PROSPECTUS

SAN MIGUEL BREWERY INC.

San Miguel Brewery Inc.

(A corporation organized and existing under Philippine laws)

₱ 20,000,000,000.00 Fixed Rate Bonds consisting of Series D Bonds, Series E Bonds and Series F Bonds

Due April 3, 2017 for Series D Bonds, April 2, 2019 for Series E Bonds and April 2, 2022 for Series F Bonds

Issue Price of 100% Face Value

Interest Rate of 6.05% p.a. for Series D Bonds, 5.93% p.a. for Series E Bonds and 6.60% p.a. for Series F Bonds

San Miguel Brewery Inc. (the ''Company'' or the ''Issuer'') intends to offer for subscription and issue bonds (the ''Bonds'') with an aggregate principal amount of ₱20,000,000,000, (the ''Offer''). The Bonds will be issued in three series: Series D, Series E and Series F. The Series D Bonds shall have a term beginning on the Issue Date and ending five years and one day from the Issue Date or on April 3, 2017, with a fixed interest rate equivalent to 6.05% per annum. The Series E Bonds shall have a term beginning on the Issue Date and ending seven years from the Issue Date or on April 2, 2019, with a fixed interest rate equivalent to 5.93% per annum. The Series F Bonds shall have a term beginning on the Issue Date and ending ten years from the Issue Date or on April 2, 2022, with a fixed interest rate equivalent to 6.60% per annum. Interest on the Series D Bonds, Series E Bonds and Series F Bonds shall be payable semi-annually in arrears on April 2 and October 2 of each year while the Bonds are outstanding. (see ''*Description and Terms and Conditions of the Bonds*'' — ''*Interest*'')

Subject to the consequences of default as may be contained in the Trust Agreement, and unless otherwise redeemed or purchased prior to the relevant Maturity Date, the Bonds will be redeemed at par or 100% of the face value thereof on the relevant Maturity Date, as set out in ''*Description and Terms and Conditions of the Bonds*'' — ''*Redemption and Purchase*''.

Upon issue, the Bonds shall constitute direct, unconditional, unsubordinated, and unsecured obligations of the Company and shall at all times rank *pari passu* and without preference among themselves and among any present and future unsubordinated and unsecured obligations of the Company, except for any statutory preference or priority established under Philippine law. The Bonds will effectively be subordinated in right of payment to all of the Company's secured debts, as allowed under the Trust Agreement, to the extent of the value of the assets securing such debt and all of its debts evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines. As of the date of this prospectus, the Company has no existing secured debt or debts evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

The Bonds have been rated Aaa by the Philippine Rating Services Corporation (''PhilRatings'') as of February 14, 2012. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the rating agency concerned.

The Bonds shall be offered to the public at par through the Joint Lead Managers named below with Philippine Depository & Trust Corp. ("PDTC") as the Registrar of the Bonds. It is intended that upon issuance, the Bonds shall be issued in scripless form, with PDTC maintaining the scripless Register of Bondholders, and, as soon as reasonably practicable, listed in the Philippine Dealing & Exchange Corp. ("PDEx"). The Bonds shall be issued in denominations of ₱50,000.00 each, as a minimum, and in multiples of ₱10,000.00 in excess thereof, and traded in amounts of ₱10,000.00, as a minimum, and in multiples of ₱10,000.00 in excess thereof. (see ''*Description and Terms and Conditions of the Bonds*'' — ''*Form, Denomination and Title*'' and "*Description and Terms and Conditions of the Bonds*" – "*Transfer of Bonds*")

Issue Manager

ING

Joint Lead Managers

BDO Capital & Investment Corporation | HSBC | ING | SB CAPITAL A Subsidiary of Security Bank | Standard Chartered

Co-Lead Managers

CHINA BANKING CORPORATION
FIRST METRO INVESTMENT CORPORATION
PHILIPPINE COMMERCIAL CAPITAL, INC.
UNITED COCONUT PLANTERS BANK

Co-Managers

BPI CAPITAL CORPORATION
PNB CAPITAL AND INVESTMENT CORPORATION

This Prospectus is dated as of March 15, 2012

SAN MIGUEL BREWERY INC.
40 San Miguel Avenue
Mandaluyong City
Philippines
Telephone Number: +632 632 3000

Offer for Subscription of ₱ 20,000,000,000 Fixed Rate Bonds, consisting of Series D Bonds, Series E Bonds and Series F Bonds, due April 3, 2017 for Series D Bonds, April 2, 2019 for Series E Bonds and April 2, 2022 for Series F Bonds, at the Issue Price of 100% Face Value.

This prospectus relates to the Offer of ₱ 20,000,000,000 Bonds of San Miguel Brewery Inc., consisting of Series D Bonds, Series E Bonds and Series F Bonds. The Series D Bonds shall have a term beginning on the Issue Date and ending five years and one day from the Issue Date or on April 3, 2017, with a fixed interest rate equivalent to 6.05% per annum. The Series E Bonds shall have a term beginning on the Issue Date and ending seven years from the Issue Date or on April 2, 2019, with a fixed interest rate equivalent to 5.93% per annum. The Series F Bonds shall have a term beginning on the Issue Date and ending ten years from the Issue Date or on April 2, 2022, with a fixed interest rate equivalent to 6.60% per annum. The Bonds will be issued at the issue price (the "Issue Price") of 100.00% of face value.

The Company expects to raise gross proceeds amounting to ₱20,000,000,000 from the Offer. After deducting expenses relating to the issuance of the Bonds, the net proceeds are estimated to be ₱19,818,038,745.97. Proceeds of the Offer will be used to support the Company's redemption of the ₱13.59 billion fixed rate bonds maturing on April 3, 2012 (the "Series A Bonds") and the partial prepayment of the Company's US$300 million term facility (the "USD Facility") (see "*Use of Proceeds*" on pages 29).

The Issuer shall pay the Joint Lead Managers a commission of 0.30% flat based on the final aggregate nominal principal amount of the Bonds issued, as Joint Lead Managers' fee (the "Joint Lead Managers' Fee") to be shared as may be agreed upon by the Joint Lead Managers.

