San Miguel Pure Foods

2011 Annual Report

SAN MIGUEL CORPORATION

San Miguel Pure Foods

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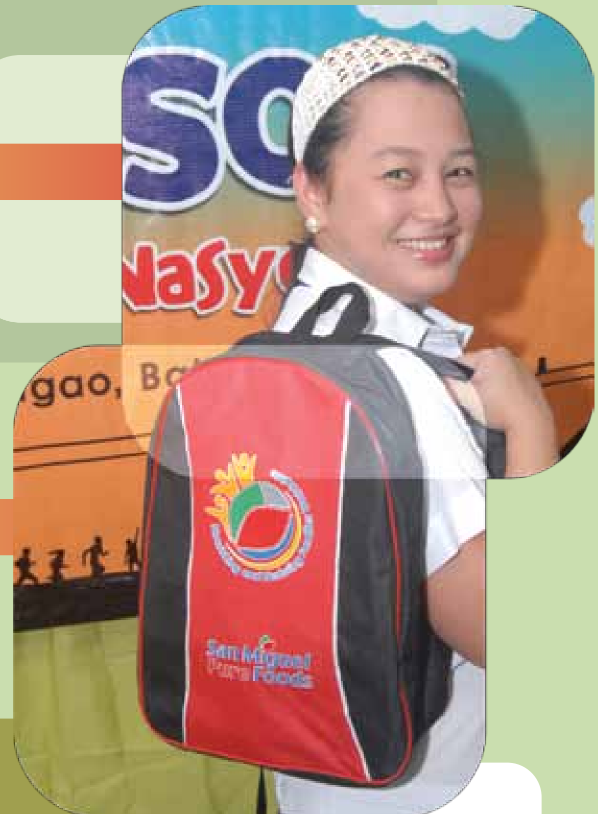

2011 Annual Report

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Growth Beyond Expectations

Fellow Stockholders,

Your company showed once again its resilience and strength, posting strong results in 2011 despite the steep rise in raw material costs resulting from a global economy that has yet to recover to pre-recession levels. Yet as a company, San Miguel Pure Foods continues to benefit from the strategic and operational improvements we have made over the last few years.

Buoyed by higher volumes and better selling prices, total revenues of San Miguel Pure Foods and its subsidiaries grew 13% to a new record of P89.6 billion from P79.3 billion in 2010. As a result, both operating income and net income grew 4%, to P6.1 billion and P4.2 billion, respectively--again record highs.

Our solid performance in 2011 reflects the significant strides we made in executing our transformation strategies. We reduced our fixed costs, widened our distribution networks, rationalized our operations and tapped new markets during the year, innovating where we could and investing in our people.

We carried out our expansion programs and selling efforts with greater vigor to meet the growing demand for our farm-to-plate products while at the same time taking a more prudent credit stance to protect our working capital.

Our solid performance in 2011 reflects the significant strides we made in executing our transformation strategies.

As an industry leader, we have a responsibility to deliver without fail high-quality and affordable products to our trade partners and consumers, which is why we keep investing in our production capacity and distribution network.

In our Poultry and Fresh Meats business, for example, we aggressively pursued the expansion of the Climate-Controlled System (CCS) and by year-end, CCS was deployed to an estimated 68% and 12% of total broiler and hog capacities, respectively.

Similarly, we increased our feed plant capacities by 12% via tolling arrangement with three new feedmill facilities, and upgrading two others in the process. We also contracted two new poultry processing plants and expanded the facilities of an additional three for the domestic market and another three for the export market, boosting our capacity by 7% for the former and by 51% for the latter.

On the distribution side, we added more retail outlets through new franchisees, achieving at year-end a total 14% increase from 2010. We acquired in September 2011 the assets and business of Petron's Treats convenience stores network and converted its store concept into a one-stop convenience store and ready-to-eat food court format called *San Mig Food Ave*. Already, some are equipped with an in-store Magnolia Chicken Station, a Monterey Meatshop, *Hungry Juan* Roast Chicken, and a *Pandesal* station.

Our cost reduction programs allowed us to temper the rise of operating expenses even as we grew our businesses dramatically. We continue to manage capital efficiently by deploying resources in key opportunities consistent with our strategies in each business.

Knowing that our future growth lies in our ability to bring new ideas to the marketplace, we stepped up our innovation. We grew our innovation team and worked harder at developing breakthrough product concepts that could expand and further diversify our product portfolio, sharpen our efficiencies and enable us to compete in more categories.

We also rolled out major initiatives to integrate and standardize our systems as well as to maximize synergies across the group by consolidating our financial services. We adopted new procedures to align our raw material sourcing and demand forecasting with operations planning so we can begin developing a world-class supply chain management.

Over the years, your company has earned a reputation for providing safe and quality products. Both our branded products and commodity products have maintained their market leadership on the strength of the trust we have built between San Miguel Pure Foods and our consumers. In 2011, we launched new campaigns in various media to reinforce this bond. Our Poultry business' *Alagang Magnolia* capitalized on our brand heritage; Monterey's *Know Your Meat* communicated our constant concern for food safety and the consumers' welfare; and Purefoods Fiesta Ham's *8 out of 10 Mothers Know Best* showcased our commitment to providing quality products to Filipino households.

We gave flesh to these campaigns and made them real and tangible to the very communities that have been supporting our growth by incorporating the key concepts to our corporate social responsibility activities. Last year, we introduced *Handog Lusog: Nutrisyon para sa Nasyon*, a feeding program that we took to different parts of the country. We sponsored a series of six-month feed programs and included nutrition talks and livelihood cooking demonstrations.

Certainly, we could not have made this much progress without the support of our people. They have been and will always be our greatest resource. To harness their talents to the fullest, we strive to provide them avenues for continuous development. Last year, we further strengthened our San Miguel Pure Foods University offerings with improved and new courses that aim not only to hone our people's technical and relationship skills but also, and more importantly, imbue them with values that promote a high-performance corporate culture.

That, after all, is our ultimate objective for your company — to transform it into the best performing player in the industry that would increase the value for its shareholders and keep the confidence of all its stakeholders. The steps we took last year and in the prior years bring us ever closer to our goal.

We are a stronger San Miguel Pure Foods than we were at the start of last year and are excited by the many growth opportunities we see for 2012 and beyond. We will no doubt be confronted with a new set of challenges along the way. Costs are expected to continue rising, risks in the world economy remain high and there is uncertainty about earnings growth in many sectors, but with your trust and the continued support of our trade and business partners and our consumers, we are confident that we can bring San Miguel Pure Foods to even greater heights.

Ramon S. Ang
Vice Chairman

Eduardo M. Cojuangco, Jr.
Chairman

Francisco S. Alejo III
President

Financial Highlights

(in Thousand Pesos, except Per Share data)

San Miguel Pure Foods Company, Inc. and Subsidiaries

	2011	2010	2009
REVENUES	89,591,080	79,269,760	75,042,967
NET INCOME	4,213,606	4,058,889	2,658,467
Attributable to:			
Equity holders of the Parent Company	4,102,505	3,846,145	2,596,963
Non-controlling Interests	111,101	212,744	61,504
EQUITY	39,687,081	22,217,998	17,645,250
Attributable to:			
Equity holders of the Parent Company	36,585,912	19,046,854	15,244,923
Non-controlling Interests	3,101,169	3,171,144	2,400,327
PER COMMON SHARE*			
Basic Earnings	18.65	23.08	15.58
Equity	124.58	114.28	91.47

* Based on the number of shares outstanding at the end of each year

Management's Discussion and Analysis

COMMODITY BUSINESSES

Feeds

San Miguel Foods, Inc. (SMFI) Feeds business delivered 8% growth in sales in 2011 amidst the combined challenges of high raw material costs, lower farmgate prices of hogs and broilers, and fishkills in the Batangas and Pangasinan areas. While the difficult market conditions prevented the business from fully recovering higher costs, improvement in operational efficiencies cushioned some of the negative impact.

Growing volumes in the hog, poultry and gamefowl sectors, the business reinforced B-Meg's market leadership through quality and customer relationship programs. This included a quick-response effort to mitigate the loss of livelihood in the fishkill-affected areas, where B-Meg initially distributed relief goods and later assisted in re-stocking of fingerlings.

In anticipation of increasing demand and to achieve regional self-sufficiency in supply, SMFI Feeds business increased its production capacity thru tolling arrangements with three new feedmill facilities and upgraded two more during the year. The double-digit increase in capacity is seen to enhance the company's competitive footing in the coming years.

Poultry and Fresh Meats

The integrated Poultry & Fresh Meats business of SMFI achieved two significant milestones in 2011 – winning the 2011 Asian Livestock Industry Award and maintaining the Gold Award for Magnolia Chicken and the Platinum Award for Monterey Meats at the Readers' Digest Most Trusted Brand Awards.

Combined Poultry & Fresh Meats sales posted 11% growth as both volume and prices were higher than prior year. On the domestic front, volume was boosted by a significant improvement in internal supply as well as the expansion of branded retail outlets. A total of 263 new Monterey Meat Shops and Magnolia Chicken Stations were opened in 2011, bringing total year-end count to 979 outlets.

Export also helped spur volume growth. With the completion of three new poultry processing plants increasing export capacity by 51 %, volume grew by a hefty 84%, accounting for 3% of Poultry's total sales.

In line with its drive to improve operational efficiencies, the business continued to expand its Climate-Controlled System (CCS), which accounted for close to 70% of total poultry growing capacity as of year-end. Similar efforts were also exerted for hog growing capacity, of which 12% installed the more cost-effective CCS as well.

During the year, Poultry rolled out new products to sustain consumer enthusiasm for Magnolia Chicken Stations. It introduced three cook-easy variants of the *Magnolia Free Range Chicken*, all of which are considered Filipino favorites: *Inasal, Savory* and *Barbeque*. It also came out with the *Chicken Frillers*, high quality convenient cuts in different flavors that can either be fried or grilled; and *Chicks-on-Sticks*, which are chicken cubes skewered with fresh vegetables and garnishing.

For the Monterey Meat Shops, the business launched *Porkchop Timplados,* dubbed as the perfect *pambaon* choices; and the *Value Pack*, a three-kilo pack of pata slices, pork strips and rib cuts at discounted prices for the cost-conscious consumers who still want to get quality meat products.

The healthy growth of volume and revenue, however, could not fully cover the higher cost of feed raw materials. Despite industry-wide low prices owing to an oversupply of both local and imported chicken and pork, Poultry & Fresh Meats ended the year with a positive operating income, although this was down by 30% compared to last year.

Flour

San Miguel Mills, Inc. (SMMI) registered sales volume at par with 2010 level, amidst the growing competitive presence of lower-priced imported flour. SMMI reinforced its premier position in the flour business through operational efficiency improvements, effective fixed cost management, and better positioning for its value-added mixes. This tempered the impact of increasing wheat costs to its profitability, as the business increased its revenue by 17% and posted an operating income higher than last year.

To build on this growth momentum, SMMI started rolling out in the last quarter of 2011 a novel concept: the neighborhood bakery partners. Six pilot neighborhood bakeries and four in the *San Mig Food Ave.* stores located in Petron gasoline stations were opened last year and more are in the pipeline. The program aims to widen the company's distribution network and expand its market reach for its premixes.

VALUE-ADDED BUSINESSES

Refrigerated and Canned Meats

The Purefoods-Hormel Company, Inc. (Purefoods-Hormel) registered identical 5% growth in volume and in revenue as it continued to aggressively grow demand for its core brands, namely, *Tender Juicy, Purefoods Star* and *Chick 'n Tasty*, and across its key categories: Nuggets, Corned Meats, Bacons, and Whole Hams. The company's operating income grew by 34%, reflecting vast improvements in sales and operating efficiencies.

In 2011, Purefoods-Hormel came out with new product offerings that allowed the company to defend its leadership and to expand its market base. The Crisp 'n Juicy line, a new nuggets category, offered the convenience of fried chicken through *Crisp 'n Juicy Drummets* while the *Crisp 'n Juicy Chicken Burger* and the *Stuffed Nuggets* in Chicken and Cheese and, Bacon and Cheese varieties showcase the company's commitment to continuously excite and surprise its core market with innovative products.

The company also strengthened its leadership in the premium corned meats segment with the launch of *Purefoods Corned Beef Chili and Hash*. New hotdog variants, the *Purefoods Tender Juicy Chick 'n Cheese* and the *Premium Turkey Franks*, were also introduced to provide consumers with new, exciting, and best-in-class flavors.

It was also in 2011 that Purefoods-Hormel launched its first *halal* hotdog line under the *Chick 'n Tasty* brand to further expand its Mindanao and export sales; a new line of ready to eat viands under the Tender Cuts brand; and the Fiesta Ham slices that will be made available whole year round.

Dairy, Spreads, Oils and Ice Cream

Magnolia, Inc. kept its momentum going and ended 2011 with a 23% increase in revenue on the back of higher volumes, more favorable selling prices and sustained brand-building efforts. Despite escalation in input costs, the company registered a hefty growth of 53% in operating income supported by effective fixed cost management and strategic raw materials buying.

The Dairy, Spreads and Oils business achieved an 8% and 22% growth in volume and revenue, respectively, driven by strong core categories performance. Innovation also contributed to the business' performance in 2011. It introduced *Cheezee Squeeze*, the first and only cheese spread in squeezable stand-up pouch with a re-sealable spout. It also launched new exciting flavors for *Chocolait (Rocky Road and Cookies & Cream)*, and for *Star Margarine (Chocolate and Vanilla)* to enhance affinity of the Magnolia brand to kids and expand category usage.

The Ice Cream business' volume and revenue grew by 26% and 31%, respectively, despite contraction of the local ice cream market in 2011. Growth was mainly driven by a stronger Frozen Novelty portfolio, aggressive export market expansion, and significant distribution gains.

It also partnered with the province of Guimaras to produce the summer Limited Edition flavors *Mangoes & Cream* and *Mangga't Kasuy*, then launched *Triple Chocolate Treat* for the Christmas season. Magnolia Ice Cream also strengthened its Classic line with the addition of a new Caramel flavor and further capitalized on its well-loved classic flavors by introducing combination flavors in a tub dubbed as Classic Medley which comes in 3 variants: *Black & White (Vanilla & Chocolate), Dare Devil (Chocolate and Strawberry)*, and *Bumble Bee (Mango & Caramel)*.

The now locally-produced Spinner has two new variants: Hazelnut and Caramel, while the premium *President's Tub* came out with *Vanilla Almond Fudge* and *Belgian Chocolate Truffles*.

Coffee

San Miguel Super Coffeemix Co., Inc. registered volume and revenue growths of 35% and 32%, respectively, as its operating income doubled versus 2010 level.

The strong performance in 2011 was driven mainly by focused selling of *San Mig Coffee* Original strip of 10 SKU and intensified distribution efforts that included a market stall augmentation program and the deployment of more roving motorcycle units to cover tertiary outlets.

Food Service

San Miguel Pure Foods' food service arm, Great Food Solutions (GFS), leveraged its key strengths in product customization, brand-building, product placement and relationship management to produce another commendable performance in 2011.

Volume rose by 8% while revenue went up by 13% as the company stepped up strategic promotions and client co-branding efforts.

INTERNATIONAL OPERATIONS

Indonesia

PT San Miguel Pure Foods Indonesia's volume and revenue were adversely affected by the rise of input cost owing to the restrictions imposed by the Indonesian government on imported beef. However, initiatives to source for alternative raw materials and effective fixed cost management allowed the business to recover in the second half of the year and still deliver a positive operating income.

Vietnam

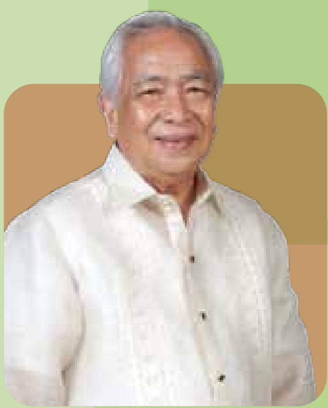
Steep inflation climb and unstable prices affected the profitability of San Miguel Hormel (Vn) Co., Ltd. However, the impact was tempered by the rationalization of non-performing products, introduction of new hog breeds, and improvement in efficiencies.

Our Board of Directors

Eduardo M. Cojuangco, Jr.
Chairman

Ramon S. Ang
Vice Chairman

Francisco S. Alejo III
President



Menardo R. Jimenez

Leandro R. Mendoza

Cancio C. Garcia

Carmelo L. Santiago

Plaridel M. Abaya

Mario C. Garcia

Our Operations Committee

a Francisco S. Alejo III
President
San Miguel Pure Foods Company, Inc.

b Zenaida M. Postrado
Treasurer and Chief Finance Officer
San Miguel Pure Foods Company, Inc.

c Ma. Soledad E. Olives
Vice President and Manager
Corporate Planning and Management Services Group

d Alexandra B. Trillana
Assistant Vice President and General Counsel
Food Group Office of the General Counsel

e Eliezer O. Capacio
Vice President and Manager
Division Human Resources

f Alden M. Castañeda
Vice President and Manager
Corporate Innovations Group

g Maria Luisa Annabelle R. Pascasio
Manager
Division Information Technology

h Noli L. Manalo
Vice President and Senior Procurement Manager
Business Procurement Group

i Archie B. Gupalor
Vice President and General Manager
San Miguel Integrated Sales

j Enrique A. Punsalang
Vice President and Manager
Division Logistics Group

k Rita Imelda B. Palabyab
President and Agro-Industrial Cluster Head
San Miguel Foods, Inc.

l Norman C. Ramos
Vice President and General Manager
San Miguel Foods, Inc. Feeds Business

m Leo A. Obviar
Vice President and General Manager
San Miguel Foods, Inc.
Poultry and Fresh Meats Business

n Florentino C. Policarpio
President and Milling Cluster Head
San Miguel Mills, Inc.

o Julio R. Gregorio
Vice President and General Manager
San Miguel Mills, Inc.
Flour Business

p Reginald I. Baylosis
Vice President and General Manager
Magnolia, Inc. Dairy, Spreads and Oils Businesses

q Mauricio Mayo A. Alcon, Jr.
Assistant Vice President and General Manager
Magnolia, Inc. Ice Cream Business

r Michael Allan N. Castro
Assistant Vice President and General Manager
San Miguel Super Coffeemix Company, Inc.

s Helene Z. Pontejos
Assistant Vice President and General Manager
SMPFC- Great Food Solutions

t Enrico S. Zavalla
Assistant Vice President and General Manager
San Miguel Hormel (Vn.) Co., Ltd.

u Gil R. Buensuceso
Assistant Vice President and General Manager
PT San Miguel Pure Foods Indonesia

v Oscar R. Sañez
Vice President and Regional Cluster Head
Indonesia and Vietnam Operations

w Raul B. Nazareno
Vice President and General Manager
The Purefoods-Hormel Company, Inc.

x Jennifer T. Tan
Vice President and Senior Procurement Manager
Business Procurement Group

Our Product Portfolio

San Miguel Foods, Inc.

