax		**Effect on Equity**	
December 31, 2011	**P1 Decrease in US dollar Exchange Rate**	**P1 Increase in US dollar Exchange Rate**	**P1 Decrease in US dollar Exchange Rate**	**P1 Decrease in US dollar Exchange Rate**
Cash and cash equivalents	**(P6)**	**P6**	**(P108)**	**P108**
Trade and other receivables	**(1)**	**1**	**(56)**	**56**
	(7)	**7**	**(164)**	**164**
Drafts and loans payable	**-**	**-**	**42**	**(42)**
Accounts payable and accrued expenses	**5**	**(5)**	**54**	**(54)**
Long-term debt	**300**	**(300)**	**210**	**(210)**
	P298	**(P298)**	**P142**	**(P142)**

December 31, 2010	Effect on Income before Income Tax		Effect on Equity	
	P1 Decrease in US dollar Exchange Rate	P1 Increase in US dollar Exchange Rate	P1 Decrease in US dollar Exchange Rate	P1 Decrease in US dollar Exchange Rate
Cash and cash equivalents	(P5)	P5	(P92)	P92
Trade and other receivables	(2)	2	(53)	53
	(7)	7	(145)	145
Drafts and loans payable	-	-	38	(38)
Accounts payable and accrued expenses	2	(2)	52	(52)
Long-term debt	300	(300)	210	(210)
	P295	(P295)	P155	(P155)

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.

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2011 and 2010.

2011

	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	**P18,279**	**P18,279**	**P18,279**	**P -**	**P -**	**P -**
Trade and other receivables - net	**4,977**	**4,977**	**4,977**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**41**	**41**	**41**	**-**	**-**	**-**
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	**132**	**132**	**-**	**-**	**-**	**132**
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**45**	**45**	**-**	**11**	**-**	**34**
Financial Liabilities						
Drafts and loans payable	**1,857**	**1,890**	**1,890**	**-**	**-**	**-**
Accounts payable and accrued expenses	**7,278**	**7,278**	**7,278**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**11**	**11**	**11**	**-**	**-**	**-**
Long-term debt	**51,539**	**59,846**	**16,480**	**2,602**	**37,289**	**3,475**

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	P15,076	P15,076	P15,076	P -	P -	P -
Trade and other receivables - net	4,366	4,366	4,366	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	54	54	54	-	-	-
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	135	135	-	-	-	135
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	11	11	-	11	-	-
Financial Liabilities						
Drafts and loans payable	1,644	1,663	1,663	-	-	-
Accounts payable and accrued expenses	6,811	6,811	6,811	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	8	8	8	-	-	-
Long-term debt	51,364	63,	3,722	16,479	39,407	3,771

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. Where appropriate, the Group obtains collateral or arranges master netting agreements.

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 dealers, wholesalers and retailers as these factors may have an influence on the credit risk. The Group has no significant concentration of credit risk with any counterparty.

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 or cash basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on cash 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, 2011 and 2010, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	Note	**2011**	2010
Cash and cash equivalents	*6*	**P18,279**	P15,076
Trade and other receivables - net	*7*	**4,977**	4,366
Derivative assets	*9*	**41**	54
AFS financial assets	*10*	**132**	135
Noncurrent receivables	*14*	**45**	11
		P23,474	P19,642

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

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

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 debt, return capital to shareholders or issue new shares.

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

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

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

There were no changes in the Group's approach to capital management during the year.

33. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31, 2011 and 2010:

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P18,279**	**P18,279**	P15,076	P15,076
Trade and other receivables - net	**4,977**	**4,977**	4,366	4,366
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**41**	**41**	54	54
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	**132**	**132**	135	135
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**45**	**45**	11	11
Financial Liabilities				
Drafts and loans payable	**1,857**	**1,857**	1,644	1,644
Accounts payable and accrued expenses	**7,278**	**7,278**	6,811	6,811
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**11**	**11**	8	8
Long-term debt	**51,539**	**56,549**	51,364	57,346

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. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent 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. Fair values for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

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

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. 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 instrument as of reporting date. As of December 31, 2011 and 2010, discount rates used ranged from 1.66% to 5.28% and from 1.34% to 5.71%, respectively. The carrying amount of floating rate loans with quarterly interest rate repricing approximates 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.

Derivative Instruments Accounted for as Hedges

Cash Flow Hedges

As of December 31, 2011, 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 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:

- *Embedded Currency Forwards*
  The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

  As of December 31, 2011 and 2010, the total outstanding notional amount of these embedded currency forwards amounted to US$34 and US$24, 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 fair value of these embedded currency forwards amounted to P30 and P46, respectively.

  For the years ended December 31, 2011, 2010 and 2009, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P4), P118 and P155, respectively (Note 25).

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	**P46**	P20
Net changes in fair value of derivatives:		
Not designated as accounting hedges	**(5)**	121
	41	141
Less fair value of settled instruments	**11**	95
Balance at end of year	**P30**	P46

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	**P -**	**P41**	**P41**
AFS financial assets	**132**	**-**	**132**
Financial Liabilities			
Derivative liabilities	**-**	**11**	**11**

2010	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P -	P54	P54
AFS financial assets	135	-	135
Financial Liabilities			
Derivative liabilities	-	8	8

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.

34. Cash Dividends

Cash dividends declared and paid for the years ended December 31, 2011 and 2010 amounted to P0.56 and P0.55 per share, respectively.

On February 7, 2012, the Company's BOD declared cash dividends of P0.14 per share payable on March 5, 2012 to all stockholders of record as of February 22, 2012.

35. Other Matters

a. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2011 and 2010 amounted to P4,377 and P4,272, respectively.

Amount authorized but not yet disbursed for capital projects as of December 31, 2011 and 2010 is approximately P608 and P1,980, respectively.

b. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries to Philippine peso in 2011 and 2010 were closing rate of P43.84 and average rates of P43.31, P45.12, and P47.64 in 2011, 2010, and 2009, respectively, for income and expense accounts.