The Joint Lead Managers' Fee shall be grossed up for gross receipts tax of 7.0%. The fees due to the Joint Lead Managers together with any applicable gross receipts tax or its equivalent and net of any applicable withholding tax arising in respect of such fee, shall be due and payable by the Issuer to the Joint Lead Managers on the date that the Issuer receives confirmation from the Issuer's bank that cleared funds representing payments for all accepted Applications to Purchase have been credited to the account designated by the Issuer. The Joint Lead Managers are authorized to organize a syndicate of Participating Underwriters for the purpose of the Offer. However, the Company has no obligation to any member of such syndicate for the payment of any fee, underwriting or participating commissions (see *"Plan of Distribution*" on pages 31).

The information contained in this prospectus relating to the Company, its operations and those of its affiliates has been supplied by the Company, unless otherwise stated herein. To the best of its knowledge and belief, the Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this prospectus relating to it, its operations and those of its affiliates is correct, and that there is no material misstatement or omission of fact which would make any statement in this prospectus misleading in any material respect and that the Company hereby accepts full and sole responsibility for the information contained in this prospectus. The Joint Lead Managers assume no liability for any information contained in this prospectus. Unless otherwise indicated, all information in this prospectus is as of the date of this prospectus. Neither the delivery of this prospectus nor any sale made pursuant to this prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company since such date.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers as to the accuracy, completeness or sufficiency of the information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers. This Prospectus is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer, the Joint Lead Managers, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers that any recipient of this Prospectus should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Prospectus and its purchase of the Bonds should be based upon such investigation with its own tax, legal and business advisers as it deems necessary.

This Prospectus has been prepared by the Issuer solely for use in connection with the proposed offering of the Bonds described in this Prospectus. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

No person has been authorized to give any information or to make any representation not contained in this prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Joint Lead Managers. This prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any of the Company's securities in any jurisdiction, to or from any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

In making an investment decision, investors must rely on their own examination of the Company and the terms of the Offer, including the risks involved. The Offer is being made on the basis of this prospectus only.

Market data and certain industry forecasts used throughout this prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Company nor the Joint Lead Managers make any representation as to the accuracy of such information.

The Bonds are offered subject to receipt and acceptance of any order by the Company and subject to the Company's right to reject any order in whole or in part.

Each investor in the Bonds must comply with all laws applicable to it and must obtain the necessary consent, approvals or permission for its purchase, offer or sale under the laws and regulations in force in any jurisdiction to which it is subject, and neither the Company nor the Joint Lead Managers shall have any responsibility therefor.

The Company is organized under Philippine laws. The cash dividend policy of the Company entitles the holders of its Common Shares to receive annual cash dividends equivalent to 100% of the prior year's recurring net income, which is net income calculated without respect to extraordinary events that are not expected to recur, based on the recommendation of the Board of Directors. Such recommendation will take into consideration factors such as the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments and acquisitions, appropriate reserves and working capital, among others. The cash dividend policy is subject to review and may be changed by the Company's Board of Directors at any time (see *"Related Stockholder Matters" – "Dividends and Dividend Policy"* on page 104).

This prospectus includes forward-looking statements. The Company has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. Words including, but not limited to, "believes," "may," "will," "estimates," "continues," "anticipates," "intends," "expects" and similar words are intended to identify forward-looking statements. In light of the risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this prospectus might not occur. The Company's actual results could differ substantially from those anticipated in the Company's forward-looking statements.

Any inquiries regarding this prospectus should be forwarded to the Company. Its principal office is at 40 San Miguel Avenue, Mandaluyong City, Philippines, with telephone number +632 632 3000.

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

SAN MIGUEL BREWERY INC.

By : _____
Name : Roberto N. Huang
Title : President

REPUBLIC OF THE PHILIPPINES)
CITY OF MANDALUYONG)SS.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport No.	Expiry Date and Place of Issue
Roberto N. Huang	XX0632204	February 27, 2013 / Manila

who is personally known to me and to me known to be the same person who presented the foregoing instrument and signed the same in my presence and who took an oath before me as to such instrument.

Witness my hand and seal this 15th day of March, 2012.

NOTARY PUBLIC
JESSICA L. ABRENICA
Commission No. 0238-11
Notary Public for Mandaluyong City
Until Dec. 31, 2012
SMB, 40 San Miguel Avenue, Mandaluyong City
Roll No. 47590
PTR No. 1954392; 01/18/2012; Mandaluyong City
Lifetime Member No. 09484; 01/05/11; Makati City

Doc. No. 30;
Page No. 7;
Book No. III;
Series of 2012

TABLE OF CONTENTS

GLOSSARY OF TERMS

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

2009 Fixed Rate Bonds	₱ 38,800,000,000 fixed rate bonds consisting of Series A bonds, Series B bonds and Series C bonds due April 3, 2012 for Series A bonds, April 4, 2014 for Series B bonds and April 3, 2019 for Series C bonds.
ABI	Asia Brewery, Inc.
ABV	Alcohol-by-volume, expressed as a percentage.
AIBC	Anchor Insurance Brokerage Corporation.
Allocation Report	The report to be prepared by the Issue Manager and sent to the Issuer, the Joint Lead Managers and the Participating Underwriters no later than three Business Days before the Issue Date, allocating the Bonds among the Joint Lead Managers and the Participating Underwriters, for issuance to their respective clients.
Application to Purchase	The application form accomplished and submitted by an applicant for the purchase of a specified amount of the Series D Bonds, Series E Bonds and Series F Bonds, together with all the other requirements set forth in such application form.
Business Day	A day other than Saturday or Sunday on which banks are open for business in Metro Manila, Philippines.
BIR	The Philippine Bureau of Internal Revenue.
Bonds	The Philippine Peso denominated fixed rate bonds with terms of five years and one day, seven years and ten years to be issued by the Issuer with an aggregate principal amount of Twenty Billion Pesos (₱20,000,000,000.00) consisting of Series D Bonds, Series E Bonds and Series F Bonds, which the Joint Lead Managers and the Participating Underwriters have agreed to distribute and sell on the Issue Date, and underwrite on a firm commitment basis, with features as set out in the Terms and Conditions.
Bondholders	The holders of the Series D Bonds, Series E Bonds and Series F Bonds who, at any relevant time, appear in the Register of Bondholders as the registered owner of the Bonds, with each holder being a "Bondholder".
Board of Directors	The Board of Directors of the Company.
BLI	Brewery Landholdings, Inc.
BPI	Brewery Properties Inc.
BSP	Bangko Sentral ng Pilipinas, the central bank of the Philippines.
Canadean	Canadean Limited, a leading global beverage research company.