POULTRY

Live Broilers

Dressed Chicken (Wholes)
- Magnolia Fresh Chicken (Fresh Chilled & Frozen)
- Magnolia Spring Chicken (Fresh Chilled & Frozen)
- Magnolia Jumbo Chicken (Fresh & Frozen)
- Magnolia Free Range Chicken (Fresh & Frozen)
- Purefoods Supermanok (Fresh Chilled & Frozen)
- Housebrand and Unbranded Chicken (Fresh Chilled & Frozen)

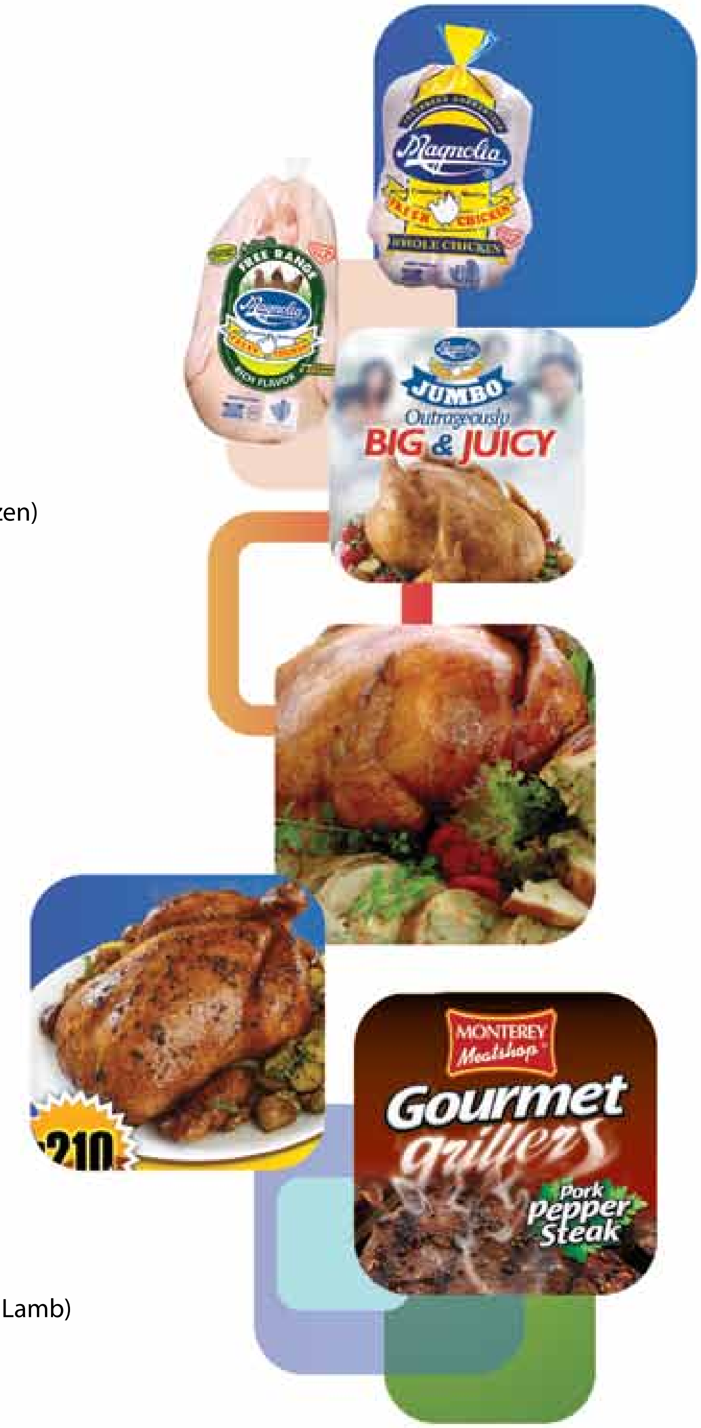
Cut-ups
- Magnolia Chicken Cut-ups (Fresh Chilled & Frozen)
- Housebrand and Unbranded Chicken Cut-ups
- Magnolia Chicken Station Cut-ups (prepared on site)

Convenient Cuts
- Magnolia Chicken Station convenient cuts (freshly prepared on site)

Marinated
- Magnolia Chicken Station Cook Easy products (freshly prepared on site)

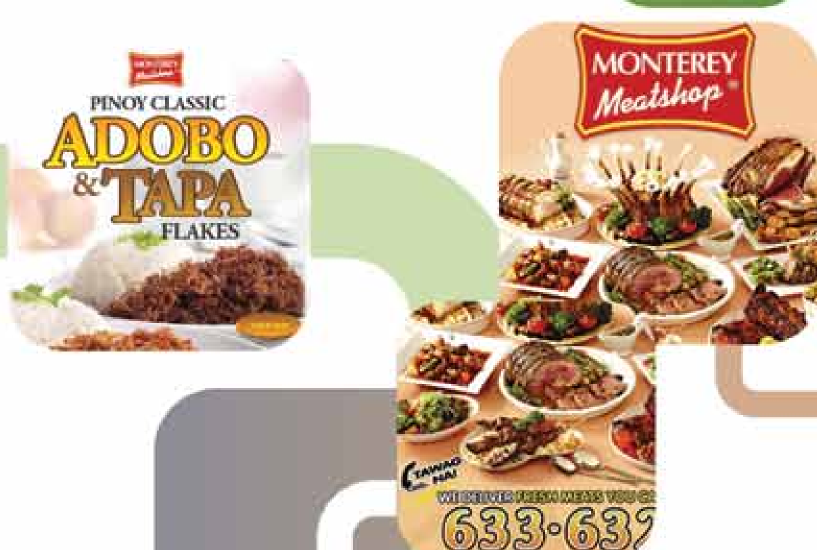
Giblets
- Magnolia Chicken Giblets (Frozen Liver and Gizzard)

Export
- Frozen Chicken Yakitori



MEATS

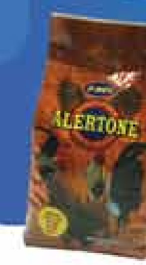
Monterey Meatshop
- Fresh Meats Primals (Pork, Beef, Lamb)
- Fresh Meats Individual Portion Cuts (Pork, Beef, Lamb)
- Ready-to-Cook Marinated Meats or Timplados (Pork, Beef, Lamb)

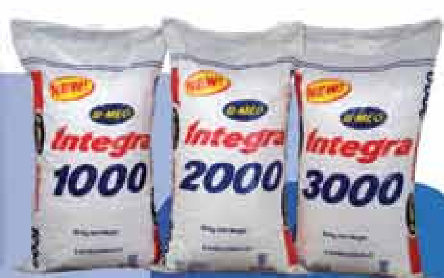


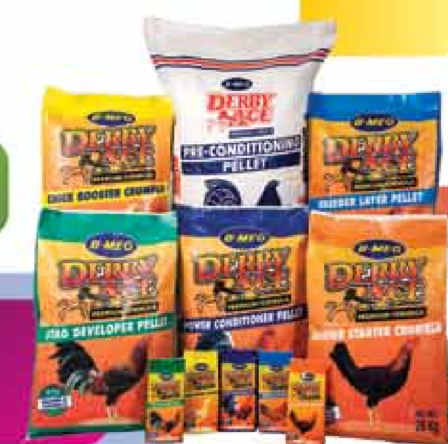
FEEDS

Animal & Aquatic Feeds

- Hog Feeds
  - B-MEG Premium Pellets
  - B-MEG Dynamix Feeds
  - Pureblend Feeds
  - B-MEG Expert Pellets and Mash
  - Bonanza Pellets
  - Jumbo Mash
  - Maton Mash
  - B-MEG Essential Feeds
- Poultry Feeds
  - B-MEG Premium Layer
  - Pureblend Layer
  - B-MEG Expert Layer
  - B-MEG Layer (Regular)
  - B-MEG Essential Layer
  - Pureblend Layer Breeder
  - B-MEG Premium Broiler
  - Pureblend Broiler
  - Pureblend Special Broiler
  - B-MEG Broiler (Regular)
  - B-MEG Essential Broiler
  - B-MEG Essential Broiler Breeder
  - Jumbo Pullet
  - B-MEG Quail Mash
  - Pureblend Quail Feeds
  - B-MEG Ostrich Breeder Feeds
  - B-MEG Kabir Mash
- Duck Feeds
  - B-MEG Duck Pellets
  - Pureblend
- Gamefowl Feeds
  - B-MEG Derby Ace
  - B-MEG Integra
  - B-MEG Alertone
  - B-MEG Pigeon Feed Pellets
  - B-MEG Fighting Cock Pellets
- Horse Feeds
  - B-MEG Horse Pellet
- Aquatic Feeds
  - B-MEG Super Premium Feeds
  - B-MEG Premium Tilapia Feeds
  - B-MEG Premium Bangus Feeds
  - B-MEG Aquaration
  - B-MEG Expert Fish Feeds
  - B-MEG Prize Catch Floating Feeds
  - B-MEG Prize Catch Extruded Sinking Feeds
  - B-MEG Nutrifloat
  - B-MEG Nutrisink
  - B-MEG CE-90
  - B-MEG VN-21
  - Pinoy Sinking Feeds
  - Pinoy Floating Feeds
- Concentrates
  - B-MEG Hog Concentrate 32%
  - B-MEG Layer Protein
  - B-MEG Broiler Protein
  - B-MEG Pullet Concentrate
  - B-MEG Cattle Lactating Concentrate
  - B-MEG Dynamix Pig Protein

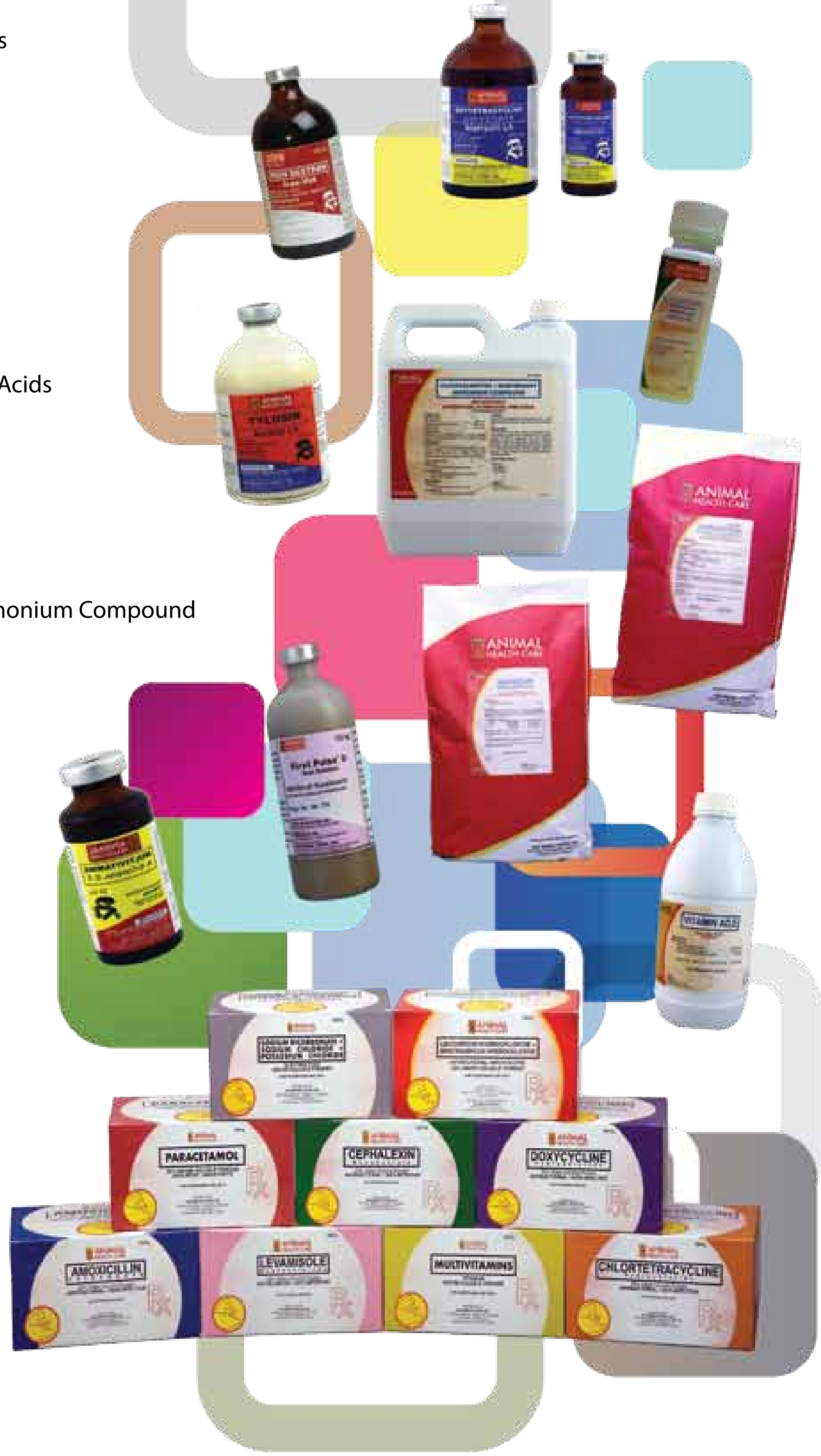






Animal Health Care Veterinary Medicines

- Water Soluble Preparation
  - Amoxicillin 20%
  - Cephalexin 20%
  - Chlortetracycline 25%
  - Cotrimoxazole 48%
  - Doxycycline 20%
  - Levamisole 20%
  - Doxy + Tiam + Vit ABC
  - Electrolytes
  - Multivitamins
  - Multivitamins + Minerals + Amino Acids
  - Vitamin B Complex for broiler
  - Vitamin B Complex for breeder
  - Vitamin E 50%
  - Paracetamol 25%
  - Niclosamide + Levamisole
- Disinfectant
  - Glutaraldehyde + Quaternary Ammonium Compound
  - Povidone Iodine
- Injectables
  - Norotyl LA
  - Alamycin LA
  - Multivitamins
  - Iron-Vet
- Oral Preparation
  - First Pulse D
- Feed Premixes
  - Tiamulin 10%
  - Swine Mineral Premix
  - Poultry Mineral Premix
  - Swine Vitamin Premix
  - Poultry Vitamin Premix
  - Cotrimazine 48%
  - Amoxicillin 10% and 20%
  - Chlortetracycline 15%
- Liquid Preparation
  - Vitamin ADE
  - Vitamin E 60%
  - Norfloxacin 20%
  - Worm-X



San Miguel Mills, Inc.

Hard Wheat Flour

- King
- Emperor
- Monarch
- Pacific
- Harina de Pan de Sal

Soft Wheat Flour

- Queen
- Countess
- Red Dragon

Specialty Flour

- Baron All-Purpose Flour
- Baron Siopao Flour
- Princess Cake Flour
- Golden Wheat Whole Wheat Flour (coarse & fine)
- Fine Wheat Bran

Customized Flour

- Royal Premium Noodle Flour
- Royal Special Noodle Flour
- Prince Miki Flour
- Prince Noodle Flour
- Prince Wrapper Flour
- Emperor Gluten Flour

Premixes

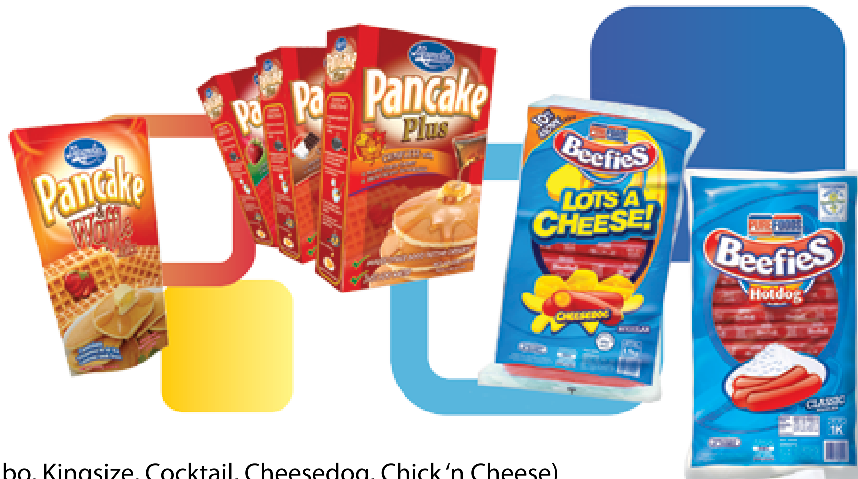
- Mix' n Bake
  - Brownie Mix
  - Cookie Mix
  - Crinkle Mix
  - Muffin Mix
  - Pan de Sal Mix
- Mix' n Fry
  - Pancake & Waffle Mix
  - Yeast-Raised Doughnut
- Mix' n Steam
  - Siopao Mix
  - Puto Mix
- Retail Mixes
  - Magnolia Pancake Plus with Syrup (Maple, Chocolate, Strawberry)
  - Magnolia Pancake & Waffle Mix (500g and 200g)

Bakery Ingredients

- Zuprim Bread Improver
- Bake Best Baking Powder

Services

- Product Customization
- Recipe Development
- Technical Training in flour applications



The Purefoods-Hormel Company, Inc.

REFRIGERATED MEATS

Hotdogs

- PUREFOODS Tender Juicy® Hotdog (Classic, Jumbo, Kingsize, Cocktail, Cheesedog, Chick 'n Cheese)
- PUREFOODS Star® Hotdog (Regular, Jumbo, Footlong, Cheezeedog)
- PUREFOODS Deli Franks (German, Angus Beef, Smoked Turkey, Beef, Cheese)
- PUREFOODS Beefies® Hotdog (Regular, Jumbo, Lots A Cheese)
- PUREFOODS Chick'N Tasty ®Chicken Hotdog (Classic, Jumbo, Cheese, Tasty Franks)
- Vida Hotdog (Classic, Jumbo)

Battered, Breaded & Fried

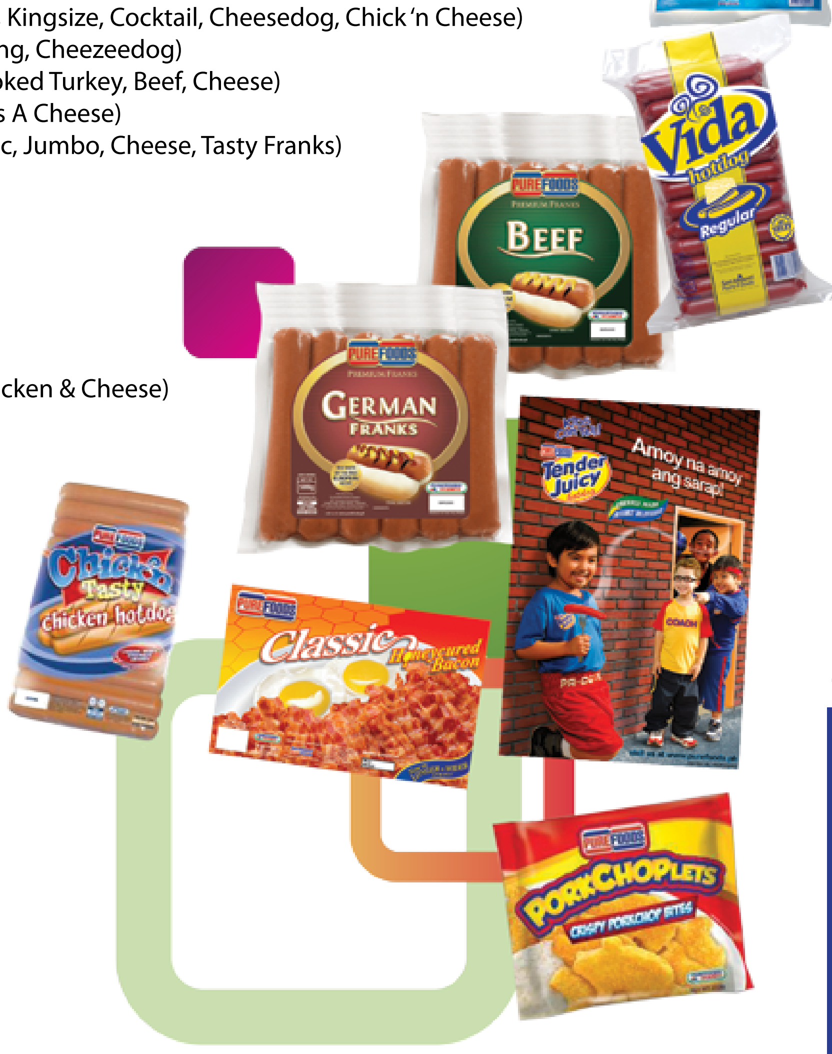
- PUREFOODS Chicken Fun Nuggets®
- PUREFOODS Porkchoplets®
- PUREFOODS Crisp 'n Juicy Drummets™
- PUREFOODS Crisp 'n Juicy Chicken Burger™
- PUREFOODS Stuffed Nuggets (Bacon & Cheese, Chicken & Cheese)

Bacon

- Purefoods Honeycured Bacon
- Purefoods Maple-Flavored Bacon
- Purefoods Lean 'N Mean Bacon
- Purefoods Bits & Ends Bacon
- Hormel Bacon
- Vida Bacon

Sliced Hams

- PUREFOODS® Sweet Ham
- PUREFOODS® Cooked Ham
- PUREFOODS FIESTA HAM® Slices
- Purefoods Deli Cold Cuts (Salami, Spiced, Bologna)
- Vida Ham
- Ham Selections (Sweetened, Bologna, Spiced)



Whole Hams
- PUREFOODS FIESTA HAM®
- PUREFOODS FIESTA HAM® Smoked Bone-in
- PUREFOODS® Tasty Ham
- PUREFOOODS® Jamon De Bola
- PUREFOODS® Chinese-Cooked Ham
- PUREFOODS® Brick Ham
- PUREFOODS® Pear-shaped Ham
- PUREFOODS® Jamon Royale

Monterey Line
- Monterey Sisig (Filipino Favorites)

Ready-to-Cook Magnolia Line
- Magnolia Golden Crispy (Classic)

Tender Cuts
- Fully-cooked / Ready-to-Heat Line
    - Purefoods Tender Cuts Asado

GROCERY PRODUCTS

Corned Meats
- Purefoods Corned Beef (Classic, Hash, Chili)
- Purefoods Chunkee Corned Beef
- Purefoods Carne Norte

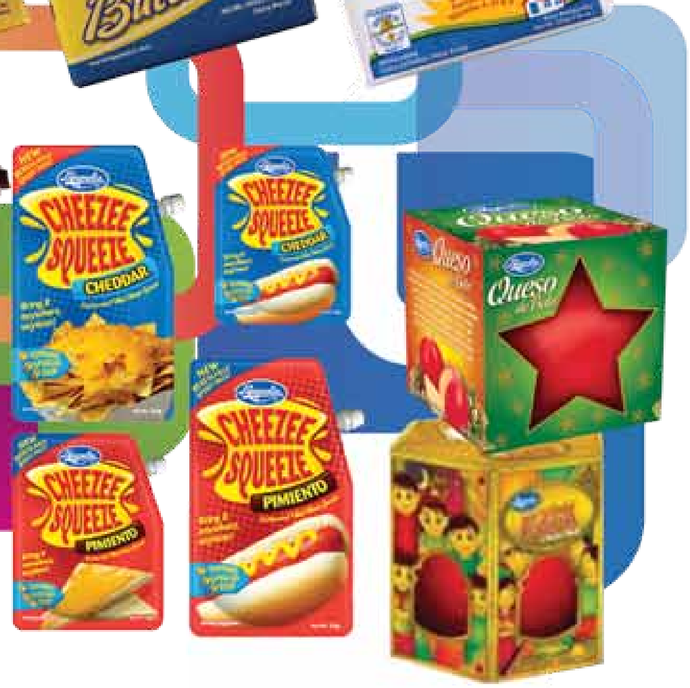
Luncheon Meats
- Purefoods Luncheon Meat
- Purefoods Chinese Luncheon Meat
- Purefoods Beef Loaf
- Purefoods Chicken Luncheon Meat

Sausages
- Purefoods Vienna Sausage
- Purefoods Chicken Vienna Sausage

Canned Viands
- Purefoods Sizzling Delights Sisig
- Ulam King - Saucy Asado
- Ulam King - Saucy Caldereta
- Ulam King - Saucy Lechon Paksiw
- Ulam King - Saucy Menudo
- Ulam King - Saucy Mechado

Specialty Grocery Products
- Purefoods Liver Spread
- Purefoods Spaghetti Meat Sauce
- Purefoods Chorizo Filipino

Magnolia, Inc.



Butter

- Magnolia Gold Butter
  - Salted
  - Unsalted
- Magnolia Gold Lite
- Magnolia Butter-licious!

Refrigerated Margarine

- Dari Creme
  - Classic
  - Buttermilk
- Dari Creme Lite
- Baker's Best
- Buttercup

Non-Refrigerated Margarine

- Star Margarine
  - Classic
  - Sweet Blend
  - Garlic
  - Chocolate
  - Vanilla
- Delicious Margarine
- Magnolia Non-Refrigerated Margarine (Food Service)

Cheese

- Magnolia Cheezee Block
- Magnolia Cheezee Spread
- Magnolia Cheezee Squeeze
- Magnolia Filled Cheese
- Magnolia Cheddar Cheese
- Magnolia Cheesefood
- Magnolia Quickmelt Cheese
- Magnolia Cream Cheese Block
- Magnolia Cream Cheese Spread
- Daily Quezo
- Magnolia Cheese Sauce (Food Service)
- Magnolia Queso de Bola
- Magnolia Gold Edam
- Magnolia Sharp Flavored Melting Cheese
- FS Cheese Insti
- Hi-Colored FS Cheese Insti
- Hi-Colored Daily Quezo

Salad Aids

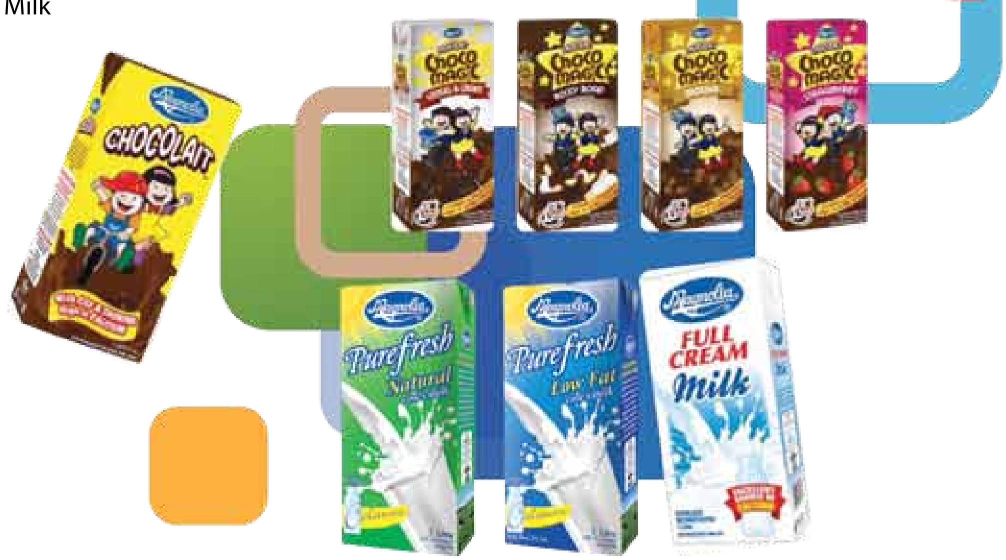
- Magnolia Real Mayonnaise (Food Service)

Specialty Oils

- Primex Shortening (Food Service)
- Magnolia Nutri-Oil Coconut Oil
- Magnolia Nutri-Oil Palm Olein
- Magnolia Pure Oil
- RBD Palm Olein

Milk

- Magnolia Purefresh Natural Cow's Milk
- Magnolia Purefresh Low Fat Milk
- Magnolia Full Cream Milk
- Magnolia Chocolait
- Magnolia Chocolait Choco Magic
  - Mocha
  - Strawberry
  - Rocky Road
  - Cookies and Cream



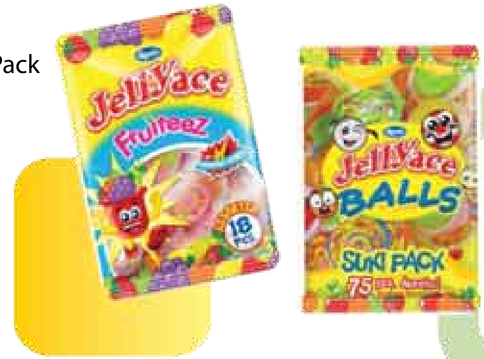
All-Purpose Cream

- Magnolia All Purpose Cream

Gel Based Confectionary

- JellYace Fruiteez
- JellYace Bites

- JellYace Suki Pack/Gara Pack/Buhos Pack
- Snackers
- Magnolia Best Fruits Jam
  - Strawberry
  - Pineapple
  - Apple Cinnamon
  - Mango
  - Pink Guava



ICE CREAM

Bulk Ice Cream

- Magnolia Classic (Vanilla, Chocolate, Mocca, Strawberry, Ube, Mango, Caramel)
- Magnolia Classic Medley (Black & White, Dare Devil, Bumble Bee)
- Magnolia Gold Label (Double Dutch, Rocky Road, Cookies N' Cream, Dulce de Leche, Creamy Halo-Halo Delight, Macapuno Ube Ripple, Buko Salad Royale, Quezo Primero, Choco Chip Cookie Dough, Coffee Vienna, Buttery Sweet Corn, Ube Quezo, Mangoes & Cream)
- Magnolia President's Tub (Butter Pecan, Blueberry Cheesecake, Vanilla Almond Fudge, Belgian Chocolate Truffle)
- Magnolia Sorbetes (Ube, Tsokolate, Keso)
- Magnolia No Sugar Added (Vanilla, Chocolate, Cheese, Cafe Latte)
- Magnolia Limited Edition (Triple Chocolate Treat, Mangoes & Cream, Mangga't Kasuy)
- Magnolia Chocolait Ice Cream

Frozen Novelties

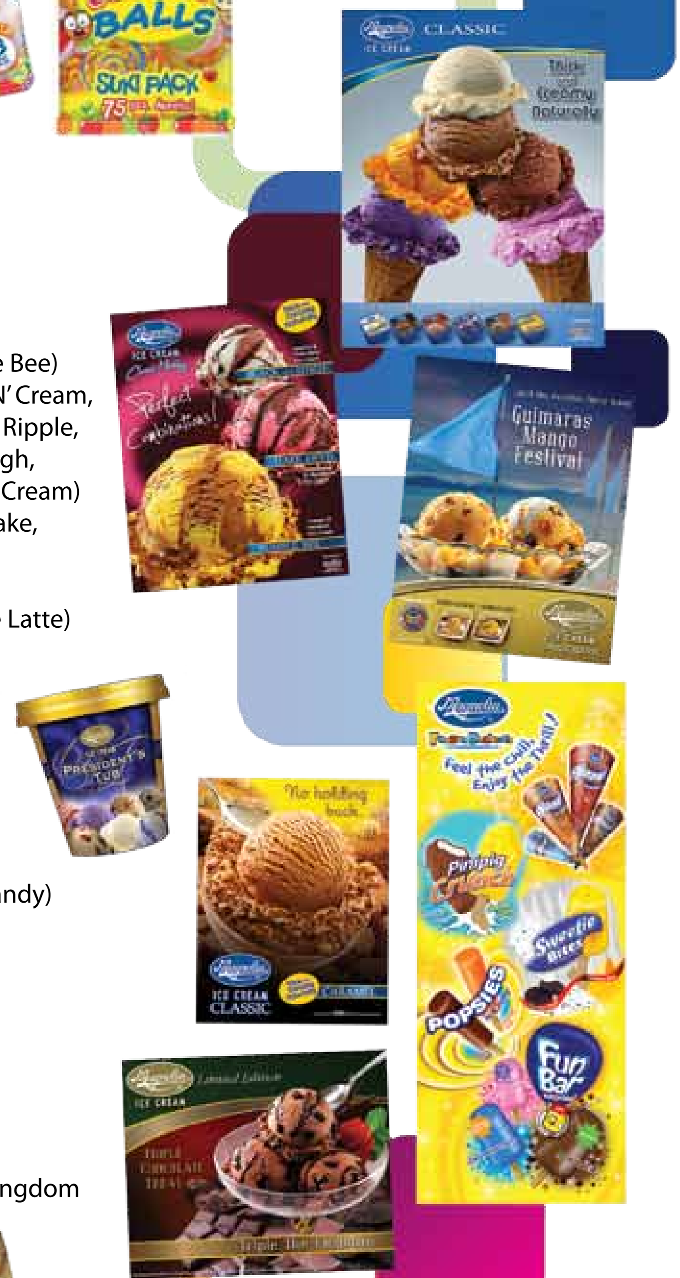
- Magnolia Spinner (Chocolate, Vanilla, Caramel, Hazelnut)
- Magnolia Party Cups (Vanilla, Chocolate, Ube, Mango)
- Magnolia Sweetie Bites (Cookie Craze, Cheesy Bliss)
- Magnolia Fun Bar (Choco Loco, Cool Bubblegum, Cotton Candy)
- Magnolia Popsies (Orange Chill, Choco Cool)
- Magnolia Pinipig Crunch (Vanilla Crisp and Sweet Corn)

Opportunistic Products

- Magnolia Limited Editions (Seasonal)

San Miguel Gold Label (For Export)

- SMGL Mellorine - USA
- SMGL Frozen Dessert - Canada
- SMGL Ice Confectionery – Australia, Canada, Italy, United Kingdom



San Miguel Super Coffeemix Co., Inc.

COFFEE

- San Mig Coffee 3-in-1 Regular Coffeemix
  - Mild, Original, Strong & Extra Strong
- San Mig Coffee 3-in-1 Sugar Free Coffeemix
  - Mild, Original, Strong & Extra Strong
- San Mig Coffee 3-in-1 Pro-Health
  - Pro-Fiber & Pro-Slim
- San Mig Coffee 100% Premium Instant Black Coffee
- Grandeur Premium 3-in-1 Coffeemix
  - Original, Italian Original, Hazelnut & Mocha

Great Food Solutions (GFS)

Value-Added Meats/Poultry

- Primo D' Italia ™ Pizza Topping Line
- Deli Ready ™ Sliced Deli Meats Line
- Tender Cuts ™ Product Line
- Fast N' Easy Prepared Meals and Cuts
- Purefoods ™ Foodservice Meatballs, Chickenballs and Burgerballs
- Purefoods ™ Corned Beef in Chubs - 1 kg
- Purefoods Corned Beef Blue Label Institutional Corned Beef 800g can
- Purefoods ™ Breakfast Sausages

Flour and Premixes

Traded Products

- HACO Dessert Premixes
- HACO Stock Premixes
- GFS Mozzarella Cheese
- Balut, Penoy and Hard Boiled Eggs

GFS Commissary Products

- Ready to Eat
    - Beef Tapa
    - Chicken Adobo
    - Laing
    - Salisbury Steak
    - Pork Sisig
    - Pork Adobo
- Dips and Sauces
    - Salsa
    - Herbed Tomato Base
- Burgers
    - Premium Beef Burger
    - Classic Beef Burger
    - Classic Chicken Burger
- Chef Selection
    - Angus Burger
    - Corndog Balls
    - Croquettas
    - Fresh Bacon
    - Breakfast Sausage Patties
- Breaded Battered and Fried
    - Chicken Fillet
    - Chicken Patty
    - Fish Fillet
    - Fish Patty
- Others
    - Corned Beef Pan de Sal
    - Chicharon Bulaklak
    - Cheese Sticks

Smokey's

- Hotdog Sandwiches
- Pizzas
- Burgers

GFS Services

- Product Customization
- Menu & Recipe Development
- Packing Development
- Food Safety Trainings and Consultancy
- Quality Assurance Services
- Food Laboratory Analysis
- Marketing Services and Promotional Tie-Ups

Franchising Business

Hungry Juan

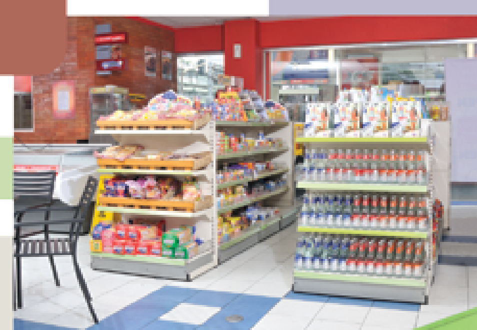
- Roast
  - Inasal Chicken
  - Sweet Garlic Chicken
  - Balamban Liempo
- Juanito's Pritos
  - JP's 24 Fried Chicken
  - Fried Chicken Neck
  - Breaded Porkchop
- Singles
  - Pork BBQ Skewered
  - BBQ Belly
  - Chicken Isaw
  - Chicken Proven
  - Sisig
- Flakes
  - Caldereta
  - Korean Beef Stew
  - Beef Tapa
  - Corned Beef
  - Lechon Paksiw
  - Pork Adobo
- Bangus Belly
  - Mediterranean
  - Daing
  - Peppersteak

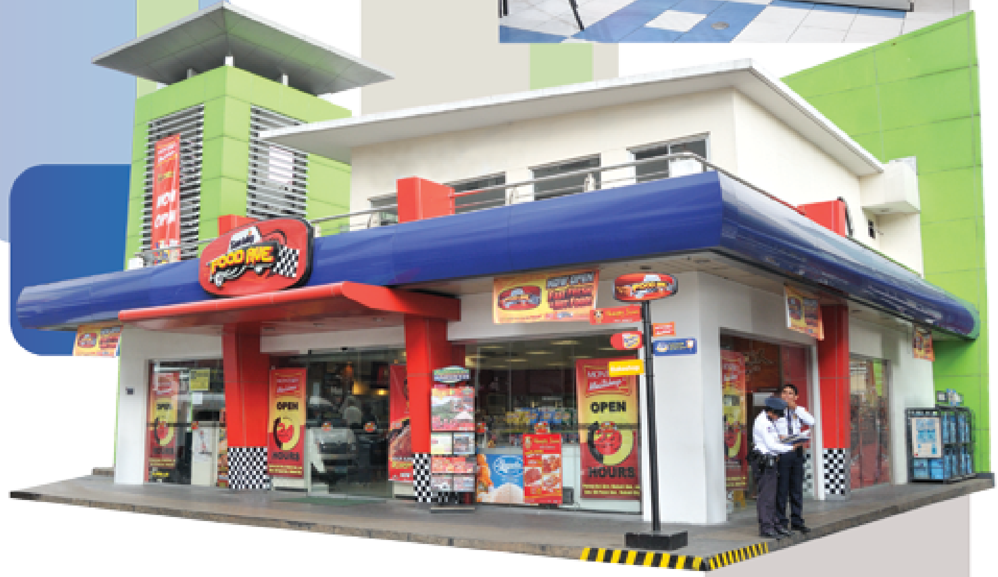
San Mig Food Ave.

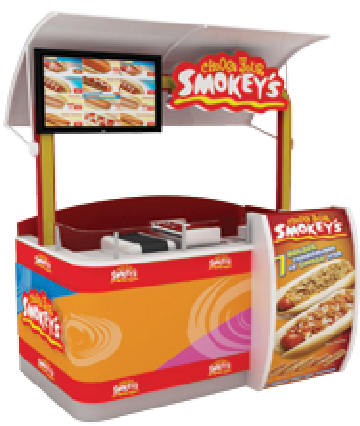
- Convenience Store Products
- Ready-to-eat Products

Smokey's

- Hotdogs
  - Chicken Hotdog
  - Classic Style Frank
  - Cheesedog
  - Jumbo Supreme
  - Footlong
- Premium Bites
  - Bacon-Wrapped Cheesedog
  - Schublig
  - Hungarian
- Hotdog Combinations
  - Taco Hotdog
  - Chicago Hotdog
  - Double Cheese Bacon Dog
  - Bacon N' Cheese
  - Everything on It
  - Spicy Taco Dog
  - Bacon Cheesy Garlic Mushroom Dog
- Pizza
  - Bacon
  - Hawaian
  - Sisig
  - Pepperoni
  - Italian Sausage







Hungry Juan
ROAST • BARBECUE

PHILIPPINE FRANCHISE ASSOCIATION

P.T. San Miguel Pure Foods Indonesia

Bakso (Meat Balls)
- Farmhouse (Beef, Chicken)
- Vida (Beef)
- Vida Saving (Beef)
- Purefoods Choice (Beef)

Sausages
- Farmhouse (Beef Cocktail, Beef Frankfurter, Beef Weiner, Beef, Chicken, Fried Beef, Fried Chicken, Cheese Jumbo, Hot & Spicy)
- FunKidzChubbies (Cheese)
- Gusto (Pork Breakfast, Pork Cabanosi, Pork Cocktail, Pork Hotdog)
- Purefoods Choice (Beef, Chicken, Jumbo, Hot & Spicy, Beef Weiner, Beef Jumbo, Beef Black Pepper, Beef Pepper, Chicken Pepper, Bakery)
- Vida (Franks, Beef Weiner, Beef, Chicken, Fried)
- Vida Saving (Beef, Chicken)

Retort Sausage
- Vida Cociz (Chicken)

Cold Cuts
- Farmhouse (Beef Pepperoni, Chicken Roll, Garlic Salami, Smoked Beef, Smoked Chicken)
- Gusto (Cooked Ham, Back Bacon, Gammon Ham, Smoked Ham, Smoked Pork Loin, Streaky Bacon)
- Purefoods Choice (Chicken Chunk, Minced Beef, Smoked Beef, Meat Block Papz, Minced Chicken Teriyaki)

Luncheon Burger
- Farmhouse (Beef, Chicken, Cheese Burger)
- Purefoods Choice (Beef, Chicken, Mini Burger, Bakery Burger)
- Vida (Beef, Mini Burger)
- Vida Saving (Beef)

Value Added
- Farmhouse Corned Beef

Nugget
- FunKidz Nuggies (Chicken)

Services
- Customization

San Miguel Hormel (Vn) Co., Ltd.

Feeds Business
- BMEG Brand
  - Hog Feeds
  - Poultry Feeds
  - Aquatic Feeds
- Pureblend Brand
  - Hog Feeds
  - Poultry Feeds

Live Pigs Sales

Fresh Meats
- Hormel Monterey Meatshops
  - Pork
  - Beef

Value-Added Meats
- Le Gourmet Brand
  - Bacon
  - Ham
  - Sausages
  - Traditional Meats
  - Pate
  - Mixed Cuts
- Dua Moc Brand
  - Traditional Processed Meats

Corporate Governance

San Miguel Pure Foods Company, Inc. (SMPFC or "the Company") recognizes that good governance helps the business to deliver strategy, generate and sustain shareholder value and safeguard shareholders' rights and interests. Its Board of Directors, management and employees adhere to the highest standards of corporate governance as a vital component of sound business management.

Being a majority-owned subsidiary of San Miguel Corporation (SMC), SMPFC has adopted a Manual on Corporate Governance that is patterned after that of its parent company. The Company's Board of Directors (the "Board"), led by its Chairman, Eduardo M. Cojuangco, Jr., believe in conducting its business affairs in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business dealings.

The Company continues to review and strengthen its policies and procedures, giving due consideration to areas that, for the best interests of the Company and its stockholders, need further improvement.

BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the Company's Board of Directors, who believes in conducting the affairs of the Company in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business transactions. The members of the Board, as well as the senior management of the Company, have undergone the requisite training on corporate governance.

SMPFC's Board is primarily responsible for promoting the Company's long-term growth and success and determining its mission, strategy and objectives. It is the Board's responsibility to secure and maintain the Company's competitive edge in a manner consistent with its fiduciary responsibility, which it exercises in the best interest of the Company, its shareholders and other stakeholders.

In this connection, the Board exercises oversight responsibilities on the business affairs of the Company, reviews and approves the Company's financial statements, and ensures the presence of adequate and effective internal control mechanisms in the Company to manage business risk. The directors consider that the Company's financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of management and the Board with an appropriate consideration to materiality.

Composition

The Board consists of nine members who hold at least one share each in the capital stock of the Company and are elected by the stockholders with voting rights during the Annual General Stockholders' Meetings (AGSM). The Board members hold office for one year until their successors are duly elected and qualified in accordance with the Company's amended by-laws.

The broad range of skills, expertise and experience of the directors in the fields of business, finance, accounting and law ensures comprehensive evaluation of, and sound judgment on, matters relevant to the Company's businesses and related interests. The members of the Board of the Company are identified in the Board of Directors section, and their shareholdings in the Company, profiles and business experience are provided in the Definitive Information Statement distributed to shareholders prior to the AGSM.

Independent and Non-Executive Directors

Justice Cancio C. Garcia, Mr. Carmelo L. Santiago and Mr. Plaridel M. Abaya sit as independent and non-executive directors in SMPFC's Board, exceeding the requirement under law of having at least two independent directors or 20% of the number of members of the Board, whichever is less.

The Company defines an independent director as a director who, apart from his fees and shareholdings, has no business or relationship with the Company, which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director. The independent directors are nominated and elected in accordance with the rules of the Securities and Exchange Commission (SEC). Pursuant to such rules, each independent director, issues and submits to the Corporate Secretary for filing with the SEC, a certification confirming that he possesses all the qualifications and none of the disqualifications of an independent director at the time of his election and/or re-election.

The Chairman and the President

The Chairman of the Board is non-executive Director Eduardo M. Cojuangco, Jr. while the President is Mr. Francisco S. Alejo III. These positions are held by two separate individuals with their respective roles clearly defined to ensure independence, accountability, and responsibility in the discharge of their duties. The annual compensation of the President and the top four senior executives of the Company are provided in the Definitive Information Statement distributed to shareholders prior to the AGSM. The Chairman and the President attended the last two stockholder meetings of the Company, including the last AGSM.

Board Performance

The Board holds regular meetings on a quarterly basis. To assist the directors in the discharge of their duties, the directors have access to the Corporate Secretary and Assistant Corporate Secretary, who both serve as counsel to the Board of Directors. The Corporate Secretary communicates with the Board, management, the Company's shareholders, and the investing public.

In 2011, the Board of SMPFC held six meetings. Portrayed below is the record of attendance of the directors in these meetings and at the AGSM.