Canadean Report	The report on the Philippine beer industry prepared by Canadean for inclusion in this prospectus.
CAGR	Compound annual growth rate.
CBA	Collective Bargaining Agreement.
Change in Law	The enactment, passing, revoking, overturning, modification, amendment or abrogation, change in interpretation of any decree, statute, law, regulation, license, permit, authorization, concession, approval or other administrative act of the Government which comes into force after the Issue Date, or any change in the interpretation or application of any of the foregoing by the Government.
Common Shares	The Company's shares of common stock, par value of ₱1.00 per share.
Company	San Miguel Brewery Inc.
Corporation Code	Batas Pambansa Blg. 68, otherwise known as "The Corporation Code of the Philippines."
DENR	The Philippine Department of Environment and Natural Resources.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
ECC	Environmental Compliance Certificate.
Economy	In respect of the market for beer, used to describe a market segment, meaning the bottom tier of socio-economic groups covering *Gold Eagle Beer* and Beer na Beer brands.
EIS System	The Philippine Environmental Impact Statement System.
Eligible Bondholders	Institutional and retail investors other than Prohibited Bondholders determined by the Issuer and Joint Lead Managers and Participating Underwriters to be eligible holders of the Bonds.
Equivalent Case	A measure of volume for beer, equal to a 24-bottle case of 320 ml bottles, the standard size for *San Miguel Pale Pilsen*, equivalent to 7.68 liters.
Excise Taxes	Taxes levied on beer products based on removals from the plant where the products are produced.
Food Development Center	An agency of the National Food Authority of the Philippines.
Government	Any government agency, authority, bureau, department, court, tribunal, legislative body, public official, statutory or legal entity (whether autonomous or not), commission, corporation, or instrumentality, whether national or local, of the Republic of the Philippines.
Group	The Company and its subsidiaries.
GSMI	Ginebra San Miguel, Inc.
Hectoliter or hl	100 liters or 13.02 Equivalent Cases.
High-Alcohol Beer	Any beer with ABV of more than 5%.

IBI	Iconic Beverages, Inc.
IFRS	International Financial Reporting Standards.
Issue Date	April 2, 2012 or such other date as the Issuer and Issue Manager may agree in writing, provided that such date shall be a date, which is within the validity of the SEC Permit to Sell Securities.
Issue Manager	ING Bank N.V., Manila Branch.
Issue Management and Underwriting Agreement	The agreement dated as of March 15, 2012 executed by and among the Issuer, the Issue Manager, and the Joint Lead Managers for the issuance, placement, distribution and sale of the Bonds in the Philippines.
Issue Price	100% of the face value for Series D Bonds, Series E Bonds and Series F Bonds.
Issuer	San Miguel Brewery Inc., a corporation duly organized and existing under Philippine law.
Joint Lead Managers	BDO Capital & Investment Corporation, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Manila Branch, SB capital investment corporation, and Standard Chartered Bank, each a "Joint Lead Manager".
Kirin	Kirin Holdings Company, Limited.
Low-Calorie Beer	Any beer with caloric content at least 33% lower than ordinary beer.
Majority Bondholders	Bondholders holding 51% of the outstanding Bonds.
Master Bond Certificate	For each of the Series D Bonds, Series E Bonds and Series F Bonds, the bond certificate issued by the Issuer in the name of the Trustee for the benefit of the Bondholders covering the entire principal amount of the Bonds purchased during the Offer Period therefor and to be issued by the Issuer on the Issue Date, which shall be substantially in the form attached as Annex "B" of the Trust Agreement.
Manual	The Company's Manual on Corporate Governance, approved by the Board of Directors on October 25, 2007, and as amended as of December 8, 2011.
Maturity Date	Five years and one day from Issue Date or on April 3, 2017 for Series D Bonds, seven years from Issue Date or on April 2, 2019 for Series E Bonds and ten years from Issue Date or on April 2, 2022 for Series F Bonds.
MCIT	The minimum corporate income tax under the National Internal Revenue Code of the Philippines, as amended, which is currently fixed at 2.0%.
Offer	The offer for sale, distribution and issuance of the Bonds by the Issuer to Eligible Bondholders.

Offer Period	The period when the Bonds are offered for sale, distribution and issuance by the Issuer to Eligible Bondholders, commencing at 9:00 a.m. on March 19, 2012 and ending at 5:00p.m. on March 23, 2012 or such other dates as may be determined by the Issuer and the Issue Manager.
Off-premise	With respect to beer sales, means sales at grocery stores, convenience stores, sari-sari stores and other outlets other than on-premise outlets.
On-premise	With respect to beer sales, means sales at consumer outlets where consumers purchase and immediately consume beer, such as bars, restaurants, hotels and food stalls.
PAB	The Philippine Pollution Adjudication Board.
Participating Underwriters	Other underwriters engaged by the Joint Lead Managers for the sale and distribution of the Bonds pursuant to their authority to enter into sub-underwriting agreements in accordance with the terms of the Issue Management and Underwriting Agreement.
PAS	Philippine Accounting Standards.
PDEx	Philippine Dealing & Exchange Corporation.
PDTC	Philippine Depository & Trust Corporation.
Permit to Sell Securities	The permit to be issued by the SEC authorizing the Issuer to sell, distribute and issue the Bonds to the public.
Philippine Peso or ₱	The lawful currency of the Republic of the Philippines.
PFRS	Philippine Financial Reporting Standards.
PhilRatings	Philippine Rating Services Corporation.
Polo Brewery	The Company's operating brewery located in Valenzuela City, Metro Manila which primarily serves the Luzon market.
Popular	In respect of the market for beer, used to describe a market segment by the Company under its internal segmentation, meaning the middle tier of socio-economic groups covering *San Miguel Pale Pilsen*, *Red Horse*, Colt 45 and Coors Regular brands.
Premium / Super Premium	In respect of the market for beer, used to describe a market segment by Canadean under the Canadean Report, meaning the upper tier of socio-economic groups covering *San Miguel Pale Pilsen*, *San Mig Light*, *San Miguel Super Dry*, *San Mig Strong Ice*, *Cerveza Negra* and imported beers.
Premium / Upper Premium	In respect of the market for beer, used to describe a market segment by the Company under its internal segmentation, meaning the upper tier of socio-economic groups covering *San Miguel Super Dry*, *Cerveza Negra*, *San Miguel Premium All-Malt* and imported beers.

Prohibited Bondholders	The Issuer, its subsidiaries and affiliates, and wholly or majority-owned or controlled entities of such subsidiaries and affiliates. For purposes of this definition, an "affiliate" of the Issuer is an entity at least 20% but not more than 50% of the outstanding voting stock of which is owned by the Issuer.
PSE	The Philippine Stock Exchange, Inc.
Register of Bondholders	The electronic records of the Registrar bearing the official information on the names and addresses of the Bondholders and the number of Bonds they respectively hold, including all transfers of the Bonds and the names of subsequent transferee Bondholders.
Registrar	The Philippine Depository & Trust Corp., a corporation with a quasi-banking license duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at the 37th Floor, Tower 1, The Enterprise Center 6766 Ayala Avenue, Makati City, whose principal obligation is to maintain the Register of Bondholders and record the initial issuance and subsequent transfers of the Bonds.
RTGS	Real Time Gross Settlement.
San Miguel Beer Brands	Certain Philippine beer and malt-based beverages brands, including related trademarks, copyrights, patents, and other intellectual property rights and know-how being used by the Company for its domestic beer business.
San Miguel Packaging Group . . .	A group comprised of SMYPC, SMYAC, SMYFMC and Mindanao Corrugated Fibreboard, Inc.
SEC	The Securities and Exchange Commission of the Philippines.
Series A Bonds	Series A of the 2009 Fixed Rate Bonds with a face value of ₱ 13.59 billion.
Series D Bonds	Bonds to be issued by the Issuer with an aggregate principal amount of ₱3,000,000,000.00 having a term beginning on the Issue Date and ending five years and one day from the Issue Date or on April 3, 2017, with a fixed interest rate equivalent to 6.05% per annum.
Series E Bonds	Bonds to be issued by the Issuer with an aggregate principal amount of up to ₱10,000,000,000.00 having a term beginning on the Issue Date and ending seven years from the Issue Date or on April 2, 2019, with a fixed interest rate equivalent to 5.93% per annum.
Series F Bonds	Bonds to be issued by the Issuer with an aggregate principal amount of up to ₱7,000,000,000.00 having a term beginning on the Issue Date and ending ten years from the Issue Date or on April 2, 2022, with a fixed interest rate equivalent to 6.60% per annum.
SFAS	Statements of Financial Accounting Standards.
SMB Land	Land on which all of the Company's production facilities (other than the Sta. Rosa production facility) and certain sales offices used by the Company for its beer businesses are located.
SMC	San Miguel Corporation.

SMC Group	SMC and its consolidated subsidiaries.
SMCSL	SMC Shipping and Lighterage Corporation.
SMCSTSC	SMC Stock Transfer Service Corporation.
SMBIL	San Miguel Brewing International Limited.
SMITS	SMITS, Inc.
SMPI	San Miguel Properties, Inc.
SMPFC	San Miguel Pure Foods Company, Inc.
SMYAC	San Miguel Yamamura Asia Corporation.
SMYFMC	San Miguel Yamamura Fuso Molds Corporation.
SMYPC	San Miguel Yamamura Packaging Corporation.
SRC	Republic Act No. 8799, otherwise known as "The Securities Regulation Code of the Philippines," as amended from time to time, and including the rules and regulations issued thereunder.
Standard	In respect of the market for beer, used to describe a market segment, meaning the middle tier of socio-economic groups. For the Company, this refers to the popular segment which is comprised of *San Miguel Pale Pilsen*, *Red Horse*, Colt 45 and Coors Regular. For the Canadean Report, this refers to the standard segment which is comprised of *Red Horse* and Colt 45 brands.
Tax Code	The amended Philippine National Internal Revenue Code of 1997 and its implementing rules and regulations.
Terms and Conditions	The terms and conditions pursuant to which the Issuer issues, and the Bondholders subscribe for, the Bonds which constitute an integral part of the Master Bond Certificate.
Upper Popular	In respect of the market for beer, used to describe a market segment by the Company under its internal segmentation, meaning the upper middle tier of socio-economic groups covering *San Mig Light*, *San Mig Strong Ice*, *San Miguel Alcoholic Malt Beverage*, *Oktoberfest Brew* and Coors Light.
U.S. dollars or US$	The lawful currency of the United States of America.
USD Facility	The Company's US$300 million term facility.
VAT	Value-added tax.

SUMMARY

The following summary is qualified in its entirety by the more detailed information, including the Company's audited consolidated financial statements and notes relating thereto, beginning on page F-1 of this prospectus. For a discussion of certain matters that should be considered in evaluating an investment in the Bonds, see the section of this prospectus entitled "Risk Factors." Investors are recommended to read this entire prospectus carefully.

OVERVIEW OF THE COMPANY

The Company is the largest producer of beer in the Philippines, with a total market share of more than 90% in 2010, according to Canadean Limited ("Canadean"). The Company's beer brands include all of the top four beer brands in the Philippines, namely *San Miguel Pale Pilsen, Red Horse, San Mig Light* and *Gold Eagle. San Miguel Pale Pilsen*, the Company's flagship brand, has a history of over 122 years. San Miguel beer was first produced by La Fabrica de Cerveza de San Miguel ("San Miguel Brewery"), a small brewery in the Philippines that began its operations in 1890. San Miguel Brewery provided the foundation from which SMC has grown to become the largest food, beverage and packaging company in the Philippines today. San Miguel Brewery was renamed San Miguel Corporation ("SMC") in 1963.

From a single brewery producing a single product in 1890, SMC's corporate history and business portfolio have evolved over the years. It entered the soft drinks business in 1922 and became the first overseas bottler of The Coca-Cola Company in 1927. To meet the needs of its beer and soft drinks businesses, SMC established a glass packaging plant in Manila in 1938 to supply its own requirements. SMC has expanded to include other food, beverage and packaging products. It has also grown geographically from a Philippine-based beer company to become a regional producer in the Asian beer market. The San Miguel brewery in Hong Kong was founded in 1948 and by the 1970s, San Miguel beer had established a strong market position in Hong Kong. Building on San Miguel beer's leading positions in the Philippines and Hong Kong, SMC expanded into new markets, including China in 1991, Indonesia in 1992, Vietnam in 1993, and Thailand in 2004. Prior to the creation of the Company, all of SMC's beer operations were under the San Miguel Beer Division ("SMBD"), a business unit of SMC.