Date of Board Meeting, All in Year 2011

Director	Feb. 11	Mar. 9	May 9	May 13	Aug. 12	Nov. 9
Eduardo M. Cojuangco, Jr.	Present	Present	Present	Present	Present	Present
Ramon S. Ang	Present	Present	Present	Present	Present	Present
Francisco S. Alejo III	Present	Present	Present	Present		Present
Menardo R. Jimenez	Present	Present	Present		Present	Present
Cancio C. Garcia *Independent Director*	Present	Present	Present	Present	Present	Present
Mario C. Garcia	Present	Present	Present	Present	Present	Present
Carmelo L. Santiago *Independent Director*	Present	Present	Present	Present	Present	Present
Plaridel M. Abaya *Independent Director*	Present	Present	Present	Present	Present	Present
Leandro R. Mendoza	Present	Present	Present	Present	Present	

Date of Stockholders' Meeting

Director	May 13, 2011 (AGSM)
Eduardo M. Cojuangco, Jr. (Chairman)	Present
Ramon S. Ang (Vice Chairman)	Present
Francisco S. Alejo III (President)	Present
Menardo R. Jimenez	
Cancio C. Garcia (Independent Director)	Present
Mario C. Garcia	Present
Carmelo L. Santiago (Independent Director)	Present
Plaridel M. Abaya (Independent Director)	Present
Leandro R. Mendoza	Present

Board Committees

To assist the Board in ensuring strict compliance with the principles of good corporate governance, the Board formed four committees.

Executive Committee. The Executive Committee is currently composed of four directors that include the Chairman of the Board and the President, as well as an independent director. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee.

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

Nominations and Hearing Committee. The Nominations and Hearing Committee is currently composed of three voting directors, two of whom are independent directors in the persons of Mr. Carmelo L Santiago and Justice Cancio C. Garcia, and one non-voting member in the person of Mr. David S. Santos, SMC's Human Resources Head. Mr. Carmelo L. Santiago is the Chairman of the Committee.

The Nominations and Hearing Committee is responsible for making recommendations to the Board of Directors on matters relating to the directors' appointment, election and succession, with the view of appointing individuals to the Board of Directors with the relevant experience and capabilities to maintain and improve the competitiveness of the Company and increase its value. It screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors defined in the Company's Manual on Corporate Governance, the amended articles of incorporation and amended by-laws of the Company, and applicable laws, rules, and regulations.

In 2011, the Nominations and Hearing Committee held one meeting to discuss the nominees to vacancies in the Board of the Company.

Executive Compensation Committee. The Executive Compensation Committee is composed of four members, two of whom are independent directors in the persons of Justice Cancio C. Garcia and Mr. Carmelo L. Santiago. Mr. Menardo R. Jimenez is the Chairman of the Committee.

The Executive Compensation Committee advises the Board in the establishment of a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of the Company's officers and directors, and provides oversight over remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Company's culture, strategy, and control environment. Such remuneration shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully.

In 2011, the Executive Compensation Committee held three meetings to discuss the appointments and promotions of employees to officers of SMPFC's consolidated group companies.

Audit Committee. The Audit Committee is currently composed of five members, two of whom are independent directors in the persons of Justice Cancio C. Garcia and Mr. Carmelo L. Santiago. Justice Cancio C. Garcia is the Chairman of the Committee. The Chairman attended the last two AGSMs of the Company.

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

The Audit Committee held four meetings in 2011. In these meetings, the Committee reviewed and approved the Company's 2010 Consolidated Audited Financial Statements as prepared by the external auditors, as well as the Company's unaudited financial statements for the first, second and third quarters of 2011. Further, the Audit Committee monitored and reviewed the sufficiency and effectiveness of the Company's internal control systems through the regular reports of its internal audit group. The Compliance Officer, on the other hand, keeps the Committee updated on the latest developments in regulatory and corporate governance requirements, by means of reports during such regular Audit Committee meetings.

Board Committee Members

The members of each Board committee and their attendance in Board committee meetings in 2011 are portrayed in the table below.

Date of Committee Meeting, All in Year 2011

Executive Committee					
Eduardo M. Cojuangco, Jr. - Chairman	No meeting held				
Ramon S. Ang					
Francisco S. Alejo III					
Cancio C. Garcia *(Independent Director)*					

Audit Committee		March 9	May 9	August 12	November 9
Cancio C. Garcia - Chairman *(Independent Director)*		Present	Present	Present	Present
Menardo R. Jimenez		Present	Present	Present	Present
Carmelo L. Santiago *(Independent Director)*		Present	Present	Present	Present
Leandro R. Mendoza *(elected on May 13, 2011)*				Present	
Ferdinand K. Constantino - Non Director Member		Present	Present	Present	Present

Executive Compensation Committee		March 9		August 12	November 9
Menardo R. Jimenez - Chairman		Present		Present	Present
Cancio C. Garcia *(Independent Director)*		Present		Present	Present
Carmelo L. Santiago *(Independent Director)*		Present		Present	Present
Ferdinand K. Constantino - Non Director Member		Present		Present	Present

Nominations & Hearing Committee	February 11				
Carmelo L. Santiago - Chairman *Elected on February 11, 2011* *(Independent Director)*					
Francisco S. Alejo III	Present				
Cancio C. Garcia *(Independent Director)*	Present				

Board Remuneration

The amended by-laws of the Company provides that the members of the Board shall be entitled to a director's fee in the amount to be fixed by the stockholders at a regular or special meeting duly called for such purpose.

The Company provides each director with reasonable per diem of P10,000 for each Board and Board Committee meeting attended by such director. Other than this allowance, there are no standard arrangements pursuant to which the directors of the Company are compensated, or are to be compensated, directly or indirectly, by the Company for services rendered by such directors.

ACCOUNTABILITY AND AUDIT

The Audit Committee provides oversight to both external and internal auditors. The role and responsibilities of the Audit Committee are clearly defined in the Company's Manual on Corporate Governance.

External Auditors

The external auditors of the Company, whose main function is to facilitate the environment of good corporate governance as reflected in the Company's financial records and reports, are selected and appointed by the shareholders upon the recommendation of the Board after consultations with the Audit Committee, and are rotated every five years or less, in accordance with SEC rules and regulations. The external auditors conduct an independent annual audit on the Company's financial results and financial position and provide an objective opinion on the reasonableness of such records and reports.

In 2011, the principal accountants and external auditors of the Company were the SEC-accredited accounting firm Manabat Sanagustin & Co., CPAs (MSC). Representatives of MSC are expected to be present at the AGSM to respond to relevant questions during the meeting. They also have the opportunity to make a statement if they so desire.

In instances where the external auditors suspect fraud or error during their conduct of audit, they are required to disclose and express their findings on the matter.

Fees billed for the services rendered by MSC to the Company in connection with the Company's annual financial statements and other statutory and regulatory filings for 2010 and 2011 amounted to approximately P1.2 million per year. For the Company's follow-on preferred shares offering in 2011, the fees billed for the services rendered by the external auditors amounted to P1.9 million. No other services were rendered by MSC to the Company.

Internal Audit

The internal audit of the Company is carried out by an independent internal audit group that helps the organization accomplish its objectives by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes. The Company's internal audit group provides an independent objective assurance that key organizational and procedural controls of the Company are effective, appropriate, and strictly followed. The internal audit group of the Company reports directly to the Audit Committee.

The internal audit group is responsible for identifying and evaluating significant risk exposures of the Company and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations and information systems. By evaluating their effectiveness and efficiency, and by promoting continuous improvement, the group maintains effective controls of their responsibilities and functions.

Regular audits of the business of the Company, its subsidiaries, and support units are conducted according to an annual audit program approved by the Audit Committee. Special audits are also undertaken when and as necessary.

RISK MANAGEMENT

The Company's Audit Committee currently has oversight function on risk management and corporate governance compliance. At the management level, the risk management function is currently integrated with SMPFC Division Finance in coordination with the SMC Finance and Comptrollership function.

DISCLOSURE AND TRANSPARENCY

SMPFC adheres to the principle of full corporate disclosure and transparency regarding its financial condition, operations and state of corporate governance.

Ownership Structure

The top 20 shareholders of SMPFC, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors, and key officers, are disclosed annually in its Definitive Information Statement distributed to shareholders prior to the AGSM.

Financial Reporting

The Company also provides the investing community with regular updates on its operating performance and other financial information through adequate and timely disclosures filed with the SEC and the Philippine Stock Exchange (PSE).

The Company's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting Standards, which are all in compliance with International Accounting Standards. Consolidated audited financial statements for the latest completed financial year are submitted to the SEC and PSE on or before the prescribed period and are distributed to the shareholders prior to the AGSM.

Quarterly financial results, on the other hand, are released and are duly disclosed to the SEC and PSE in accordance with the prescribed rules. The results are also presented to financial and investment analysts through quarterly analysts briefings. These disclosures are posted on the Company's corporate website.

In addition to compliance with structural reportorial requirements, the Company timely discloses market-sensitive information, such as dividend declarations, joint ventures and acquisitions, sale and divestment of significant assets, and related party transactions that may affect share price performance.

Securities Dealing

The Company has adopted a policy that regulates the acquisition and disposal of Company shares by its directors, officers and employees, and the use and disclosure of price-sensitive information by such persons.

Under the policy, directors, officers and employees who have knowledge or are in possession of material non-public information are prohibited from dealing in the Company's securities prior to the disclosure of such information to the public. The policy likewise prescribes the periods before and after public disclosure of structured and non-structured reports, during which trading in the Company's securities by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information, is not allowed.

SHAREHOLDER RIGHTS

The Company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors.

Shareholder Meetings

Stockholders are informed at least 15 business days before the scheduled date of general meetings. The notice to stockholders also sets the date, time, and place of the validation of proxies. The notice to the 2011 AGSM was sent to the stockholders on or around April 19, 2011.

Voting Rights and Voting Procedures

Each common share in the name of the shareholder entitles such shareholder to one vote that may be exercised in person or by proxy at shareholder meetings, including the AGSM. Common shareholders have the right to elect, remove, and replace directors, as well as vote on certain corporate acts in accordance with the Corporation Code.

Preferred shareholders have the right to vote on matters involving certain corporate acts in accordance with the Corporation Code. They also enjoy certain preferences over holders of common shares in terms of dividends and in the event of liquidation of the Company.

During the 2011 AGSM, stockholders representing at least two-thirds of the Company's outstanding capital stock approved the amendment to the Articles of Incorporation of the Company to reflect additional optional redemption features of its preferred shares in accordance with the terms of the preferred shares offer of the Company to the public as approved by the SEC and PSE in January 2011.

Voting procedures on matters presented for approval to the stockholders in the AGSM are provided in the Definitive Information Statement.

Pre-emptive Rights

Unless denied in its articles of incorporation or an amendment thereto, stockholders have the right to subscribe to all issues of shares of the Company in proportion to their shareholdings.

On March 12, 2010 and November 3, 2010, the stockholders approved to amend the articles of incorporation of the Company to deny pre-emptive rights to the issuance of common and preferred shares, respectively. Such amendments to the articles of incorporation were approved by the SEC on May 21, 2010 and December 23, 2010, respectively.

Right to Information

Shareholders are provided, through the Investor Relations group of SMC, disclosures, announcements and, upon request, periodic reports filed with the SEC. These disclosures are also uploaded on the Company's corporate website.

Dividends

Shareholders are entitled to receive dividends as the Board of Directors may, in its sole discretion, declare from time to time. However, the Company is required, subject to certain exceptions under the law, to declare dividends when its retained earnings equal or exceed its paid-up capital stock.

Under the cash dividend policy of the Company, holders of common shares shall receive annual cash dividends based on the prior year's recurring net income at such amount to be determined by the Board of Directors, after taking into consideration factors such as the implementation of business plans, debt service requirements, debt covenant restrictions, funding for new investments, major capital expenditure requirements, appropriate reserves and working capital, among others. The cash dividend policy may be modified by the Board at any time.

Under the terms of the preferred shares offer of the Company in February 2011, as and if dividends are declared by the Board, dividends on the preferred shares shall be at a fixed rate of 8.0% per annum applicable up to the fifth anniversary of the issue date of such shares.

In accordance with the foregoing, in 2011, the Company paid out cash dividends of P3.00 per common share and P60.00 per preferred share.

STAKEHOLDER RELATIONS

The Company exercises transparency when dealing with shareholders, customers, employees, creditors, suppliers and other trade partners. The Company ensures that these transactions adhere to fair business practices in order to establish long-term and mutually beneficial relationships.

Shareholder and Investor Relations

SMPFC addresses the information requests of the investing community and keeps shareholders informed through timely disclosures to the PSE and SEC, stockholder meetings, its website, emails and telephone calls. The Company's disclosures and other filings with the SEC and PSE are available for download from the Company's website.

The Company, through the Investor Relations Group of SMC, holds regular briefings and meetings with investment and financial analysts.

Customers , Suppliers and Creditors

The Company recognizes the importance of its other stakeholders, such as its customers, suppliers and creditors, in the creation and growth of value, stability and long-term competitiveness of its businesses. The Company is committed to delivering products and services that delight and inspire loyalty in its customers. The Company honors its obligations to its suppliers and creditors, including payments in accordance with agreements.

MANAGEMENT

Management is primarily responsible for the day-to-day operations and business of the Company. The annual compensation of the President and the senior key executives of the Company, as well as their shareholdings in the Company, are provided in the Definitive Information Statement distributed to shareholders prior to the AGSM.

EMPLOYEE RELATIONS

Each employee is provided with an Employee Handbook containing the house rules, policies and guidelines setting out the duties and responsibilities of an employee of the Company.

The Company has also initiated activities centered on the safety, health and welfare of its employees. Benefits and privileges accruing to all regular employees are likewise discussed in the Employee Handbook.

Career advancement and developments are also provided by the Company through various training programs and seminars. In 2010, SMPFC launched the San Miguel Pure Foods University, which is an institution of higher learning that aims to synergize all training initiatives of the Company and provide employees a formal training ground specific to their functions and geared towards their professional development.

The Company's permanent employees are further entitled to a funded, non-contributory retirement plan.

Through internal newsletters and e-mail news briefs facilitated by the SMPFC Corporate Planning and Management Services Group and SMC's Corporate Affairs Office, employees are updated on the material developments within the organization.

CORPORATE VISION

In the 1st quarter of 2010, SMPFC formally launched its corporate vision where it determined its long-term growth objectives. In addition, the Company also defined its vision of "nourishing and nurturing families worldwide" and its core purpose of *Malasakit*, which it espouses in every one of its endeavors. This is part of the transformational programs SMPFC has begun to undertake in order to reach its goals.

CORPORATE SOCIAL RESPONSIBILITY

Through the San Miguel Foundation, SMPFC continues to uphold its social responsibility in the communities in which it operates. In 2011, the Company introduced the first run of its flagship Corporate Social Responsibility program, the *Handog Lusog: Nutrisyon Para Sa Nasyon*: a six-month-long supplemental feeding activity where the children's progress is monitored monthly. This is the consolidation of all the feeding efforts of SMPFC.

The flagship activity was conducted in 10 areas across the country, three of which included a nutrition talk and a livelihood cooking demonstration for the parents of the beneficiaries. In line with the Company's vision of nourishing and nurturing families worldwide, the program aims not only to provide feeding for the beneficiaries, but also to educate the parents on proper nutrition and possible income augmentation activity to sustain the benefits of the program even after it is finished.

A total of 1,058 children benefitted from the program.

Aside from the supplemental feeding program, the Company also hosts various socially relevant activities such as scholarship programs, medical missions, the Sumilao Clinic, and the Sumilao Community Store.

In addition, the Company sponsored scholarships for 72 TESDA scholars who were able to complete their trainings.

SMPFC likewise sponsored two medical missions separate from its Sumilao Community Clinic. The medical missions served 463 patients while the Sumilao Community Clinic served 3,154.

Lastly, the Company's Community Store earned an average net income of P184,000 in 2011.

CODE OF ETHICS

The Company adheres to a group-wide Code of Ethics that describes fundamental standards of conduct and values consistent with the principles of good governance and business practices that will guide and define the actions and decisions of the directors, officers and employees of the Company.

Procedures were also established for the communication and investigation of concerns regarding the Company's accounting, internal accounting controls, auditing, and financial reporting matters under a group-wide whistle-blowing policy.

COMPLIANCE MONITORING

To insure adherence to corporate governance principles and best practices, the Board of Directors has appointed a Compliance Officer, Ms. Ma. Soledad E. Olives. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of its Manual on Corporate Governance and the rules and regulations of the relevant regulatory agencies, and ensures adherence to good corporate principles and best practices.

Amendments to the Company's Manual on Corporate Governance were approved by the Board on March 30, 2010 and August 12, 2011, in compliance with the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, Series of 2009.

In November 2011, the Company participated in the annual Corporate Governance Scorecard process for publicly listed companies of the Institute of Corporate Directors (ICD) in collaboration with the PSE and SEC, by submitting its self-assessment of the Corporate Governance Scorecard Survey.

The Company was a Silver Awardee in the previous year's Scorecard process, with an average score of 90.7%. SMPFC President, Mr. Francisco S. Alejo III, accepted the award on behalf of the Company during the annual dinner of the ICD in May 2011.

Also in November 2011, the Company, together with SMC and its other listed subsidiaries, organized a seminar on Corporate Governance that was attended by its Board of Directors and senior management.

Moreover, the Board approved during its regular meeting in November 2011 the creation and implementation of an internal self-rating system intended to assess and improve the performance of the Board of Directors in accordance with the Company's Amended Manual on Corporate Governance. The self-rating forms were distributed to the directors after the said Board meeting.

In January 2012, the Company submitted the required yearly certifications to the PSE and SEC on the attendance of Directors at Board and stockholder meetings in 2011, and on the compliance by the Company with its Manual on Corporate Governance.

WEB SITE

Up-to-date additional information on the Company and its businesses and products, results of business operations, financial statements, career opportunities and other relevant information may be viewed on www.sanmiguelpurefoods.com.

The Board of Directors
San Miguel Pure Foods Company, Inc.

REPORT OF THE AUDIT COMMITTEE

For the year ended December 31, 2011

The undersigned Audit Committee assists the Board of Directors of San Miguel Pure Foods Company, Inc. (the "Company") in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies.

In fulfillment of these responsibilities, the Audit Committee performed the following in 2011:

- We endorsed for approval by the stockholders, and the stockholders approved the appointment of Manabat Sanagustin & Co., CPAs as the Company's independent external auditors for 2011;

- We reviewed and approved the terms of engagement of the external auditors, including the audit, audit-related and any non-audit services provided by the external auditors to the Company and the fees for such services, and ensured that the same did not impair the external auditors' independence and objectivity;

- We reviewed and approved the scope of the audit and audit programs of the external auditors, as well as the Company's internal audit group, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;

- We reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition and comply with the regulatory requirements of the Securities and Exchange Commission and applicable laws; and

- We reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.

All the five members of the Audit Committee, two of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2011.

CANCIO C. GARCIA
Chairman
Independent Director

CARMELO L. SANTIAGO
Member – Independent Director

MENARDO JIMENEZ
Member

LEANDRO R. MENDOZA
Member

FERDINAND K. CONSTANTINO
Member

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS

San Miguel Pure Foods

The management of **San Miguel Pure Foods Company, Inc.** (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011, 2010 and 2009, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Eduardo M. Cojuangco, Jr.
Chairman of the Board

Francisco S. Alejo III
President

Zenaida M. Postrado
Treasurer and Chief Finance Officer

KPMG

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Branches · Subic · Cebu · Bacolod · Iloilo

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Pure Foods Company, Inc.
JMT Corporate Condominium
ADB Ave., Ortigas Center, Pasig City

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG

Opinion

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

MANABAT SANAGUSTIN & CO., CPAs

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-3, Group A, valid until January 4, 2015
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3174023MA
Issued January 2, 2012 at Makati City

March 7, 2012
Makati City, Metro Manila

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

		December 31	
	Note	**2011**	2010
ASSETS			
Current Assets			
Cash and cash equivalents	*7, 32, 33*	**P4,932,718**	P7,041,345
Trade and other receivables - net	*4, 8, 29, 32, 33*	**8,700,217**	7,760,271
Inventories	*4, 9*	**12,068,381**	12,123,435
Biological assets	*10*	**4,123,777**	3,266,564
Derivative assets	*32, 33*	**31,869**	107,633
Prepaid expenses and other current assets	*11*	**1,968,552**	1,765,748
Total Current Assets		**31,825,514**	32,064,996
Noncurrent Assets			
Investments	*4, 12*	**13,177,979**	-
Investment properties - net	*4, 13*	**134,927**	113,018
Property, plant and equipment - net	*4, 14*	**8,744,321**	9,106,083
Biological assets - net of current portion	*4, 10*	**1,811,570**	1,479,251
Other intangible assets - net	*4, 15*	**3,657,384**	3,425,510
Goodwill - net	*4, 16*	**422,547**	416,310
Deferred tax assets	*4, 27*	**502,677**	599,891
Other noncurrent assets	*4, 14, 32, 33*	**676,051**	313,030
Total Noncurrent Assets		**29,127,456**	15,453,093
		P60,952,970	P47,518,089
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*17, 32, 33*	**P4,987,929**	P5,172,538
Trade payables and other current liabilities	*18, 29, 32, 33*	**11,018,877**	15,145,969
Current maturities of long-term debt	*19, 32, 33*	**25,000**	-
Income tax payable		**305,012**	162,159
Total Current Liabilities		**16,336,818**	20,480,666
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*19, 32, 33*	**4,646,449**	4,460,807
Deferred tax liabilities	*27*	**166,572**	271,074
Other noncurrent liabilities	*28, 32, 33*	**116,050**	87,544
Total Noncurrent Liabilities		**4,929,071**	4,819,425
Equity	*20*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**1,858,748**	1,708,748
Additional paid-in capital		**20,500,284**	5,821,288
Revaluation surplus		**18,219**	18,219
Cumulative translation adjustments		**(84,934)**	(92,492)
Retained earnings		**14,475,689**	11,773,185
Treasury stock		**(182,094)**	(182,094)
		36,585,912	19,046,854
Non-controlling Interests		**3,101,169**	3,171,144
Total Equity		**39,687,081**	22,217,998
		P60,952,970	P47,518,089

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands, Except Per Share Data)