On July 24, 2007, the shareholders of SMC approved the transfer of SMC's domestic Philippine beer business assets to the Company in exchange for additional shares in the Company, a wholly-owned subsidiary of SMC. The assets transferred to the Company comprise the domestic beer business' net assets as of June 30, 2007, excluding land, brands and income and other taxes payable. The Company was incorporated on July 26, 2007, and the domestic beer business was spun off from SMC effective October 1, 2007. The spin-off of SMC's domestic beer business into the Company was intended to realize the value of SMC's flagship business. Following approval by the shareholders of SMC of the spin-off of the domestic beer business and the creation of the Company, all plant and equipment used by SMBD in the domestic beer business were transferred to the Company, while SMC retained ownership of the brands and land assets used in the domestic beer business. Under this structure, the Company has agreed to pay SMC royalties for the use of brands and other intellectual property rights of SMC, rentals for the lease of the land assets, fees for shared services and dividends.

The Company undertook an initial public offering of its shares ("IPO") in April-May 2008. Prior to the IPO, the Company had total outstanding shares of 15,333,426,960 common shares. In the IPO, a total of 77,052,000 common shares were offered by way of primary offering, while a total of 809,050,000 common shares owned by SMC were offered by way of secondary offering. After the IPO, the Company's resulting outstanding shares totaled 15,410,478,960 common shares which were listed on the PSE on May 12, 2008.

In 2009, Kirin Holdings Company, Limited ("Kirin") acquired a 48.39% shareholding in the Company, of which 43.249% was acquired from SMC and the remaining 5.141% by virtue of a mandatory tender offer. SMC retained majority ownership of the Company with shareholding of 51%.

The Company issued on April 3, 2009, the 2009 Fixed Rate Bonds to finance its acquisition of the interests of SMC in Iconic Beverages, Inc. ("IBI") and Brewery Properties Inc. ("BPI").

IBI is the company into which SMC transferred certain Philippine beer and malt-based beverages brands, including related trademarks, copyrights, patents, and other intellectual property rights and know-how, while BPI is the company into which SMC transferred certain parcels of land on which all of the Company's production facilities (other than the Sta. Rosa production facility) and certain sales offices used by the Company for its beer businesses are located ("SMB Land"). Brewery Landholdings, Inc. ("BLI"), the wholly-owned subsidiary of BPI, also owns land on which certain sales offices used by the Company in its domestic beer operations are located.

The Company completed its purchase of SMC's interests in IBI on April 29, 2009, as a result of which IBI became a wholly-owned subsidiary of the Company. On the other hand, the Company and SMC executed a Deed of Absolute Sale of Shares on November 10, 2010 for the purchase by the Company of all the interests of SMC in BPI, comprising 40% of the issued and outstanding capital stock of BPI. The outstanding portion of the purchase price for the said shares will be paid upon transfer of the remaining eight SMB Land titles.

In January 2010, the Company completed its acquisition of the international beer and malt-based beverage business of SMC, San Miguel Brewing International Limited ("SMBIL"), from San Miguel Holdings Limited, a wholly-owned subsidiary of SMC. The Company operates one brewery each in Indonesia, Vietnam, Thailand and Hong Kong, and two breweries in China. As of 2011, international operations account for 18% of the total revenues of the Company. SMBIL's beer brands in the international market, include the San Miguel beer brands, and local brands such as *Blue Star*, *Anker* and *Dragon.*

On January 1, 2012, the amended rules on minimum public ownership of the PSE took effect. The Company is exploring various options to comply with the minimum public ownership requirement of the PSE, which options include, among others, issuance of new shares, secondary offering, and private placement.

Strengths

The Company believes that its principal strengths include the following:

- ***Dominant market share and brand leadership.*** From a single product produced in a single brewery in 1890, San Miguel beer has, over 122 years later, grown into an array of popular beer products catering to the distinct tastes and preferences of beer drinkers across all segments and markets in the Philippines. *San Miguel Pale Pilsen*, the Company's flagship brand, has been an iconic Philippine brand for most of the 20th century and up to today. After considering the Filipino beer drinker's evolving preferences, other brands and products have been introduced, and these have been very successful. Today, the Company offers a portfolio of eleven strong and popular brands: *San Miguel Pale Pilsen, Red Horse, San Mig Light, San Miguel Super Dry, Cerveza Negra, San Mig Strong Ice, Gold Eagle, San Miguel Premium All-Malt, San Miguel Alcoholic Malt Beverage, Oktoberfest Brew* (a seasonal beer), and *Cali*, the country's only malt-based non-alcoholic drink. The various products carry distinct attributes that cater to the various segments of the Philippine beer market. The Company's products have been internationally recognized for quality, garnering a total of one grand gold award, 35 gold medals, 20 silver medals, two bronzes, three International High Quality trophy, and one Crystal Prestige award from Monde Selection International since 2000.

  - ***Strong brand Equity***

    The Company's products have consistently dominated the market for beer in the Philippines, the country's largest alcoholic beverage segment. Based on Canadean data, the Company's products captured a high market share of more than 90% in 2010. The country's top four beer brands are all produced by the Company. Unlike most other markets for beer, in the Philippines, imported brands account for only 0.2% of the market, with distribution limited to upscale bars and hotels and high-end supermarkets. Despite the entry of local competition in 1981 and the introduction of a few locally brewed versions of foreign brands, the Company has maintained an extremely strong market position. The popular acceptance and widespread availability of the Company's products have helped strengthen market position over the years. The Company's size and scale of operations provide significant economies of scale in production, research and development, distribution, and managerial and marketing functions over a diversified product portfolio and geographic base. Its size also results in substantial leverage and significant bargaining power with suppliers and retailers.

- ***Ownership of Events***
  The Company conducts trademark nationwide special events such as San Miguel Oktoberfest, Red Horse Muziklaban and Summer "Sarap MagBabad", and is a dominant presence in major fiestas and festivals which have increased brand exposure to the consumers.

- ***Efficient Manufacturing Process.***

  - ***Proximity of Production Facilities to Consumer Markets.*** To ensure product availability and freshness, as well as to minimize distribution costs, the Company maintains a network of six production facilities that are strategically located in the three main islands of the Philippines: Luzon, Visayas and Mindanao. The Company has facilities in each of Valenzuela City in Metro Manila, Sta. Rosa in Laguna, San Fernando City in Pampanga, Mandaue City in Cebu, Bacolod City in Negros Occidental and Darong, Sta. Cruz in Davao del Sur, with a total annual production capacity of 16.8 million hectoliters. The facilities are equipped with automated equipments capable of brewing and packaging the Company's products in a variety of sizes and formats, including bottles, cans, and kegs. The strategic location of the Company's production facilities reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists the Company in ensuring that the beer is freshly delivered to dealers at an optimal cost. The archipelagic nature of Philippine geography and the relative difficulty of transporting products to the country's substantial rural population make these dispersed production facilities particularly valuable.

  - ***Cost Leadership.*** The Company maintains a strong cost leadership position through high productivity and efficiency, as well as cost control measures, which facilitate pricing flexibility and greater profit growth by maintaining the Company's margins. The Company's product quality initiatives, process enhancements, and improvement programs for plant operations and facilities management are all expected to be sustained. The Company continuously implements process optimization efforts and technology enhancements to generate cost savings.

- ***Extensive Distribution System and Wide Dealership Network.*** The Company has a far-reaching and efficient distribution system in the Philippines, which is based on six strategically located production facilities and effective management of third party service providers and provides the Company with a competitive advantage. The Company's 50 sales offices, contracted logistics service providers and transportation assets including hauling trucks, routing trucks, pre-sell vans and service pick-ups and its network of 501 dealers across the Philippines enable it to maintain optimum stock levels in terms of quality and quantity in 481,103 on-premise and off-premise outlets nationwide. The Company's products are delivered from any one of the Company's six production facilities by contract haulers to a sales office or dealer warehouse within five days of production date or less. The sales office or dealer then delivers the beer to the wholesaler or retailer promptly afterward, ensuring ample stock and quality wherever and whenever the Company's products are needed.

- ***Returnable Glass Bottle System.*** The Company's returnable bottle system helps keep the price of its beer products affordable. The Company is able to achieve a 95% average retrieval rate for its bottles, maximizing bottle usage and substantially reducing its packaging costs.

- ***Positioned in strategic growth markets in Asia-Pacific with a broad portfolio of San Miguel and local brands.*** The Company through its subsidiary, SMBIL, has business operations in five countries which are major beer markets in Asia and offer attractive growth prospects in the medium-term (i.e., China, Hong Kong, Vietnam, Indonesia and Thailand). SMBIL has a broad portfolio of strong international and local brands, with the premium brand San Miguel growing in most of its international markets while local brands Blue Star in Baoding in north China and Anker in Indonesia remain as major brands in their respective markets. SMBIL also employs focused sales and distribution systems and owns six breweries which have a total production capacity of 7.1 million hectoliters to support its operations. The Company's footprint in the global beer market is also backed by SMBIL's export operations which cover over 50 markets in the Asia-Pacific.

- ***Financial Strength.*** The Company has consistently shown a strong financial position with attractive growth prospects. Stable sales growth and cost efficiencies achieved have resulted in consistent improvements in EBITDA margins. The Company continues to exhibit strong cash flows due to efficient working capital management and prudent capital expenditure programs.

- ***Highly Experienced management and production team.*** The Company has an extensive pool of experienced managers, with many senior managers having been with the Company for an average of 20 years. The management team is well accustomed to the Philippine operating environment, and has been able to effectively manage the Company through periods of crisis and instability in the Philippines. The Company also has established experts in its production process, including 34 brewmasters, each of whom has completed advanced training and has more than ten years of on-the-job-training experience working for the Company.

Strategy for Domestic Operations

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

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

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

  - ***Segmented pricing strategy.*** The Company intends to keep its products affordable for the middle and lower socio-economic sectors by maintaining a moderate pricing strategy for its products in the Popular and Economy markets, where sales are highly price elastic. For the more upscale, or Upper Popular market, where sales are less price elastic, the Company plans to sustain the higher price positioning of its specialty brands, supported by image-building activities to strengthen their premium positioning and improve their profitability. Amid the global economic slowdown, the Company intends to manage and align the timing and magnitude of price increases for all its products to sustain volume growth as well as cover increases in tax rates on beer and higher material costs. With the forecasted moderate Philippine economic growth in 2012, the Company intends to pursue this segmented pricing strategy to protect its gains and to sustain the general uptrend for the industry as evidenced by the Company's high market share and increased level of sales in 2011.

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

    The Company intends to implement new programs and initiatives catering to the younger segment of the market to protect its core customers and strengthen the appeal and preference for the brand among new drinkers. The Company expects to further grow main brands *San Miguel Pale Pilsen, Red Horse*

and *San Mig Light* through the introduction of new thematic campaigns, special events and volume-generating programs aligned with the respective positioning of these brands in the market. For the Company's specialty brands, including *San Miguel Premium All-Malt*, *Cerveza Negra*, *San Miguel Super Dry*, and *San Mig Strong Ice*, the Company plans on increasing its efforts in on-premise channels by matching these brands with appropriate on-premise outlets and through event sponsorships, party series and tie-ups with other companies. Specialty brands will also be promoted in targeted off-premise channels through increased visibility and promotions.

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

- ***Intensify Trade Execution and Innovation.*** The Company intends to further expand its trade reach and increase the visibility and availability of its products in retail outlets by accelerating point-of-sale promotions and merchandising programs for both on- and off-premise outlets to increase sales and outlet yield. In pursuing this strategy, the Company will focus on improving the efficiency of its trade operations, including trade penetration levels and adherence to suggested retail prices in all distribution channels by strengthening per-outlet management, intensifying route assisting activity and alternative distribution mode management such as pedicabs (bicycle-driven cabs) and tricycles, which help to deliver the Company's products to remote areas. The Company also intends to raise its frequency of calls to retail outlets. Management of the dealers' territories will be strengthened through intensified retail-based servicing and territorial reconfiguration.

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

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

awareness and consumption of the brand. The Company intends to pursue packaging innovations and capitalize on the market trends toward convenience packaging and premium products as well as increasing sophistication of consumers. The Company is developing packaging improvements for existing brands as well as convenience pack formats consistent with faster-paced lifestyles and addressing the various activities and interest of consumers.