	Note	**2011**	2010	2009
REVENUES	*21, 29*	**P89,591,080**	P79,269,760	P75,042,967
COST OF SALES	*22, 29, 35*	**73,417,057**	63,291,086	61,447,996
GROSS PROFIT		**16,174,023**	15,978,674	13,594,971
SELLING AND ADMINISTRATIVE EXPENSES	*23, 29*	**(10,032,129)**	(10,076,905)	(8,957,347)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*17, 19, 26*	**(530,972)**	(359,415)	(751,042)
INTEREST INCOME	*7, 26*	**393,572**	105,488	69,141
EQUITY IN NET EARNINGS OF AN ASSOCIATE	*12*	**270,478**	-	-
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT		**6,708**	(32,612)	(24,663)
OTHER INCOME (CHARGES) - Net	*26*	**(323,696)**	97,866	(88,968)
INCOME BEFORE INCOME TAX		**5,957,984**	5,713,096	3,842,092
INCOME TAX EXPENSE	*27*	**1,744,378**	1,654,207	1,183,625
NET INCOME		**P4,213,606**	P4,058,889	P2,658,467
Attributable to:				
Equity holders of the Parent Company		**P4,102,505**	P3,846,145	P2,596,963
Non-controlling interests		**111,101**	212,744	61,504
		P4,213,606	P4,058,889	P2,658,467
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*30*	**P18.65**	P23.08	P15.58

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands)

	Note	**2011**	2010	2009
NET INCOME		**P4,213,606**	P4,058,889	P2,658,467
NET GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**8,508**	(41,603)	16,147
NET GAIN ON CASH FLOW HEDGES		**-**	-	11,196
INCOME TAX EXPENSE		**-**	-	(3,359)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		**(2,250)**	(2,954)	2,434
INCOME TAX BENEFIT (EXPENSE)		**225**	295	(243)
SHARE IN COMPREHENSIVE INCOME OF AN ASSOCIATE	*12*	**156**	-	-
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX		**6,639**	(44,262)	26,175
TOTAL COMPREHENSIVE INCOME - NET OF TAX		**P4,220,245**	P4,014,627	P2,684,642
Comprehensive Income Attributable to:				
Equity holders of the Parent Company		**P4,110,063**	P3,801,931	P2,619,101
Non-controlling interests		**110,182**	212,696	65,541
		P4,220,245	P4,014,627	P2,684,642

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands)

		Attributable to Equity Holders of the Parent Company									Non-controlling Interests	Total Equity
					Cumulative Translation Adjustments							
	Note	Capital Stock (Note 20)	Additional Paid-in Capital (Note 20)	Revaluation Surplus	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings (Note 20)	Treasury Stock (Note 20)	Total		
As at January 1, 2011		**P1,708,748**	**P5,821,288**	**P18,219**	**(P96,102)**	**P -**	**P3,610**	**P11,773,185**	**(P182,094)**	**P19,046,854**	**P3,171,144**	**P22,217,998**
Net gain (loss) on exchange differences on translation of foreign operations		-	-	-	9,427	-	-	-	-	9,427	(919)	8,508
Net loss on available-for-sale financial assets, net of tax		-	-	-	-	-	(2,025)	-	-	(2,025)	-	(2,025)
Share in comprehensive income of an associate	*12*	-	-	-	-	-	156	-	-	156	-	156
Other comprehensive income (loss)		-	-	-	9,427	-	(1,869)	-	-	7,558	(919)	6,639
Net income for the year		-	-	-	-	-	-	4,102,505	-	4,102,505	111,101	4,213,606
Total comprehensive income (loss) for the year		-	-	-	9,427	-	(1,869)	4,102,505	-	4,110,063	110,182	4,220,245
Issuance of preferred shares		150,000	14,678,996	-	-	-	-	-	-	14,828,996	-	14,828,996
Cash dividends		-	-	-	-	-	-	(1,400,001)	-	(1,400,001)	(180,157)	(1,580,158)
As at December 31, 2011		**P1,858,748**	**P20,500,284**	**P18,219**	**(P86,675)**	**P -**	**P1,741**	**P14,475,689**	**(P182,094)**	**P36,585,912**	**P3,101,169**	**P39,687,081**
As at January 1, 2010		P1,454,510	P5,821,288	P18,219	(P54,547)	P -	P6,269	P8,181,278	(P182,094)	P15,244,923	P2,400,327	P17,645,250
Net loss on exchange differences on translation of foreign operations		-	-	-	(41,555)	-	-	-	-	(41,555)	(48)	(41,603)
Net loss on available-for-sale financial assets, net of tax		-	-	-	-	-	(2,659)	-	-	(2,659)	-	(2,659)
Other comprehensive loss		-	-	-	(41,555)	-	(2,659)	-	-	(44,214)	(48)	(44,262)
Net income for the year		-	-	-	-	-	-	3,846,145	-	3,846,145	212,744	4,058,889
Total comprehensive income (loss) for the year		-	-	-	(41,555)	-	(2,659)	3,846,145	-	3,801,931	212,696	4,014,627
Addition to non-controlling interests		-	-	-	-	-	-	-	-	-	738,121	738,121
Cash dividends		-	-	-	-	-	-	-	-	-	(180,000)	(180,000)
Stock dividends		254,238	-	-	-	-	-	(254,238)	-	-	-	-
As at December 31, 2010		P1,708,748	P5,821,288	P18,219	(P96,102)	P -	P3,610	P11,773,185	(P182,094)	P19,046,854	P3,171,144	P22,217,998

Forward

	Attributable to Equity Holders of the Parent Company									Non-controlling Interests	Total Equity
				Cumulative Translation Adjustments							
	Capital Stock (Note 20)	Additional Paid-in Capital (Note 20)	Revaluation Surplus	Translation Reserve	Hedging Reserve	Fair Value Reserve	Retained Earnings (Note 20)	Treasury Stock (Note 20)	Total		
As at January 1, 2009	P1,454,510	P5,821,288	P18,219	(P66,657)	(P7,837)	P4,078	P5,584,315	(P182,094)	P12,625,822	P2,334,786	P14,960,608
Net gain on exchange differences on translation of foreign operations	-	-	-	12,110	-	-	-	-	12,110	4,037	16,147
Net gain on cash flow hedges, net of tax	-	-	-	-	7,837	-	-	-	7,837	-	7,837
Net gain on available-for-sale financial assets, net of tax	-	-	-	-	-	2,191	-	-	2,191	-	2,191
Other comprehensive income	-	-	-	12,110	7,837	2,191	-	-	22,138	4,037	26,175
Net income for the year	-	-	-	-	-	-	2,596,963	-	2,596,963	61,504	2,658,467
Total comprehensive income for the year	-	-	-	12,110	7,837	2,191	2,596,963	-	2,619,101	65,541	2,684,642
As at December 31, 2009	P1,454,510	P5,821,288	P18,219	(P54,547)	P -	P6,269	P8,181,278	(P182,094)	P15,244,923	P2,400,327	P17,645,250

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Thousands)

	Note	**2011**	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P5,957,984**	P5,713,096	P3,842,092
Adjustments for:				
Depreciation and amortization	*24*	**2,120,433**	1,926,403	1,704,508
Allowance for impairment losses on receivables and inventory losses		**177,005**	150,043	193,192
Interest expense and other financing charges	*26*	**530,972**	359,415	751,042
Other charges net of loss (gain) on derivative transactions		**69,986**	(245,624)	114,935
Interest income	*26*	**(393,572)**	(105,488)	(69,141)
Equity in net earnings of an associate	*12*	**(270,478)**	-	-
Impairment loss on property and equipment and idle assets	*26*	**5,800**	5,426	53,873
Impairment loss on investment properties		**-**	-	3,114
Loss (gain) on sale of property, plant and equipment, investment properties and idle assets		**(6,708)**	32,612	24,663
Operating income before working capital changes		**8,191,422**	7,835,883	6,618,278
Decrease (increase) in:				
Trade and other receivables		**(891,484)**	1,417,967	(1,349,470)
Inventories		**(117,118)**	(161,056)	(26,575)
Biological assets		**(857,731)**	(284,278)	407,911
Prepaid expenses and other current assets		**(174,466)**	(453,178)	(430,237)
Increase (decrease) in trade payables and other current liabilities		**(643,149)**	(1,798,537)	1,706,284
Cash generated from operations		**5,507,474**	6,556,801	6,926,191
Interest paid		**(468,266)**	(337,871)	(569,452)
Income taxes paid (including final tax)		**(1,594,143)**	(1,488,791)	(872,252)
Interest received		**310,665**	85,732	51,720
Net cash flows provided by operating activities		**3,755,730**	4,815,871	5,536,207

Forward

	Note	2011	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to investments	*12*	**(P12,907,345)**	P -	P -
Acquisitions of intangible assets	*15*	**(3,128,805)**	(338,278)	(23,132)
Additional investment in subsidiary	*5*	**(720,605)**	-	-
Acquisitions of property, plant and equipment	*14*	**(597,806)**	(581,073)	(651,422)
Acquisition of a subsidiary net of cash received	*5*	**(97,878)**	(38,615)	458
Increase in biological assets and other noncurrent assets		**(1,490,611)**	(1,188,333)	(882,808)
Proceeds from sale of property and equipment		**7,905**	107,942	39,127
Net cash flows used in investing activities		**(18,935,145)**	(2,038,357)	(1,517,777)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of preferred shares	*20*	**14,828,996**	-	-
Cash dividends paid		**(1,580,015)**	-	-
Net payments of notes payable		**(170,848)**	(4,183,986)	(2,850,290)
Proceeds from (payments of) long-term debt		**(6,591)**	4,500,000	-
Net cash flows provided by (used in) financing activities		**13,071,542**	316,014	(2,850,290)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(754)**	(2,529)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,108,627)**	3,090,999	1,168,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**7,041,345**	3,950,346	2,782,206
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P4,932,718**	P7,041,345	P3,950,346

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Unless Otherwise Indicated)

1. Reporting Entity

San Miguel Pure Foods Company, Inc. ("SMPFC" or the "Company") was incorporated in the Philippines. The accompanying consolidated financial statements comprise the financial statements of the Company and its Subsidiaries (collectively referred to as the "Group"). The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed in the Philippine Stock Exchange (PSE). The Group is involved in poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, cooking oils, breadfill, desserts and dairy-based products, and importation and marketing of coffee and coffee-related products. The registered office address of the Company is JMT Corporate Condominium, ADB Ave., Ortigas Center, Pasig City.

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

2. Basis of Preparation

Statement of Compliance

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

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

Basis of Measurement

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

- derivative financial instruments are measured at fair value;
- available-for-sale (AFS) financial assets are measured at fair value;
- defined benefit liability is measured as the aggregate of the present value of the defined benefit obligation and unrecognized net actuarial gain or loss less any unrecognized past service costs and the fair value of plan assets; and
- agricultural produce are measured at fair value less estimated costs to sell at the point of harvest.

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Company's functional currency. All values are rounded off to the nearest thousand (P000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the following subsidiaries:

	Country of Incorporation	Percentage of Ownership 2011	2010
San Miguel Mills, Inc. and subsidiary (SMMI) [(a)]	Philippines	**100.00**	100.00
Magnolia, Inc. and subsidiaries (Magnolia) [(b)]	Philippines	**100.00**	100.00
San Miguel Foods, Inc. (SMFI)	Philippines	**99.97**	99.97
PT San Miguel Pure Foods Indonesia (PTSMPFI)	Indonesia	**75.00**	75.00
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	Philippines	**70.00**	70.00
The Purefoods-Hormel Company, Inc. (PF-Hormel)	Philippines	**60.00**	60.00
RealSnacks Mfg. Corp. (RealSnacks)[(c)]	Philippines	**100.00**	100.00
San Miguel Pure Foods International, Limited (SMPFIL) [including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Hormel (Vn) Co., Ltd. (SMHVN, formerly San Miguel Pure Foods (Vn) Co., Ltd. (SMPFVN))[(d)]]	British Virgin Islands	**100.00**	100.00
SMPFC Capital Investments, Limited (SCIL)[(e)]	Cayman Islands	**-**	100.00

(a) Golden Bay Grain Terminal Corporation (GBGTC) was incorporated as a wholly-owned subsidiary of SMMI in November 2011 and has not yet started commercial operations (Note 5).

(b) Magnolia acquired 100% equity interest in Golden Food & Dairy Creamery Corporation (GFDCC) in September 2011 (Note 5).

(c) Incorporated in April 2004 and has not yet started commercial operations.

(d) Consolidated with SMPFC through SMPFIL starting August 1, 2010 (Note 5).

(e) Incorporated in November 2010 and was dissolved in September 2011 (Note 5).

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

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

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

Non-controlling interests represent the interests not held by the Group in SMFI, PTSMPFI, SMSCCI, PF-Hormel and SMPFI Limited in 2011 and 2010.

3. Significant Accounting Policies

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

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

Adopted Effective 2011

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

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRS 2010* contain 11 amendments to 6 standards and 1 interpretation, of which only the following are applicable to the Group:

  - PFRS 3, *Business Combinations*. The amendments: (a) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (b) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (c) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010.

- PAS 27*, Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010.

- PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the International Accounting Standards Board (IASB) amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.

- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.

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

The adoption of these foregoing new or revised standards, amendments to standards and interpretations did not have a material effect on the consolidated financial statements.

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

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

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

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

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

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

- *Presentation of Items of Other Comprehensive Income (Amendments to PAS 1)*. The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The effective date of the amendments is for periods beginning on or after January 1, 2013.

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

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

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

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

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

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

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

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

The Group will assess the impact of the new or revised standards, amendments to standards and interpretations on the consolidated financial statements upon adoption in their respective effective dates.

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

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

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

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

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

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

<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 "Cumulative translation adjustments (CTA) - Hedging reserve" account in equity. Any interest earned is recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as FVPL is recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets are classified under this category.

The carrying amounts of derivative assets amounted to P31.9 million and P107.6 million as at December 31, 2011 and 2010, respectively (Note 33).

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

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

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

The Group's cash and cash equivalents and trade and other receivables are included in this category (Notes 7 and 8).

The combined carrying amounts of financial assets under this category amounted to P13,632.9 million and P14,801.6 million as at December 31, 2011 and 2010, respectively (Note 33).

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

As at December 31, 2011 and 2010, the Group has no investments accounted for under this category.

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

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

The Group's investments in shares of stock included under "Other noncurrent assets" are classified under this category.

The carrying amounts of financial assets under this category amounted to P8.9 million and P11.2 million as at December 31, 2011 and 2010, respectively (Note 33).

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

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

The Group's derivative liabilities are classified under this category (Note 18).

The carrying amounts of financial liabilities under this category amounted to P28.7 million and P3.1 million as at December 31, 2011 and 2010, respectively (Note 33).

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

Included in this category are the Group's liabilities arising from its trade or borrowings such as notes payable, trade payables and other current liabilities, long-term debt and other noncurrent liabilities (Notes 17, 18, 19 and 33).

The combined carrying amounts of financial liabilities under this category amounted to P20,651.0 million and P24,779.1 million as at December 31, 2011 and 2010, respectively (Note 33).

Debt Issue Costs

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

As at December 31, 2011 and 2010, the Group has no outstanding derivatives accounted for as fair value hedges.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented under the "CTA - Hedging reserve" account in equity. The ineffective portion is immediately recognized in profit or loss.

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

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

As at December 31, 2011 and 2010, the Group has no outstanding derivatives accounted for as cash flow hedges.

Net Investment Hedge. As at December 31, 2011 and 2010, the Group has no hedge of a net investment in a foreign operation.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses at reporting date whether a financial asset or group of financial assets is impaired.

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

Inventories

Inventories are valued at the lower of cost and net realizable value.

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

Finished goods and goods in process	-	at cost using the moving average method; includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce;
Raw materials, feeds, feed ingredients, factory supplies and others	-	at cost using the moving average method

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

Net realizable value of raw materials, feeds, feed ingredients, factory supplies and others is the current replacement cost.

<u>Biological Assets and Agricultural Produce</u>
The Group's biological assets include breeding, growing poultry livestock, hogs and cattle and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

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

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

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

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

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

	Number of Years
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Business Combination

Acquisitions on or After January 1, 2010

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

For acquisitions on or after January 1, 2010, the Group measures goodwill at the acquisition date as: (a) the fair value of the consideration transferred; plus (b) the recognized amount of any non-controlling interests in the acquiree; plus (c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less (d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*

  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments.*

  Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*
  The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

  Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at each reporting date. Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss.

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

Acquisitions Prior to January 1, 2010
In comparison to the foregoing requirements, the following differences applied:

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

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

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

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

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

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

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

Investment in an Associate
The Group's investment in an associate is accounted for under the equity method of accounting from the date when it becomes an associate. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition. The Group's share of the profit or loss of the associate is recognized in the Group's profit or loss. Dividends received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount, may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognized in other comprehensive income.

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

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

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

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

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

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

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

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

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO) and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

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

	Number of Years
Land improvements	5 - 10
Buildings and improvements	5 - 50
Machinery and equipment	5 - 20
Office furniture and equipment	3 - 5
Transportation equipment	5
Factory furniture, equipment and others	3 - 5

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss.

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

Investment Properties

Investment properties consist of properties held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment properties, except for land, are measured at cost, including transaction costs, less accumulated depreciation and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation of buildings and improvements is computed using the straight-line method over 20 to 40 years.

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

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner's occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner's occupation or commencement of development with a view to sale.

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the related expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Amortization of computer software and licenses is computed using the straight-line method over the estimated useful life of 2 to 8 years.

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

Trademarks and brand names and formulas and recipes with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, investment properties, biological assets, other intangible assets with finite useful lives and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions

Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and where appropriate, those risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Share Capital

Common Shares

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

Preferred Shares

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

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

Treasury Shares

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized on the purchase, sale, issue or cancellation of the Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition

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

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

Agricultural Produce. Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

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

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

Rent. Revenue from investment properties is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income, over the term of the lease. Rent income is included as part of other income.

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized if the Group disposes of its investment in a subsidiary or associate. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Cost and Expense Recognition

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

Share-based Payment Transactions

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

Share-based payment transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions. SMC charges the Group for the costs related to such transactions with its employees. The amount is recognized in profit or loss by the Group.

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

Leases

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

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

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

Operating Lease

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Retirement Costs

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (CTA - translation reserve) in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade payables and other current liabilities" in the consolidated statements of financial position.

Related Parties

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

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

Operating Segments
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

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

Segment revenues, expenses and performance include sales and purchases between operating segments. Such sales and purchases are eliminated in consolidation.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

Operating Lease Commitments - Group as Lessee. The Group has entered into various lease agreements as a lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent expense charged to profit or loss amounted to P824.1 million, P771.1 million and P669.1 million in 2011, 2010 and 2009, respectively (Notes 22, 23 and 31).

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

Contingencies. The Group currently has several tax assessments and legal claims. The Group's estimate of the probable costs for resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments and legal claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 35).

Estimates

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current assets.

The allowance for impairment losses amounted to P522.4 million and P682.4 million as at December 31, 2011 and 2010, respectively. The carrying amounts of trade and other receivables amounted to P8,700.2 million and P7,760.3 million as at December 31, 2011 and 2010, respectively (Note 8).

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

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying amounts of inventories as at December 31, 2011 and 2010 amounted to P12,068.4 million and P12,123.4 million, respectively (Note 9). The allowance for inventory losses amounted to P270.8 million and P187.9 million as at December 31, 2011 and 2010, respectively.

Fair Value of Agricultural Produce. The Group determines the fair value of its agricultural produce based on most recent market transaction price provided that there has been no significant change in economic circumstances between the date of transactions and reporting date. Costs to sell are estimated based on most recent transaction and are deducted from the fair value in order to measure the fair value of agricultural produce at the point of harvest.

Unrealized gain on fair valuation of agricultural produce included in the cost of inventories as at December 31, 2011 and 2010 amounted to P69.1 million and P40.7 million, respectively (Note 9).

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

The fair values of financial assets and financial liabilities are discussed in Note 33.

Estimated Useful Lives of Investment Properties and Property, Plant and Equipment. The Group estimates the useful lives of investment properties and property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of investment properties and property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of investment properties and property, plant and equipment would increase recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Investment properties and property, plant and equipment, net of accumulated depreciation and impairment losses, amounted to P8,879.2 million and P9,219.1 million as at December 31, 2011 and 2010, respectively. Accumulated depreciation and impairment losses of investment properties and property, plant and equipment amounted to P9,175.6 million and P8,399.7 million as at December 31, 2011 and 2010, respectively (Notes 13 and 14).

Fair Value of Investment Properties. The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be exchanged between a willing buyer and seller in an arm's length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment properties amounted to P336.3 million and P288.7 million as at December 31, 2011 and 2010, respectively (Note 13).

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

Intangible assets with finite useful life amounted to P299.9 million and P69.6 million as at December 31, 2011 and 2010, respectively (Note 15).

Impairment of Goodwill, Trademarks and Brand Names, and Formulas and Recipes with Indefinite Lives. The Group determines whether goodwill, trademarks and brand names, and formulas and recipes are impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated and the value in use of the trademarks and brand names, and formulas and recipes. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the trademarks and brand names, and formulas and recipes and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill as at December 31, 2011 and 2010 amounted to P422.5 million and P416.3 million, respectively (Note 16).

The carrying amounts of trademarks and brand names, and formulas and recipes amounted to P3,357.5 million and P3,355.9 million as at December 31, 2011 and 2010, respectively (Note 15).

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

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets, property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group's acquisitions resulted in the recognition of goodwill and other intangible assets with finite lives. Total carrying amounts of goodwill and other intangible assets with finite lives arising from business combinations amounted to P488.3 million and P482.1 million as at December 31, 2011 and 2010, respectively (Notes 15 and 16).

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

Deferred tax assets amounted to P502.7 million and P599.9 million as at December 31, 2011 and 2010, respectively (Note 27).