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

Strategy for International Operations

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

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

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

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

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

RISKS OF INVESTING

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Bonds. These risks include:

- risks relating to the Company and its business, including:

  - The Company's business and prospects may be adversely affected by changes in consumers' preferences or purchasing power.

  - The Company's financial position and financial performance may be adversely affected by any disruptions in the supply of, or the price fluctuations for, its major raw materials.

  - Demand for the Company's products is highly price elastic, and if the Company increases its prices, sales volumes may fall, which may negatively affect the Company's financial results and financial performance.

  - The Company may not be successful in implementing its strategy to increase its sales volume.

  - Competition in the Company's businesses and markets may cause the Company to lose market share or reduce its operating margins, which could adversely affect its financial performance and financial position.

  - The Company depends on trademarks and proprietary rights to enhance its reputation, and infringement of these rights could adversely affect the Company's competitive position; reputational issues involving other entities entitled to use the brands and trademarks used by the Company could also adversely affect the Company.

  - The Company is dependent on third parties in certain critical areas of its operations.

  - The Company's controlling shareholders are able to exercise substantial influence over the Company's corporate policies and direct the outcome of corporate actions.

  - The Company's business and sales are affected by seasonality.

  - The Company depends on certain key personnel, and its business and growth prospects may be disrupted if their services were lost.

  - Under certain circumstances, the Company may not be able to meet increased demand for its products and may have to incur significant additional capital expenditures to avoid capacity constraints.

  - Consolidation of sales channels in the Philippines may adversely affect the Company's financial position and financial performance.

  - Product liability claims or other circumstances could harm the integrity and customer support for the Company's brands and adversely affect the sales of its products.

  - Sales of the Company's products may be adversely affected if its relationship with dealers deteriorates.

  - Regulatory decisions and changes in the legal and regulatory environment in which the Company operates could limit its business activities or increase its operating costs.

  - Increases in excise tax rates applicable to beer or increases in other taxes to which the Company is subject may reduce consumption of the Company's products or the Company's margins or reduce both.

  - Philippine environmental laws and regulations create potential liabilities should the Company fail to comply with prescribed environmental standards and limits.

- The Company may be adversely affected by any change in environmental, health and safety, accounting standards and other laws and regulations.

- Outbreaks of disease may dampen demand for the Company's products and may therefore adversely affect the Company's financial position and financial performance.

- risks relating to the Philippines, including:

  - Political or social instability in the Philippines could have a negative effect on the financial position and business of the Company.

  - The Company's business and sales may be negatively affected by slow growth rates and economic instability in the Philippines as a result of the continued sluggish recovery of the global economy or other factors adversely affecting the country's economic performance.

  - If foreign exchange controls were to be imposed, the Company's ability to purchase imported raw materials, primarily malted barley and technically advanced equipment, could be adversely affected.

  - The occurrence of natural catastrophes or power outages may materially disrupt the Company's operations.

- risks relating to the Offer, including:

  - Secondary trading of the Bonds is subject to various market factors.

  - The Bonds will constitute direct, unconditional, unsubordinated, and unsecured obligations of the Issuer.

  - The Bonds may be redeemed prior to Maturity Date upon the occurrence of certain events such as change in taxation or regulation, or the exercise by the Company of the redemption option for the Series E Bonds and Series F Bonds.

  - There is no assurance that a market for the Bonds will exist, and the Bonds may offer limited liquidity.

- risks relating to certain statistical information in this prospectus:

  Certain statistics in this prospectus relating to the Philippines, the industries and markets in which the Company's business operates have not been independently verified and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines.

Please refer to the section of this prospectus entitled "Risk Factors," which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with the purchase of the Bonds.

SUMMARY OF FINANCIAL AND OPERATING INFORMATION

The following tables present summary financial information for the Company and should be read in conjunction with the report of independent auditors, Company's audited consolidated financial statements and notes thereto contained in this prospectus and the section entitled "Management's Discussion and Analysis of Financial Position and Financial Performance."

The information below is not indicative of the results of future operations.

	Audited Consolidated Financial Statements		
	For the Years Ended		
	December 31, 2011	December 31, 2010	December 31, 2009
	₱	₱	₱
	(in millions, except per share figures or where otherwise indicated)		
Statements of Income [1]			
Sales	71,910	67,575	51,009
Cost of Sales	(36,819)	(34,505)	(26,261)
Gross Profit	35,091	33,070	24,748
Selling and Administrative Expenses	(14,620)	(14,519)	(8,737)
Operating Income	20,471	18,551	16,011
Interest Expense and Other Financing Charges	(4,132)	(3,983)	(2,600)
Interest Income	658	696	538
Income from Acquisition of Assets at Fair Value	-	2,418	-
Impairment Losses on Noncurrent Assets	(30)	(3,694)	-
Other Income (Charges) - Net	402	1,247	(19)
Income Before Income Tax	17,369	15,235	13,930
Income Tax Expense	(5,187)	(4,862)	(3,897)
Net Income	12,182	10,373	10,033
Attributable to:			
Equity holders of the Parent Company	11,962	11,768	10,033
Non-controlling interests	220	(1,395)	-
	12,182	10,373	10,033
Earnings per share [2]	0.78	0.76	0.65
Number of shares outstanding	15,410	15,410	15,410
Statements of Financial Position [1]			
Current Assets			
Cash and cash equivalents	18,279	15,076	13,563
Trade and other receivables - net	4,977	4,366	3,311
Inventories	3,370	3,557	3,246
Prepaid expenses and other current assets	996	1,149	653
Total Current Assets	27,622	24,148	20,773
Noncurrent Assets			
Investments - net	132	135	-
Property, plant and equipment - net	20,214	19,635	5,765
Investment property - net	664	1,379	-
Intangible assets - net	36,063	36,136	32,020
Deferred tax assets	341	68	232
Other noncurrent assets - net	6,387	5,620	5,300