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

Accumulated impairment losses on property, plant and equipment, investment properties, and idle assets amounted to P73.3 million and P67.5 million as at December 31, 2011 and 2010, respectively. The aggregate amount of noncurrent biological assets, investments, investment properties, property, plant and equipment, goodwill and other intangible assets, and idle assets amounted to P28,501.9 million and P14,658.3 million as at December 31, 2011 and 2010, respectively (Notes 10, 12, 13, 14, 15 and 16).

Present Value of Defined Benefit Obligation. The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 28 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement liability.

Other key assumptions for retirement obligations are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligations.

The Group has a net cumulative unrecognized actuarial gain (loss) amounting to (P326.1 million) and P229.4 million as at December 31, 2011 and 2010, respectively (Note 28).

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

5. Investments in Subsidiaries

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

a) Magnolia

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

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

	Note	
Assets		
Cash and cash equivalents		**P6,997**
Trade and other receivables and other current assets		**61,679**
Property, plant and equipment - net and other noncurrent assets	*14*	**308,611**
Liabilities		
Trade payables and other current liabilities		**(22,367)**
Current maturities of long-term debt	*19*	**(25,000)**
Long-term debt - net of current maturities and other noncurrent liabilities	*19*	**(231,282)**
Total identifiable net assets at fair value		**98,638**
Goodwill arising on acquisition	*16*	**6,237**
Total cash consideration transferred		**P104,875**

b) SMMI

i. In September 2011, SMMI formed GBGTC, a wholly-owned subsidiary with an authorized capital stock of P2,000.0 million. GBGTC is a Philippine company with the primary purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others. In November 2011, following the approval by the Securities and Exchange Commission (SEC) of the incorporation of GBGTC, SMMI subscribed to 5,000,000 GBGTC shares for a total subscription value of P500.0 million and paid an initial consideration amounting to P125.0 million. As at December 31, 2011, GBGTC has not yet started commercial operations.

ii. In October 2010, the BOD and stockholders of SMMI authorized SMMI to raise funds of up to P5,000.0 million to fund any expansion or any investment in new businesses by SMMI and for other general corporate purposes.

c) SCIL

In November 2010, SMPFC formed SCIL, a Cayman Islands company, as a wholly-owned subsidiary of SMPFC with an authorized capital stock of US$50,000.00 divided into 50,000 shares with par value of US$1.00 per share. SCIL did not engage in commercial operations until its dissolution on September 30, 2011 by virtue of the Certificate of Dissolution issued to SCIL by the Registrar of Companies of the Cayman Islands on August 3, 2011.

d) SMFI and Monterey

i. In August 2010, the SEC approved the merger of Monterey into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective BOD and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective on September 1, 2010. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the Bureau of Internal Revenue (BIR) as at March 7, 2012.

ii. In July 2010, the SEC approved the application of Monterey for the increase in its authorized capital stock. Following SEC's approval, 22,500,000 Monterey shares of stock were issued to SMPFC in exchange for the Company's deposit for future stock subscription of P450.0 million in 2008.

iii. In January 2008, SMFI executed a Deed of Assignment assigning its 16,457,310 shares in SMMI, then a 100%-owned subsidiary of SMFI, to SMPFC effective December 28, 2007. The assignment is in accordance with SMFI's property dividend declaration of its SMMI shares in favor of the Company, as approved by SMFI's BOD in June 2007, subject to the necessary regulatory approvals. In December 2010, the SEC approved the declaration of SMFI's 16,457,310 shares in SMMI as property dividend in favor of the Company.

e) SMPFIL

In July 2010, the Company, through its wholly-owned subsidiary, SMPFIL, acquired SMC's 51% interest (through San Miguel Foods and Beverage International Limited [SMFBIL]) in SMPFI Limited for US$18.6 million. SMPFI Limited owns 100% of San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN). Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$16.8 million (P734.3 million as at December 31, 2010) shall be payable (i) upon change in controlling interest of SMPFIL to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first. The balance was recognized as part of the Company's payable to related parties in 2010 (Note 18).

In May 2011, SMPFC increased its investment in SMPFIL by an amount equivalent to the 90% balance of the purchase price of SMPFVN acquired by SMPFIL from SMFBIL. Subsequently, SMPFIL paid the remaining balance of the purchase price of the Vietnam food business amounting to US$16.8 million.

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

The unaudited financial information relative to the acquisition of the 51% interest in SMPFI Limited as at July 30, 2010 were as follows:

	Note	
Assets		
Cash and cash equivalents		**P46,645**
Trade and other receivables - net		**279,154**
Inventories		**352,406**
Property, plant and equipment - net	*14*	**954,349**
Other noncurrent assets		**719,278**
Liabilities		
Trade payables and other current liabilities		**(939,636)**
Other noncurrent liabilities		**(3,026)**
Non-controlling interests		**(813,121)**
Total identifiable net assets		**596,049**
Goodwill arising on acquisition	*16*	**256,550**
Total cash consideration transferred		**P852,599**

6. Segment Information

Operating Segments

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

The Group has three reportable segments, namely, Agro-industrial, Value-added Meats and Milling. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

The Agro-industrial segment includes the integrated Feeds, Poultry and Basic Meats operations. These businesses are involved in feeds production and in poultry and livestock farming, processing and selling of poultry and meat products.

The Value-added Meats segment is engaged in the processing and marketing of refrigerated and canned meat products.

The Milling segment is into manufacturing and marketing of flour products, premixes, and flour-based products.

The non-reportable operating segments of the Group include dairy-based products, breadfill, desserts, cooking oil, importation and marketing of coffee and coffee-related products, and foreign operations which include hog farming, feeds production and sale of fresh and processed meats by foreign subsidiaries.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, biological assets and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transactions

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

Major Customer

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

Operating Segments

Financial information about reportable segments follows:

	Agro-Industrial			Value-Added Meats			Milling			Total Reportable Segments			Others			Eliminations			Consolidated		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
											(In Millions)										
Revenue																					
External	**P56,982**	P52,300	P49,069	**P12,103**	P11,534	P11,234	**P8,354**	P7,155	P7,482	**P77,439**	P70,989	P67,785	**P12,152**	P8,281	P7,258	**P -**	P -	P -	**P89,591**	P79,270	P75,043
Inter-segment	**870**	258	711	**9**	3	47	**641**	505	447	**1,520**	766	1,205	**155**	169	233	**(1,675)**	(935)	(1,438)	**-**	-	-
Total revenue	**P57,852**	P52,558	P49,780	**P12,112**	P11,537	P11,281	**P8,995**	P7,660	P7,929	**P78,959**	P71,755	P68,990	**P12,307**	P8,450	P7,491	**(P1,675)**	(P935)	(P1,438)	**P89,591**	P79,270	P75,043
Result																					
Segment operating result*	**P2,370**	P3,299	P3,085	**P1,031**	P772	P489	**P1,867**	P1,574	P752	**P5,268**	P5,645	P4,326	**P923**	P310	P333	**P40**	P55	(P118)	**P6,231**	P6,010	P4,541
Interest expense and other financing charges	**(364)**	(248)	(428)	**(21)**	(66)	(188)	**(4)**	(1)	(88)	**(389)**	(315)	(704)	**(142)**	(44)	(47)	**-**	-	-	**(531)**	(359)	(751)
Interest income	**118**	51	37	**7**	5	5	**11**	13	6	**136**	69	48	**258**	36	21	**-**	-	-	**394**	105	69
Equity in net earnings of an associate	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**270**	-	-	**-**	-	-	**270**	-	-
Gain (loss) on sale of property and equipment	**7**	20	4	**-**	(50)	7	**-**	(1)	(19)	**7**	(31)	(8)	**-**	(2)	(10)	**-**	-	(7)	**7**	(33)	(25)
Other income (charges) - net	**(119)**	(96)	2	**(13)**	108	(93)	**(60)**	2	83	**(192)**	14	(8)	**(221)**	(24)	16	**-**	-	-	**(413)**	(10)	8
Income tax expense	**(601)**	(896)	(720)	**(286)**	(189)	(74)	**(543)**	(477)	(220)	**(1,430)**	(1,562)	(1,014)	**(314)**	(89)	(166)	**-**	(3)	(4)	**(1,744)**	(1,654)	(1,184)
Net income	**P1,411**	P2,130	P1,980	**P718**	P580	P146	**P1,271**	P1,110	P514	**P3,400**	P3,820	P2,640	**P774**	P187	P147	**P40**	P52	(P129)	**P4,214**	P4,059	P2,658
Attributable to:																					
Equity holders of the Parent Company																			**P4,103**	P3,846	P2,597
Non- controlling interests																			**111**	213	61
Net income																			**P4,214**	P4,059	P2,658
Other Information																					
Segment assets	**P22,046**	P23,017	P21,588	**P8,434**	P7,786	P9,376	**P4,219**	P4,124	P3,505	**P34,699**	P34,927	P34,469	**P14,224**	P13,228	P10,053	**(P5,730)**	(P5,079)	(P5,904)	**P43,193**	P43,076	P38,618
Investments	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**13,178**	-	-	**-**	-	-	**13,178**	-	-
Goodwill	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**1,618**	1,612	1,367	**(1,196)**	(1,196)	(1,196)	**422**	416	171
Intangible assets	**254**	10	4	**257**	272	285	**-**	-	-	**511**	282	289	**3,268**	3,266	-	**(122)**	(122)	(122)	**3,657**	3,426	167
Deferred tax assets	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**503**	600	1,220
Consolidated total assets																			**P60,953**	P47,518	P40,176
Segment liabilities	**P6,229**	P6,796	P9,075	**P1,689**	P1,868	P1,339	**P802**	P1,011	P785	**P8,720**	P9,675	P11,199	**P8,155**	P10,608	P7,470	**(P5,740)**	(P5,050)	(P5,820)	**P11,135**	P15,233	P12,849
Notes payable	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**4,988**	5,173	8,816
Income tax payable	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**305**	162	467
Deferred tax liabilities	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**167**	271	399
Long-term debt (including current maturities) - net of debt issue costs	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**4,671**	4,461	-
Consolidated total liabilities																			**P21,266**	P25,300	P22,531
Capital expenditures	**P79**	P312	P266	**P172**	P151	P210	**P78**	P13	P57	**P329**	P476	P533	**P269**	P105	P118	**P -**	P -	P -	**P598**	P581	P651
Depreciation and amortization	**1,413**	1,357	1,124	**280**	255	286	**111**	118	143	**1,804**	1,730	1,553	**316**	196	152	**-**	-	-	**2,120**	1,926	1,705
Impairment loss (reversal)	**6**	-	-	**-**	(46)	46	**-**	51	8	**6**	5	54	**-**	-	3	**-**	-	-	**6**	5	57

** Including realized mark-to-market gains (losses) on commodity derivatives presented as part of "Other income (charges) - net" in the consolidated statements of income.*

7. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand and in banks	**P2,138,658**	P1,865,181
Short-term investments	**2,794,060**	5,176,164
	P4,932,718	P7,041,345

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

8. Trade and Other Receivables

This account consists of:

	Note	**2011**	2010
Trade receivables		**P7,797,318**	P7,309,630
Amounts owed by related parties	*29*	**151,446**	177,529
Insurance claims		**231,333**	76,149
Tax certificates receivables		**68,770**	68,028
Others		**973,717**	811,380
		9,222,584	8,442,716
Less allowance for impairment losses		**522,367**	682,445
		P8,700,217	P7,760,271

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

Insurance claims pertain to the value of certain inventories and property, plant and equipment damaged by typhoons.

"Others" consist of the following: advances to suppliers, contract growers and breeders, receivables from employees, truckers and toll partners and deposits.

The movements in the allowance for impairment losses follow:

	2011	2010
Balance at beginning of year	**P682,445**	P633,902
Charge for the year	**32,260**	63,051
Amounts written off	**(192,338)**	(14,508)
Balance at end of year	**P522,367**	P682,445

As at December 31, the aging of receivables is as follows:

	Gross Amount	
	2011	2010
Current	**P5,758,562**	P5,197,755
Past due 1-30 days	**1,476,458**	1,227,642
Past due 31-60 days	**287,773**	228,923
Past due 61-90 days	**108,589**	104,826
Past due over 90 days	**1,591,202**	1,683,570
	P9,222,584	P8,442,716

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

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

9. Inventories

This account consists of:

	2011	2010
Finished goods and goods in process - at net realizable value	**P3,959,781**	P3,425,034
Raw materials, feeds and feed ingredients - at net realizable value	**7,710,755**	7,603,604
Factory supplies and others - at cost	**97,912**	119,984
Materials in transit - at cost	**299,933**	974,813
Total inventories at lower of cost and net realizable value	**P12,068,381**	P12,123,435

The cost of finished goods and goods in process amounted to P4,182.6 million and P3,557.4 million as at December 31, 2011 and 2010, respectively. The cost of raw materials, feeds and feed ingredients amounted to P7,758.7 million and P7,659.2 million as at December 31, 2011 and 2010, respectively.

Finished goods and goods in process include net unrealized gain of P69.1 million and P40.7 million on fair valuation of agricultural produce as at December 31, 2011 and 2010, respectively. The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P752.8 million and P416.2 million as at December 31, 2011 and 2010, respectively, with corresponding costs at point of harvest amounting to P683.7 million and P375.5 million, respectively.

10. Biological Assets

This account consists of:

	2011	2010
Current:		
Growing stocks	**P3,227,758**	P2,558,947
Goods in process	**896,019**	707,617
	4,123,777	3,266,564
Noncurrent:		
Breeding stocks - net	**1,811,570**	1,479,251
	P5,935,347	P4,745,815

The amortization of breeding stocks recognized in profit or loss amounted to P1,186.4 million, P1,048.3 million and P854.1 million in 2011, 2010, and 2009, respectively (Note 24).

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

The movements in biological assets, including the effects of foreign exchange adjustments are as follows:

	Note	**2011**	2010
Cost:			
Balance at beginning of year		**P5,010,242**	P3,953,076
SMPFIL balance as at July 31, 2010		**-**	680,972
Increase (decrease) due to:			
Purchases		**11,687,069**	13,100,490
Production		**17,159,174**	10,754,056
Mortality		**(476,886)**	(413,768)
Sales		**(6,087,325)**	(4,694,298)
Harvest		**(19,989,363)**	(17,407,999)
Reclassifications		**(1,010,125)**	(933,003)
Currency translation adjustments		**1,992**	(29,284)
Balance at end of year		**6,294,778**	5,010,242
Accumulated Amortization:			
Balance at beginning of year		**264,427**	143,441
SMPFIL balance as at July 31, 2010		**-**	44,816
Additions	*24*	**1,186,384**	1,048,343
Disposals		**(81,518)**	(37,198)
Reclassifications		**(1,010,125)**	(933,003)
Currency translation adjustments		**263**	(1,972)
Balance at end of year		**359,431**	264,427
Net Book Value		**P5,935,347**	P4,745,815

The Group harvested approximately 420.9 million and 392.2 million kilograms of grown broilers in 2011 and 2010, respectively, and 0.88 million and 0.35 million heads of marketable hogs and cattle in 2011 and 2010, respectively.

11. Prepaid Expenses and Other Current Assets

This account consists of:

	2011	2010
Prepaid income tax	**P568,281**	P650,227
Input tax	**1,101,327**	868,234
Others	**298,944**	247,287
	P1,968,552	P1,765,748

"Others" include prepaid insurance, advance payments and deposits, and prepayments for various operating expenses.

12. Investments

Investment in an Associate

This account consists of:

	December 31 2011
Investment in an associate - at equity:	
Acquisition cost	**P13,007,800**
Accumulated equity in net earnings:	
Equity in net earnings during the year	**270,478**
Dividends	**(100,455)**
Share in comprehensive income	**156**
	P13,177,979

In August 2011, SMPFC entered into a Share Purchase Agreement with SMC covering the sale by the latter of its 5.2% shareholdings in Manila Electric Company (Meralco) comprising of 59,090,909 common shares for a total consideration of P13,000.0 million. Capitalized transaction costs related to the acquisition of Meralco shares by SMPFC amounted to P7.8 million.

The Company has determined that it has obtained significant influence over the financial and operating policies of Meralco in conjunction with SMC and subsidiaries' ownership of 33.19% interest in Meralco. Accordingly, the Company applied the equity method of accounting on its investment in shares of stock of Meralco.

The fair value of the Company's investment in Meralco amounted to P14,477.3 million as at December 31, 2011.

Investment in a Joint Venture

The Company's application with the SEC for the dissolution of Philippine Nutrition Technologies, Inc. (PNTI), a joint venture between the Company and the Great Wall Group of Taiwan, was approved on May 27, 2010. As a result of the said dissolution, the Company's investment in PNTI amounting to P12.0 million was written off against its allowance for decline in value of investment.

13. Investment Properties

The movements in investment properties follow:

	Land and Land Improvements	Buildings and Improvements	Total
Cost:			
December 31, 2009	P115,281	P2,865	P118,146
Additions	8,027	-	8,027
Disposals	(2,933)	-	(2,933)
December 31, 2010	120,375	2,865	123,240
Additions	23,068	-	23,068
Reclassifications	(1,018)	-	(1,018)
December 31, 2011	142,425	2,865	145,290
Accumulated Depreciation:			
December 31, 2009	-	1,608	1,608
Additions	-	141	141
December 31, 2010	-	1,749	1,749
Additions	-	141	141
December 31, 2011	-	1,890	1,890
Accumulated Impairment Losses:			
December 31, 2010 and 2011	8,473	-	8,473
Net Book Value:			
December 31, 2010	P111,902	P1,116	P113,018
December 31, 2011	**P133,952**	**P975**	**P134,927**

The fair value of investment properties as at December 31, 2011 and 2010 amounted to P336.3 million and P288.7 million, respectively, determined based on valuations performed either by independent appraisers or by the credit management group of the Company.

14. Property, Plant and Equipment

This account consists of:

	Note	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost:							
December 31, 2009		P2,340,923	P4,391,727	P8,117,005	P473,597	P644,665	P15,967,917
SMPFIL balance as at July 31, 2010	5	-	1,364,516	603,920	35,051	13,362	2,016,849
Additions		-	11,744	323,425	3,381	242,523	581,073
Disposals		(24,023)	(357,630)	(745,984)	(18,197)	-	(1,145,834)
Transfers, reclassifications and others		61,654	520,779	314,709	(18,029)	(716,779)	162,334
Currency translation adjustments		-	(58,679)	(25,971)	(1,507)	(574)	(86,731)
December 31, 2010		2,378,554	5,872,457	8,587,104	474,296	183,197	17,495,608
GFDCC balance as at August 31, 2011	5	-	113,101	215,740	-	1,800	330,641
Additions		-	19,705	492,552	4,030	81,519	597,806
Disposals		-	(30,190)	(43,367)	(22,131)	-	(95,688)
Transfers, reclassifications and others		(434,171)	33,360	117,651	2,670	(134,936)	(415,426)
Currency translation adjustments		(632)	48	(2,366)	(391)	(57)	(3,398)
December 31, 2011		1,943,751	6,008,481	9,367,314	458,474	131,523	17,909,543
Accumulated Depreciation and Impairment Losses:							
December 31, 2009		328,767	1,761,563	5,153,422	429,572	-	7,673,324
SMPFIL balance as at July 31, 2010	5	-	545,325	483,974	33,201	-	1,062,500
Additions	24	32,830	241,364	498,225	18,761	-	791,180
Disposals		(22,677)	(257,852)	(706,859)	(18,014)	-	(1,005,402)
Reversal of impairment loss	26	(45,863)	-	-	-	-	(45,863)
Transfers, reclassifications and others		(1,188)	(11,868)	(11,645)	(15,130)	-	(39,831)
Currency translation adjustments		-	(23,732)	(21,215)	(1,436)	-	(46,383)
December 31, 2010		291,869	2,254,800	5,395,902	446,954	-	8,389,525
GFDCC balance as at August 31, 2011	5	-	2,180	20,182	-	-	22,362
Additions	24	33,341	232,373	567,392	13,675	-	846,781
Disposals		-	(29,588)	(42,773)	(22,131)	-	(94,492)
Transfers, reclassifications and others		-	-	(223)	(1,832)	-	(2,055)
Impairment loss		-	5,800	-	-	-	5,800
Currency translation adjustments		-	(54)	(2,087)	(558)	-	(2,699)
December 31, 2011		325,210	2,465,511	5,938,393	436,108	-	9,165,222
Net Book Value:							
December 31, 2010		P2,086,685	P3,617,657	P3,191,202	P27,342	P183,197	P9,106,083
December 31, 2011		**P1,618,541**	**P3,542,970**	**P3,428,921**	**P22,366**	**P131,523**	**P8,744,321**

Depreciation recognized in profit or loss amounted to P846.8 million in 2011, P791.2 million in 2010 and P774.5 million in 2009 (Note 24). These amounts include annual amortizations of capitalized interest amounting to P1.1 million in 2011 and P2.6 million in 2010 and 2009. Unamortized balance of capitalized interest as at December 31, 2011, 2010 and 2009 amounted to P23.3 million, P24.4 million, and P27.0 million, respectively. No interest was capitalized in 2011 and 2010.

Certain parcels of land with net book value of P436.6 million, which are considered as idle assets, were reclassified to "Other noncurrent assets" in 2011 following the change in management's intention on these assets.

As at December 31, 2011, the net book value of the idle assets amounted to P553.2 million and P118.1 million, respectively.

Land and land improvements include a 144-hectare property in Sumilao, Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs amounted to P37.4 million.

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

SMFI fully complied with all the provisions of the MOA in the last quarter of 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court (SC) and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal of the cases pending with the SC and the OP for their concurrence. Pursuant to the Joint Manifestation and Motion for Dismissal dated March 3, 2011 filed by SMFI and NQSR Management and Development Corporation, the original owner of the Sumilao property, the SC and the OP, in a Resolution dated March 15, 2011 and in an Order dated April 6, 2011, respectively, dismissed the appeal of MAPALAD on the DAR's denial of their petition for the revocation of the conversion order.

The cost of farm improvements, buildings, machinery and equipment and construction in progress incurred for SMFI's (formerly Monterey) hog farm expansion project situated in Sumilao amounted to P906.2 million and P888.6 million in 2011 and 2010, respectively.

15. Other Intangible Assets

This account consists of:

	2011	2010
Trademarks and brand names	**P3,299,938**	P3,298,353
Formulas and recipes	**57,591**	57,591
Computer software and licenses - net	**299,855**	69,566
	P3,657,384	P3,425,510

The movements in other intangible assets, including the effects of currency translation adjustments, are as follows:

	Trademarks and Brand Names	Others	Total
Cost:			
December 31, 2009	P32,558	P218,767	P251,325
SMPFIL as at July 31, 2010	65,795	-	65,795
Additions	3,200,000	18,278	3,218,278
Disposals	-	(1,404)	(1,404)
Reclassifications	-	3,326	3,326
December 31, 2010	3,298,353	238,967	3,537,320
Additions	-	248,805	248,805
Reclassifications	1,585	-	1,585
December 31, 2011	3,299,938	487,772	3,787,710
Accumulated Depreciation:			
December 31, 2009	-	83,763	83,763
Additions	-	26,125	26,125
Disposals	-	(1,404)	(1,404)
Reclassifications	-	3,326	3,326
December 31, 2010	-	111,810	111,810
Additions	-	18,516	18,516
December 31, 2011	-	130,326	130,326
Net Book Value:			
December 31, 2010	P3,298,353	P127,157	P3,425,510
December 31, 2011	**P3,299,938**	**P357,446**	**P3,657,384**

In July 2010, SMC and SMPFC entered into an Intellectual Property Rights Transfer Agreement (Agreement) for the transfer to SMPFC of SMC's food-related brands and intellectual property rights at a purchase price of P3,200.0 million. Pursuant to the Agreement, 10% of the purchase price was paid in July 2010 and the balance shall be payable (i) upon change in controlling interest of SMPFC to any third person other than an affiliate or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year PDST-F plus an agreed margin after one year, whichever comes first. The balance was recognized as part of the Company's payable to related parties (Note 18) as at December 31, 2010. On March 8, 2011, the Company paid SMC the amount of P2,880.0 million representing the 90% balance of the purchase price of the food-related brands and intellectual property rights.

SMC and SMPFC engaged the services of Fortman Cline Capital Markets Limited (FCCM) as financial adviser to perform a third party valuation of the food-related brands. The purchase price was arrived at after taking into account the result of the independent valuation study and analysis of FCCM.

The recoverable amount of the trademarks and brand names was determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management and a discount rate applied to after tax cash flow projections of 12%. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry.

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

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

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

16. Goodwill

The movements in goodwill, including effects of currency translation adjustments, are as follows:

	Note	**2011**	2010
Balance at beginning of year		**P416,310**	P170,792
Additions	*5*	**6,237**	256,550
Currency translation adjustments		**-**	(11,032)
Balance at end of year		**P422,547**	P416,310

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash-flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 12% to 14% for 2011 and 2010, respectively. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

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

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

The calculations of value in use are most sensitive to the following assumptions:

Gross Margins. Gross margins are based on average values achieved in the period immediately before the budget period. These are increased over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

Discount Rates. The Group uses the weighted average cost of capital as the discount rates, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.

Raw Material Price Inflation. Forecast consumer price is obtained from indices during the budget period from which raw materials are purchased. Value assigned to key assumption is consistent with external sources of information.

17. Notes Payable

This account consists of:

	Note	**2011**	2010
Peso-denominated		**P4,187,000**	P4,591,000
Foreign currency-denominated		**800,929**	581,538
	32, 33	**P4,987,929**	P5,172,538

Notes payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 3.80% to 4.75% and 3.10% to 4.50% in 2011 and 2010, respectively. Interest rates for foreign currency-denominated loans range from 3.56% to 20.00% and 3.56% to 16.50% in 2011 and 2010, respectively.

Notes payable of the Group are not subject to covenants and warranties.

18. Trade Payables and Other Current Liabilities

This account consists of:

	Note	**2011**	2010
Trade payables		**P4,106,595**	P4,011,362
Amounts owed to related parties	*5, 15, 29*	**1,202,210**	4,979,160
Non-trade payables		**4,195,943**	4,818,343
Others		**1,514,129**	1,337,104
		P11,018,877	P15,145,969

Non-trade payables consist of freight payable, contract growers/breeders' fees, tolling fees, guarantee deposits, gift certificates payable and expenses payable.

"Others" include tax-related and payroll-related accruals, accrued interest payable, dividends payable and derivative liabilities.

Derivative liabilities included under "Others" amounted to P28.7 million and P3.1 million as at December 31, 2011 and 2010, respectively (Notes 32 and 33).

19. Long-term Debt

This account consists of the following unsecured peso-denominated term notes:

	2011	2010
Floating interest rate based on 3-month PDST-F plus margin maturing in 2015 (a)	**P3,673,464**	P3,667,776
Fixed interest rate of 5.4885% maturing in 2015 (a)	**794,235**	793,031
Floating interest rate based on 3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher, maturing in 2014 (b)	**203,750**	-
	4,671,449	4,460,807
Less current maturities	**25,000**	-
	P4,646,449	P4,460,807

a. In December 2010, SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate notes with principal amount of P800.0 million and P3,700.0 million, respectively. Both types of notes have a term of five years and one day beginning on December 10, 2010 and ending on December 11, 2015. The fixed rate note has a fixed interest rate of 5.4885% per annum while the floating rate note has a floating interest rate based on three-month PDST-F plus an agreed margin. Proceeds from the issuance of the notes are intended to fund any expansion or any investment in new businesses by SMFI and for other general corporate purposes.

   The movements in debt issue costs relative to the issuance of the unsecured peso-denominated floating and fixed term notes by SMFI are as follows:

	Note	2011	2010
Balance at beginning of year		**P39,193**	P -
Additions		**341**	39,597
Amortizations	*26*	**(7,233)**	(404)
Balance at end of year		**P32,301**	P39,193

b. The amount represents an unsecured loan facility entered into by GFDCC with Bank of Commerce amounting to P210.0 million. Proceeds of the loan were used to finance the construction of an ice cream plant manufacturing facility.

   Repayment Schedule
   As at December 31, 2011, the annual maturities of GFDCC's long-term debt are as follows:

Year	Gross Amount
2012	P25,000
2013	25,000
2014	153,750
	P203,750

The debt agreements contain, among others, covenants relating to the maintenance of certain financial ratios, usage of proceeds, significant change in the nature of the business, restrictions on loans and guarantees, disposal of a substantial portion of assets, merger and consolidation, and payment of interests.

As at December 31, 2011 and 2010, the Group is in compliance with the covenants of the debt agreements.

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 32.

20. Equity

The Parent Company's capital stock, at P10 par value, consists of the following number of shares as at December 31, 2011 and 2010:

	2011	2010
Authorized shares:		
Common	**206,000,000**	206,000,000
Preferred	**40,000,000**	40,000,000
	246,000,000	246,000,000
Issued shares:		
Common	**170,874,854**	170,874,854
Preferred	**15,000,000**	-
	185,874,854	170,874,854

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

	2011		2010	
	Common	**Preferred**	Common	Preferred
Authorized shares:				
Balance at beginning of year	**206,000,000**	**40,000,000**	146,000,000	-
Increase in authorized capital stock	**-**	**-**	100,000,000	-
Reclassification to preferred shares	**-**	**-**	(40,000,000)	40,000,000
Balance at end of year	**206,000,000**	**40,000,000**	206,000,000	40,000,000
Issued and outstanding shares:				
Issued shares at beginning of year	**170,874,854**	**-**	145,451,108	-
Issuances during the year	**-**	**15,000,000**	25,423,746	-
Issued shares at end of year	**170,874,854**	**15,000,000**	170,874,854	-
Less treasury shares	**4,207,758**	**-**	4,207,758	-
Issued and outstanding shares at end of year	**166,667,096**	**15,000,000**	166,667,096	-

On February 2, 2010 and March 12, 2010, the Company's BOD and stockholders, respectively, approved the (i) de-classification of SMPFC's common shares and increase in SMPFC's authorized capital stock by P1,000.0 million or 100,000,000 shares at P10.00 par value, and (ii) declaration of 18% stock dividend based on the issued and outstanding shares to be taken out of the proposed increase in authorized capital stock.

On April 12, 2010, the SEC approved SMPFC's amendment to its Articles of Incorporation for the de-classification of common shares.

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

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

On September 15, 2010, Company's BOD approved, among others, the: (i) reclassification of up to 75,000,000 authorized and unissued common shares into cumulative, non-participating, non-voting and non-convertible preferred shares with par value of P10.00 per share; (ii) issuance of preferred shares with total issue size of up to P50,000.0 million, part of the proceeds of which will be used to settle the Company's remaining 90% balance relating to the brands and SMHVN acquisitions from SMC; (iii) listing of such preferred shares at the appropriate exchanges; and (iv) amendment of the Company's Articles of Incorporation to reflect the reclassification of such common shares to preferred shares and the denial of pre-emptive rights of shareholders for the proposed issuance of said preferred shares.

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

On December 23, 2010, the SEC approved the foregoing Amendment to the Articles of Incorporation of the Company.

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

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

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

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

A summary of the Terms of the Offer is set out below.

SMPFC, through the underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares at an offer price of P1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by the BOD. The preferred shares are redeemable in whole or in part, in cash, at the sole option of the Company, at the end of the 5th year from issuance date or on any dividend payment date thereafter, at the price equal to the issue price plus any accumulated and unpaid cash dividends. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events). Unless the preferred shares are redeemed by the Company on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

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

On June 2, 2011, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the additional redemption features of the preferred shares of the Company.

On June 13, 2011, cash dividend of P3.00 per share was paid to all common shareholders of record as of May 23, 2011.

On June 3, September 3, and December 3, 2011, cash dividends of P20.00 per share were paid to all preferred shareholders of record as of May 23, August 26, and November 23, 2011, respectively.

Treasury shares, totaling 4,207,758 common shares in 2011 and 2010, are carried at cost.

As at December 31, 2011, the Company has a total of 122 and 204 common and preferred stockholders, respectively.

The Parent Company's retained earnings as at December 31, 2011 and 2010 is restricted in the amount of P182.1 million representing the cost of shares held in treasury.

The Group's unappropriated retained earnings include the Company's accumulated equity in net earnings of subsidiaries amounting to P6,704.2 million, P5,408.0 million, and P5,001.1 million in 2011, 2010 and 2009, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

21. Revenues

Revenue account consists of sales of goods and fair valuation adjustments on agricultural produce. Total sales of goods amounted to P89,522.0 million, P79,229.1 million and P74,979.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P31,719.0 million, P23,700.8 million and P25,826.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

22. Cost of Sales

This account consists of:

	Note	**2011**	2010	2009
Inventories used	*35*	**P65,416,641**	P56,704,734	P55,100,325
Freight, trucking and handling		**2,521,354**	1,736,814	1,709,489
Depreciation and amortization	*24*	**1,896,970**	1,655,135	1,482,653
Communication, light and water		**1,090,978**	939,074	866,722
Personnel expenses	*25*	**759,079**	686,949	862,438
Repairs and maintenance		**400,274**	362,319	336,721
Rentals	*31*	**184,537**	194,037	171,108
Others		**1,147,224**	1,012,024	918,540
		P73,417,057	P63,291,086	P61,447,996

23. Selling and Administrative Expenses

This account consists of:

	Note	**2011**	2010	2009
Freight, trucking and handling		**P2,603,459**	P2,357,347	P1,894,268
Personnel expenses	*25*	**2,254,591**	2,318,960	2,151,367
Advertising and promotions		**1,479,563**	1,535,375	1,287,044
Contracted services		**1,224,360**	1,158,748	1,269,644
Rentals	*31*	**639,538**	577,100	497,992
Professional fees		**306,577**	428,190	238,219
Taxes and licenses		**256,173**	253,028	243,129
Supplies		**243,248**	252,987	245,808
Depreciation and amortization	*24*	**223,463**	271,268	221,855
Travel and transportation		**179,978**	170,817	173,107
Communication, light and water		**170,155**	171,586	202,428
Repairs and maintenance		**102,132**	119,855	125,392
Others		**348,892**	461,644	407,094
		P10,032,129	P10,076,905	P8,957,347

24. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	**2011**	2010	2009
Cost of sales:				
Property, plant and equipment	*14*	**P691,678**	P590,261	P607,857
Biological assets	*10*	**1,186,384**	1,048,343	854,130
Others		**18,908**	16,531	20,666
		1,896,970	1,655,135	1,482,653
Selling and administrative expenses:				
Property, plant and equipment	*14*	**155,103**	200,919	166,668
Others		**68,360**	70,349	55,187
		223,463	271,268	221,855
		P2,120,433	P1,926,403	P1,704,508

Others include amortization of containers, computer software and licenses, small tools and equipment and investment properties amounting to P87.3 million, P86.9 million and P75.9 million in 2011, 2010 and 2009, respectively.

25. Personnel Expenses

This account consists of:

	Note	**2011**	2010	2009
Salaries and allowances		**P1,742,824**	P1,623,063	P1,576,024
Retirement costs	*28*	**40,578**	91,816	238,627
Other employee benefits		**1,230,268**	1,291,030	1,199,154
		P3,013,670	P3,005,909	P3,013,805

Personnel expenses are distributed as follows:

	Note	**2011**	2010	2009
Cost of sales	*22*	**P759,079**	P686,949	P862,438
Selling and administrative expenses	*23*	**2,254,591**	2,318,960	2,151,367
		P3,013,670	P3,005,909	P3,013,805

26. Interest Expense and Other Financing Charges, Interest Income and Other Income (Charges)

These accounts consist of:

a. Interest Expense and Other Financing Charges

	2011	2010	2009
Interest expense	**P494,491**	P322,057	P701,726
Other financing charges	**36,481**	37,358	49,316
	P530,972	P359,415	P751,042

Amortization of debt issue costs in 2011 and 2010 included in other financing charges amounted to P7.2 million and P0.4 million, respectively (Note 19).

Interest expense on notes payable and long-term debt are as follows:

	Note	**2011**	2010	2009
Notes payable	*17*	**P289,637**	P310,862	P701,726
Long-term debt	*19*	**204,854**	11,195	-
		P494,491	P322,057	P701,726

b. Interest Income

	2011	2010	2009
Short-term investments	**P328,878**	P47,847	P35,017
Cash in banks	**64,694**	57,641	34,124
	P393,572	P105,488	P69,141

c. Other Income (Charges)

	Note	**2011**	2010	2009
Gain (loss) on derivatives	*33*	**(P28,137)**	P167,021	P54,477
Dividend income		**55**	156	118
Foreign exchange losses - net	*32*	**(59,803)**	(24,924)	(978)
Impairment loss - net		**(5,800)**	(5,426)	(53,873)
Others - net		**(230,011)**	(38,961)	(88,712)
		(P323,696)	P97,866	(P88,968)

In 2009, the Group recognized provisions for impairment loss on land and idle assets amounting to P45.9 million and P8.0 million, respectively.

Impairment loss - net in 2010 includes provision for impairment loss on idle assets (shown under "Other noncurrent assets") amounting to P51.3 million and the reversal of the Group's 2009 provision for impairment loss on land amounting to P45.9 million, computed as the difference between the carrying amount of the assets and their fair value based on reports by qualified property appraisers, less costs to sell.

27. Income Taxes

a. The components of the Group's deferred tax assets and liabilities as at December 31 are as follows:

	2011	2010
Deferred tax assets:		
Allowance for impairment losses on receivables and inventories	**P221,386**	P253,282
Unamortized past service cost	**76,228**	105,570
Unrealized mark-to-market loss	**46,353**	25,756
NOLCO	**1,617**	-
Others	**157,093**	215,283
	P502,677	P599,891
Deferred tax liabilities:		
Unrealized mark-to-market gain	**P46,198**	P61,345
Accelerated depreciation	**40,078**	44,541
Others	**80,296**	165,188
	P166,572	P271,074

b. The components of the income tax expense consist of:

	2011	2010	2009
Current:			
Corporate income tax	**P1,616,155**	P1,141,096	P1,112,770
Final tax withheld on interest and royalty income	**120,842**	42,216	17,542
	1,736,997	1,183,312	1,130,312
Deferred	**7,381**	470,895	53,313
	P1,744,378	P1,654,207	P1,183,625

c. The reconciliations between the statutory income tax rates on income before income tax and the Group's effective income tax rates follow:

	2011	2010	2009
Statutory income tax rate	**30.00%**	30.00%	30.00%
Additions to (reductions in) income tax resulting from the tax effects of:			
Interest income subjected to final tax	**(0.37)**	(0.08)	(0.13)
Equity in net earnings of an associate	**(1.36)**	-	-
Unused NOLCO and MCIT	-	-	1.10
Others - net	**1.01**	(0.97)	(0.16)
Effective income tax rates	**29.28%**	28.95%	30.81%

28. Retirement Plans

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

Retirement costs (benefit) recognized in profit or loss by the Company amounted to (P0.27 million), P1.0 million and P4.2 million in 2011, 2010 and 2009, respectively, while those charged by the subsidiaries amounted to P40.8 million, P90.8 million and P234.4 million in 2011, 2010 and 2009, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service liability.

The components of retirement costs recognized in profit or loss in 2011, 2010 and 2009 and the amounts recognized in the consolidated statements of financial position as at December 31, 2011 and 2010 are as follows:

	2011	2010	2009
Current service cost	**P110,860**	P108,060	P131,158
Interest cost	**175,558**	201,428	262,237
Expected return on plan assets	**(242,217)**	(220,007)	(197,554)
Net actuarial gain	**(722)**	(1,101)	(2,695)
Past service cost	**205**	206	192
Effect of curtailment	**(3,106)**	3,230	(19,806)
Amortization of transitional liability	**-**	-	65,095
Net retirement costs	**P40,578**	P91,816	P238,627
Actual return on plan assets	**P180,820**	P318,479	P329,582

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

	Note	**2011**	2010	2009
Cost of sales		**P23,412**	P32,764	P16,724
Selling and administrative expenses		**17,166**	59,052	221,903
	25	**P40,578**	P91,816	P238,627

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

	Note	**2011**	2010
Present value of defined benefit obligation		**P2,977,220**	P2,344,856
Fair value of plan assets		**2,536,179**	2,488,970
		441,041	(144,114)
Unrecognized past service costs		**(350)**	(594)
Unrecognized net actuarial gain (loss)	*4*	**(326,107)**	229,369
Net retirement liabilities		**P114,584**	P84,661

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

	2011	2010
Balance at beginning of year	**P2,344,856**	P2,380,288
Interest cost	**175,558**	201,428
Current service cost	**110,860**	108,060
Transfer from other plans	**7,485**	127,550
Benefits paid	**(133,714)**	(372,172)
Actuarial loss (gain)	**489,381**	(59,019)
Transfer to other plans	**(17,206)**	(131,746)
Effect of curtailment	**-**	90,467
Balance at end of year	**P2,977,220**	P2,344,856

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

	2011	2010
Balance at beginning of year	**P2,488,970**	P2,323,703
Expected return	**242,217**	220,007
Contributions by employer	**7,687**	180,580
Transfer from other plans	**7,485**	127,550
Benefits paid	**(131,577)**	(370,437)
Transfer to other plans	**(17,206)**	(131,746)
Actuarial gain (loss)	**(61,397)**	98,472
Effect of curtailment	**-**	40,841
Balance at end of year	**P2,536,179**	P2,488,970

Plan assets consist of the following:

	In Percentages	
	2011	2010
Stock trading portfolio	**33.8**	25.1
Fixed income portfolio	**66.2**	74.9

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

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

	In Percentages	
	2011	2010
Discount rate	**5.5 to 6.5**	6.8 to 8.5
Salary increase rate	**8.0**	8.0
Expected return on plan assets	**9.0**	10.0

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

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	**P2,977,220**	P2,344,856	P2,380,288	P2,759,339	P1,810,951
Fair value of plan assets	**2,536,179**	2,488,970	2,323,703	2,396,143	1,649,977
Deficit (excess) in the plan	**441,041**	(144,114)	56,585	363,196	160,974
Experience adjustments on plan liabilities	**489,381**	(59,019)	(228,625)	9,888	173,538
Experience adjustments on plan assets	**(61,397)**	98,472	132,028	(265,664)	39,413

The Group expects to contribute about P100.7 million to its defined benefit plans in 2012.

29. Related Party Disclosures

Transactions with related parties are made at normal market prices. For the years ended December 31, 2011, 2010 and 2009 the Group did not provide any allowance for impairment losses relating to amounts owed by related parties. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

Transactions with related parties and the related balances include the following:

	Relationship with Related Parties	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
SMC	Ultimate Parent Company	**2011**	**P13,907**	**P670,729**	**P43,062**	**P545,723**
		2010	2,833	335,135	63,686	3,561,031
		2009	2,187,330	292,327	88,122	1,778,448
SMC Shipping and Lighterage Corporation	Affiliate	**2011**	**-**	**1,248,044**	**174**	**231,853**
		2010	-	1,439,092	9,902	382,368
		2009	135	240,927	14,380	409,074
San Miguel Paper Packaging Corporation (formerly San Miguel Rengo Packaging Corporation)	Affiliate	**2011**	**-**	**-**	**-**	**21**
		2010	-	611	24	1,845
		2009	-	81,651	245	16,650
San Miguel Yamamura Packaging Corporation	Affiliate	**2011**	**-**	**127,771**	**7,068**	**51,560**
		2010	61	135,119	6,472	57,983
		2009	2,083	102,095	8,117	61,730
San Miguel International, Ltd. and subsidiaries	Affiliate	**2011**	**-**	**-**	**-**	**1,509**
		2010	-	-	25	735,614
		2009	-	-	41,186	9
Anchor Insurance Brokerage Corporation	Affiliate	**2011**	**-**	**974**	**191**	**320**
		2010	-	4,471	116	144
		2009	-	49	585	241
Ginebra San Miguel, Inc. and subsidiaries	Affiliate	**2011**	**45**	**34,777**	**36,820**	**31,197**
		2010	-	120,127	50,151	49,558
		2009	1,314	472,815	68,739	62,612
San Miguel Properties, Inc.	Affiliate	**2011**	**-**	**390**	**195**	**-**
		2010	-	120	165	33
		2009	51	-	230	395
SMITS, Inc. and a subsidiary	Affiliate	**2011**	**-**	**131,369**	**1,349**	**138,649**
		2010	-	51,712	1,523	97,261
		2009	116	18,347	854	121,126
Star Dari, Inc.	Affiliate	2009	-	12,533	530	-
ArchEn Technologies, Inc.	Affiliate	**2011**	**-**	**15,933**	**294**	**6,824**
		2010	-	6,336	183	4,245
		2009	28	1,005	94	7,806
San Miguel Yamamura Asia Corporation	Affiliate	**2011**	**-**	**27,240**	**-**	**6,241**
		2010	-	30,064	-	5,106
		2009	-	32,962	-	5,534
San Miguel Brewery, Inc.	Affiliate	**2011**	**6,519**	**57,681**	**24,492**	**24,551**
		2010	16	26,870	24,406	25,090
		2009	2,748	716,471	23,943	250,097
San Miguel Beverages, Inc.	Affiliate	**2011**	**-**	**-**	**1,466**	**-**
		2010	-	-	1,349	569
		2009	4,755	83,213	7,145	5,492
San Miguel Distribution Co., Inc.	Affiliate	2010	-	67	520	94
		2009	7	4,349	28	20
Mindanao Corrugated Fibreboard, Inc.	Affiliate	**2011**	**-**	**8,929**	**-**	**61**
		2010	-	38,335	-	1,613
		2009	-	16,146	-	11,523

Forward

	Relationship with Related Parties	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
Philippine Breweries Corporation	Affiliate	**2011**	**P -**	**P -**	**P394**	**P -**
		2010	-	-	-	997
		2009	-	-	-	839
Petron Corporation**	Affiliate	**2011**	**17,736**	**544,872**	**11,782**	**97,406**
		2010	-	17,304	7,854	36,988
SMC Global Power Holdings Corporation and subsidiaries	Affiliate	**2011**	**3,887**	**-**	**4,923**	**5,490**
		2010	11	-	376	-
Surewealth Realty Corporation	Affiliate	**2011**	**-**	**635**	**-**	**-**
Hormel Netherlands, BV	Shareholder in a Subsidiary	**2011**	**-**	**-**	**18,838**	**-**
		2010	-	-	10,734	-
		2009	-	-	5,703	-
Super Coffee Corporation Pte. Ltd.	Shareholder in a Subsidiary	**2011**	**-**	**-**	**-**	**60,621**
		2010	-	-	-	18,506
		2009	-	-	-	18,950
Others	Affiliate	**2011**	**-**	**-**	**398**	**184**
		2010	39	-	43	115
		2009	54	-	178	611
		2011	**P42,094**	**P2,869,344**	**P151,446**	**P1,202,210**
		2010	P2,960	P2,205,363	P177,529	P4,979,160
		2009	P2,198,621	P2,074,890	P260,079	P2,751,157

** Affiliate refers to a company owned by SMC.*

***New affiliate in 2010.*

Certain related party transactions were discussed in Notes 12, 15, 19 and 34. The following are the other significant related party transactions entered into by the Company:

On December 28, 2004, SMC and Monterey executed a Trademark Licensing Agreement (Agreement) with PF-Hormel to license the Monterey trademark for a period of 20 years renewable for the same period for a royalty based on net sales revenue. The royalty fee will apply only for as long as SMC and any of its subsidiaries own at least 51% of PF-Hormel. In the event that the ownership of SMC and any of its subsidiaries is less than 51%, the parties will negotiate and agree on the royalty fee on the license of the Monterey trademark. As a result of the merger of Monterey into SMFI, with SMFI as the surviving corporation (Note 5), all rights and obligations of Monterey under the Agreement are automatically transferred to and vested in SMFI per applicable law and following the provision in the Plan of Merger.

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

	2011	2010	2009
Short-term employee benefits	**P83,439**	P76,003	P52,878
Retirement costs	**3,403**	7,663	22,417
	P86,842	P83,666	P75,295

The compensation of key management personnel, which were paid and charged by SMC to the Group as management fee, amounted to P3.2 million, P2.7 million and P6.4 million in 2011, 2010 and 2009, respectively.

30. Basic and Diluted Earnings Per Common Share

Basic EPS is computed as follows:

	2011	2010	2009
Net income attributable to equity holders of the Parent Company	**P4,102,505**	P3,846,145	P2,596,963
Dividends on preferred shares for the year	**993,333**	-	-
Net income attributable to common shareholders of the Parent Company (a)	**P3,109,172**	P3,846,145	P2,596,963
Common shares issued and outstanding	**166,667,096**	141,243,350	141,243,350
Stock dividends declared in 2010 including retroactive adjustments	**-**	25,423,746	25,423,746
Weighted average number of common shares (b)	**166,667,096**	166,667,096	166,667,096
Basic earnings per common share attributable to equity holders of Parent Company (a/b)	**P18.65**	P23.08	P15.58

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

31. Operating Lease Agreements

The Group entered into various operating lease agreements. These non-cancellable leases will expire in various years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The minimum future rental payables under these operating leases as at December 31 are as follows:

	2011	2010	2009
Within one year	**P227,747**	P237,203	P39,502
After one year but not more than five years	**126,799**	160,431	109,122
After five years	**756,133**	406,787	409,280
	P1,110,679	P804,421	P557,904

Rent expense recognized in profit or loss amounted to P824.1 million, P771.1 million and P669.1 million in 2011, 2010, and 2009, respectively (Notes 22 and 23).

32. Financial Risk Management Objectives and Policies

Objectives and Policies

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

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

The Group's principal non-trade related financial instruments include cash and cash equivalents, AFS financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, trade payables and other current liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The Group's outstanding derivative instruments such as commodity options are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to commodity price risks arising from the Group's operations.

The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the BOD on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

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

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;
- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P39.0 million and P37.0 million in 2011 and 2010, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at December 31, 2011 and 2010, the terms and maturity profile of the interest-bearing financial instruments, together with the gross amounts, are shown in the following tables:

December 31, 2011	**<1 Year**	**1-<2 Years**	**>2-<3 Years**	**>3-<4 Years**	**>4-<5 Years**	**Total**
Fixed rate						
Philippine peso-denominated	**P -**	**P -**	**P -**	**P800,000**	**P -**	**P800,000**
Interest rate				5.4885%		
Floating rate						
Philippine peso-denominated	**25,000**	**25,000**	**153,750**	**3,700,000**	**-**	**3,903,750**
Interest rate	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-R1 plus margin or BSP overnight rate plus margin, whichever is higher	3-month PDST-F +margin		
	P25,000	**P25,000**	**P153,750**	**P4,500,000**	**P -**	**P4,703,750**

December 31, 2010	<1 Year	1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	Total
Fixed rate						
Philippine peso-denominated	P -	P -	P -	P -	P800,000	P800,000
Interest rate					5.4885%	
Floating rate						
Philippine peso-denominated	-	-	-	-	3,700,000	3,700,000
Interest rate					3-month PDST-F +margin	
	P -	P -	P -	P -	P4,500,000	P4,500,000

Foreign Currency Risk

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

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

	2011		2010	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$7,006**	**P307,143**	US$1,641	P71,941
Trade and other receivables	**12,810**	**561,590**	11,478	503,196
	19,816	**868,733**	13,119	575,137
Liabilities				
Notes payable	**18,269**	**800,929**	13,265	581,538
Trade payables and other current liabilities	**15,743**	**690,173**	26,902	1,179,383
Other noncurrent liabilities	**830**	**36,387**	790	34,634
	34,842	**1,527,489**	40,957	1,795,555
Net foreign currency-denominated monetary liabilities	**(US$15,026)**	**(P658,756)**	(US$27,838)	(P1,220,418)

The Group reported net foreign exchange losses amounting to P59.8 million, P24.9 million and P1.0 million in 2011, 2010 and 2009, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar during the year. Shown in the following table are the foreign exchange rates as at statement of financial position dates.

	Peso to US Dollar
December 31, 2009	46.20
December 31, 2010	43.84
December 31, 2011	43.84

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

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

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as at December 31, 2011 and 2010.

2011

	P1 Decrease in the US dollar Exchange Rate		**P1 Increase in the US dollar Exchange Rate**	
	Effect on Income before Income Tax	**Effect on Equity (Net of Tax)**	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**
Cash and cash equivalents	**(P1,344)**	**(P6,602)**	**P1,344**	**P6,602**
Trade and other receivables	**(3,873)**	**(11,648)**	**3,873**	**11,648**
	(5,217)	**(18,250)**	**5,217**	**18,250**
Notes payable	**-**	**18,269**	**-**	**(18,269)**
Trade payables and other current liabilities	**1,830**	**15,193**	**(1,830)**	**(15,193)**
Other noncurrent liabilities	**-**	**830**	**-**	**(830)**
	1,830	**34,292**	**(1,830)**	**(34,292)**
	(P3,387)	**P16,042**	**P3,387**	**(P16,042)**

2010

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity (Net of Tax)	Effect on Income before Income Tax	Effect on Equity (Net of Tax)
Cash and cash equivalents	(P158)	(P1,594)	P158	P1,594
Trade and other receivables	(2,753)	(10,652)	2,753	10,652
	(2,911)	(12,246)	2,911	12,246
Notes payable	1,208	26,540	(1,208)	(26,540)
Trade payables and other current liabilities	-	13,265	-	(13,265)
Other noncurrent liabilities	-	790	-	(790)
	1,208	40,595	(1,208)	(40,595)
	(P1,703)	P28,349	P1,703	(P28,349)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group, through SMC, enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show mark-to-market losses; however, any loss in the mark-to-market position is offset by the resulting lower physical raw material cost.

SMC enters into commodity derivative transactions on behalf of the Group to reduce cost by optimizing purchasing synergies within the SMC Group of Companies and managing inventory levels of common materials.

The Group uses commodity futures and options to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, soybean meal and wheat.

Liquidity Risk

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

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

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

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

2011

	Carrying Amount	Contractual Cash Flow	1year or Less	> 1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P4,932,718	P4,932,718	P4,932,718	P -	P -	P -
Trade and other receivables - net	8,700,217	8,700,217	8,700,217	-	-	-
Derivative assets	31,869	31,869	31,869	-	-	-
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	8,906	8,906	-	-	-	8,906
Financial Liabilities						
Notes payable	4,987,929	5,030,267	5,030,267	-	-	-
Trade payables and other current liabilities (excluding derivative liabilities)	10,990,164	10,990,164	10,990,164	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	28,713	28,713	28,713	-	-	-
Long-term debt (including current maturities) - net of debt issue costs	4,671,449	5,457,980	32,860	189,789	5,235,331	-
Other noncurrent liabilities (excluding retirement liability)	1,466	1,466	-	1,466	-	-

San Miguel Pure Foods

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	P7,041,345	P7,041,345	P7,041,345	P -	P -	P -
Trade and other receivables - net	7,760,271	7,760,271	7,760,271	-	-	-
Derivative assets	107,633	107,633	107,633	-	-	-
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	11,232	11,232	-	-	-	11,232
Financial Liabilities						
Notes payable	5,172,538	5,250,284	5,250,284	-	-	-
Trade payables and other current liabilities (excluding derivative liabilities)	15,142,853	15,142,853	15,142,853	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	3,116	3,116	3,116	-	-	-
Long-term debt - net of debt issue costs	4,460,807	5,423,012	-	-	5,423,012	-
Other noncurrent liabilities (excluding retirement liability)	2,883	2,883	-	2,883	-	-

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk. The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk. The Group has no significant concentration of the credit risk with any counterparty.

Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Group recognizes provision for impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as at December 31, 2011 and 2010, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	Note	**2011**	2010
Cash and cash equivalents	*7*	**P4,932,718**	P7,041,345
Trade and other receivables - net	*8*	**8,700,217**	7,760,271
Derivative assets	*33*	**31,869**	107,633
AFS financial assets	*33*	**8,906**	11,232
		P13,673,710	P14,920,481

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

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

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder value.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

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

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

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

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

33. Financial Assets and Financial Liabilities

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

	2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P4,932,718**	**P4,932,718**	P7,041,345	P7,041,345
Trade and other receivables - net	**8,700,217**	**8,700,217**	7,760,271	7,760,271
Derivative assets	**31,869**	**31,869**	107,633	107,633
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**8,906**	**8,906**	11,232	11,232
Financial Liabilities				
Notes payable	**4,987,929**	**4,987,929**	5,172,538	5,172,538
Trade payables and other current liabilities (excluding derivative liabilities)	**10,990,164**	**10,990,164**	15,142,853	15,142,853
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**28,713**	**28,713**	3,116	3,116
Long-term debt (including current maturities) - net of debt issue costs	**4,671,449**	**4,703,740**	4,460,807	4,489,490
Other noncurrent liabilities (excluding retirement liability)	**1,466**	**1,466**	2,883	2,883

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

Cash and Cash Equivalents and Trade and Other Receivables. The carrying amounts of cash and cash equivalents and trade and other receivables approximate fair values primarily due to the relatively short-term maturities of these financial instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

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

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments.

Long-term Debt and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. As at December 31, 2011 and 2010, discount rates used range from 1.74% to 4.79% and 1.32% to 5.03%, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

The Group, through SMC, enters into various commodity derivative contracts to manage its exposure on commodity price risk. The portfolio is a mixture of instruments including futures and options.

Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding commodity options and embedded currency forwards which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of various commodity options entered into by SMC on behalf of the Group.

The Group had outstanding bought and sold options covering its wheat requirements with notional quantities as at December 31, 2011 and 2010 of 47,083 and 49,532 metric tons, respectively. These options can be exercised at various calculation dates in 2011 and 2012 with specified quantities on each calculation date. As at December 31, 2011 and 2010, the net positive (negative) fair value of these options amounted to (P5.2 million) and P53.9 million, respectively.

As at December 31, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 7,439 metric tons. These options can be exercised at various dates in 2012 with specified quantities on each calculation date. As at December 31, 2011, the negative fair value of these options amounted to P5.5 million. There were no outstanding options on the purchase of soybean meal as at December 31, 2010.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at December 31, 2011 and 2010, the total outstanding notional amount of such embedded currency forwards amounted to US$59.9 million and US$34.4 million, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As at December 31, 2011 and 2010, the net positive fair value of these embedded currency forwards amounted to P13.7 million and P50.6 million, respectively.

For the years ended December 31, 2011, 2010 and 2009, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to (P28.1 million), P167.0 million and P54.5 million, respectively (Note 26).

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance at beginning of year	**P104,517**	P33,708
Net changes in fair value of derivatives:		
Not designated as accounting hedges	**(28,137)**	167,021
	76,380	200,729
Less fair value of settled instruments	**73,224**	96,212
Balance at end of year	**P3,156**	P104,517

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as at December 31, 2011 and 2010. The different levels have been defined as follows:

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

2011

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	**P2,107**	**P29,762**	**P31,869**
AFS financial assets	**6,530**	**2,376**	**8,906**
Financial Liabilities			
Derivative liabilities	**10,309**	**18,404**	**28,713**

2010

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P53,907	P53,726	P107,633
AFS financial assets	1,557	9,675	11,232
Financial Liabilities			
Derivative liabilities	-	3,116	3,116

As at December 31, 2011 and 2010, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

34. Employee Stock Purchase Plan

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

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

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

Expenses billed by SMC for share-based payments recognized by the Group in profit or loss and included in "Selling and Administrative Expenses" amounted to P34.6 million, P17.6 million, and P6.3 million in 2011, 2010 and 2009, respectively.

35. Other Matters

a. *Toll Agreements*
The significant subsidiaries are into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as "the Parties"). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.

- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.

- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses in 2011, 2010 and 2009 amounted to P4,709.2 million, P3,971.0 million and P3,137.9 million, respectively.

b. *Contingencies*
The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

c. *Commitments*
The outstanding capital and purchase commitments as at December 31, 2011 and 2010 amounted to P9,158.6 million and P10,094.1 million, respectively.

d. *Registration with the Board of Investments (BOI)*

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

SMFI

SMFI was registered with the BOI on a non-pioneer status as a New Producer of Animal Feeds for its Mariveles, Bataan plant and as a New Producer of Chicken (Dressed) for its Orion, Bataan farm in August 2006 and July 2007, respectively.

Under the terms of SMFI's BOI registration and subject to certain requirements as provided in the Omnibus Code of 1987, SMFI is entitled to incentives which included, among others, ITH for a period of four (4) years from January 2007 for Animal Feeds and from October 2007 for Dressed Chicken (can be extended to maximum of 8 years provided certain conditions are met).

SMFI's (formerly Monterey) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investment Code of 1987 on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which included, among others, income tax holiday (ITH) for a period of six (6) years, extendable under certain conditions to eight (8) years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

PF-Hormel

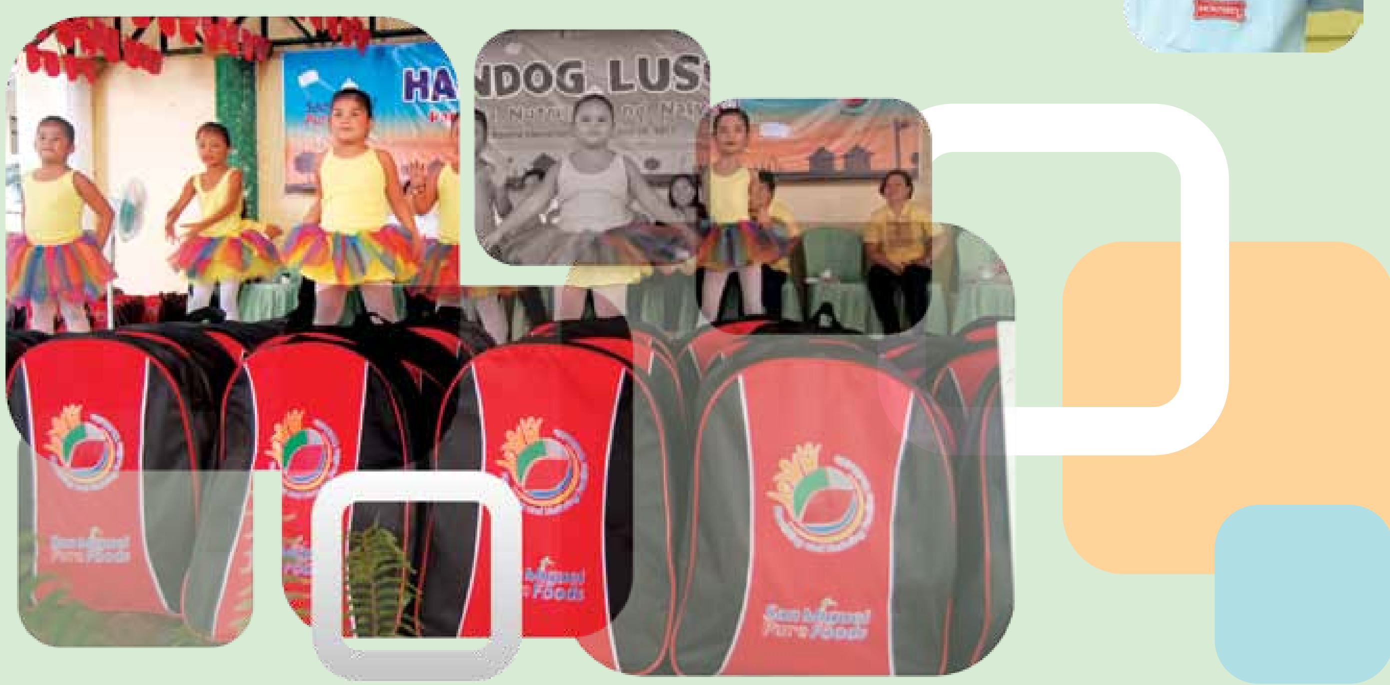
The existing registration of PF-Hormel with the BOI was made on May 18, 2006 in accordance with the provisions of the Omnibus Investments Code of 1987 as a new producer of processed meat products on a non-pioneer status. Under the terms of this new registration, PF-Hormel is entitled to certain tax incentives, including income tax holiday (ITH) for four years from July 2007, or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration.

PF-Hormel's new registered activity with the BOI commenced commercial operations in July 2007 and began to avail tax incentives since then.

e. Certain changes in prior year's amounts were due to reclassifications for consistency with the current period presentation. These reclassifications had no effect on the reported results of operation for any period.

36. Events After the Reporting Date

On February 7, 2012, the Company's BOD declared cash dividends to all preferred and common shareholders of record as of February 21, 2012 amounting to P20.00 and P1.20 per share, respectively, payable on March 3, 2012.


San Miguel
Pure Foods

CORPORATE HEAD OFFICE

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SHAREHOLDER SERVICES AND ASSISTANCE

The SMC Stock Transfer Service Corporation serves as the Company's stock transfer agent and registrar.

For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificates, please write or call:

SMC STOCK TRANSFER SERVICE CORPORATION

2nd Floor, SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Telephone: (632) 632-3450 to 52
Fax: (632) 632-3535
E-mail address: smc_stsc@smg.sanmiguel.com.ph

CUSTOMER CARE

For inquiries, orders, suggestions on our products and services, please write or call:

SAN MIGUEL CUSTOMER CARE CENTER

San Miguel Properties Center
7 St. Francis Street, Mandaluyong City
1550 Metro Manila, Philippines

Telephone: (632) 632-2000
Fax: (632) 632-7621
Toll free: 1-800-18888-7621
E-mail address: customercare.corporate@smg.sanmiguel.com.ph

INSTITUTIONAL INVESTOR INQUIRIES

The company welcomes inquiries from institutional investors, analysts, and the financial community

For such inquiries, please write or call:

SMC INVESTOR RELATIONS

3rd Floor, SMC Head Office Complex
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