	Audited Consolidated Financial Statements For the Years Ended		
	December 31, 2011	December 31, 2010	December 31, 2009
	₱	₱	₱
	(in millions, except per share figures or where otherwise indicated)		
Total Noncurrent Assets	63,801	62,973	43,317
Total Assets	91,423	87,121	64,090
Current Liabilities			
Drafts and loans payable	1,857	1,644	-
Accounts payable and accrued expenses	7,296	6,833	4,077
Income and other taxes payable	2,606	2,263	1,679
Current maturities of long-term debt, net of debt issue costs	13,577	-	-
Total Current Liabilities	25,336	10,740	5,756
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue cost	37,962	51,364	38,416
Deferred tax liabilities	35	89	-
Other noncurrent liabilities	216	107	-
Total Noncurrent Liabilities	38,213	51,560	38,416
Total Liabilities	63,549	62,300	44,172
Equity			
Capital Stock	15,410	15,410	15,410
Additional paid-in capital	515	515	515
Cumulative translation adjustments	(672)	(542)	-
Retained Earnings	10,618	7,286	3,993
Non-controlling interests	2,003	2,152	-
Total Equity	27,874	24,821	19,918
Total Liabilities and Equity	91,423	87,121	64,090
Cash Flow			
Net cash flows provided by (used in):			
Operating activities	14,344	14,912	12,024
Investing activities	(2,302)	(17,746)	(33,645)
Financing activities	(8,842)	4,584	29,147
Effect of exchange rate changes on cash and cash equivalents	3	(237)	(4)
Net increase in cash and cash equivalents	3,203	1,513	7,522
Cash and cash equivalents at beginning of year	15,076	13,563	6,041
Cash and cash equivalents at end of year	18,279	15,076	13,563

Other Financial and Operating Data	For the Years Ended December 31, 2011	December 31, 2010	December 31, 2009
EBITDA [3]	23,536	21,522	17,836
EBIT [3]	20,471	18,551	16,011
Capital Expenditure	1,778	956	626
Depreciation and amortization	2,631	2,802	1,858
Gross profit margin	48.8%	48.9%	48.5%
EBITDA margin	32.7%	31.8%	35.0%
EBIT margin	28.5%	27.5%	31.4%
Volume (Equivalent Cases)	223.8	220.8	175.8
Volume (hectoliters)	17.2	17.0	13.5
Average selling price/case (in pesos)- domestic operations	313.64	300.65	288.94
Average selling price/case (in pesos)- international operations	350.14	327.55	315.64
Average selling price/Hectoliter (in pesos) – domestic operations	4,084	3,915	3,762
Average selling price/Hectoliter (in pesos) – international operations	4,559	4,265	4,110

Notes:

(1) The Consolidated Statements of Income and Consolidated Statements of Financial Position for the years ended and as at December 31, 2011 and 2010 refer to the consolidated accounts of the Company, IBI, BPI and SMBIL while the Consolidated Statements of Income and Consolidated Statements of Financial Position for the year ended and as at December 31, 2009 refer to the consolidated accounts of the Company and IBI only.

(2) Computed as net income divided by the weighted average number of Common Shares issued and outstanding each period.

(3) EBITDA and EBIT are measures used by the Company's management to internally evaluate the performance of its business. EBITDA means, in respect of any Relevant Period, the net operating income of the Company: (a) before any provision on account of taxation; (b) before any interest, commission, discounts, fees, prepayment penalties or premiums and other finance payments incurred or payable, received or receivable by the Company in respect of the Company's total indebtedness for borrowed money; (c) before any items treated as exceptional or extraordinary items; and (d) before any amount attributable to the amortization of intangible assets and depreciation of tangible assets. Neither EBITDA nor EBIT is a measure determined in accordance with PFRS or IFRS, and should not be considered as an alternative to net income as a measure of operating performance or to cash flow as a measure of liquidity. The items of net income excluded from EBITDA are significant components in understanding and assessing the Company's financial performance. Neither EBITDA nor EBIT is intended to be a measure of free cash flow for management's discretionary use, as it does not reflect certain cash requirements such as interest payments, tax payments and capital expenditures. The Company's calculation of EBITDA and EBIT may be different from the calculation used by other companies and, as a result, the Company's EBITDA and EBIT may not be comparable to other similarly titled measures of other companies.

SUMMARY OF THE OFFER

The following summary is qualified in its entirety by, and should be read in conjunction with the more detailed information appearing elsewhere in this prospectus.

Issuer	:	San Miguel Brewery Inc.
Instrument	:	Philippine Peso denominated fixed rate bonds with terms of five years and one day, seven years and ten years to be issued by the Issuer up to an aggregate principal amount of Twenty Billion Pesos (₱ 20,000,000,000.00) consisting of Series D Bonds, Series E Bonds and Series F Bonds.
Use of Proceeds	:	To support the Company's redemption of the ₱ 13.59 billion fixed rate bonds maturing on April 3, 2012 and the partial prepayment of the Company's USD Facility
Issue Price	:	100% of the face value for Series D Bonds, Series E Bonds and Series F Bonds.
Form and Denomination of the Bonds	:	The Bonds will be issued in scripless form in denominations of ₱50,000.00, as a minimum, and in integral multiples of ₱10,000.00 in excess thereof.
Offer Period	:	The Offer shall commence at 9:00 a.m. on March 19, 2012 and end at 5:00 p.m. on March 23, 2012.
Issue Date	:	April 2, 2012 or such other date as the Issuer and the Issue Manager may agree in writing, provided that such date shall be a date which is within the validity of the SEC Permit to Sell Securities.
Maturity Date	:	Series D: five years and one day from Issue Date Series E: seven years from Issue Date Series F: ten years from Issue Date
Interest Rate	:	Series D: 6.05% Series E: 5.93% Series F: 6.60%
Interest Payment Date	:	The interest shall be payable every April 2 and October 2. Interest on the Bonds will be calculated on a 30/360-day count basis. An Interest Payment Date shall be automatically adjusted to fall on the immediately succeeding Business Day if the Interest Payment Date falls on a non-Business Day, but there shall be no adjustment in the amount of interest as originally computed. Interest on the first Interest Payment Date will cover the period from and including the Issue Date up to but excluding such Interest Payment Date. Subsequent interest payments shall be reckoned from and shall include the last Interest Payment Date up to but excluding the next Interest Payment Date.

		For purposes of clarity, the interest payable on the first Interest Payment Date for the Series D Bonds shall be calculated for a period of 181 days on the basis of a 360-day year.
Optional Redemption	:	The Issuer may (but shall not be obligated to) redeem all (and not a part only) of the outstanding Bonds on the day after the 10th Interest Payment Date for the Series E Bonds or the 14th Interest Payment Date for the Series F Bonds
Final Redemption	:	The Bonds will be redeemed at 100% face value on each of their respective Maturity Date.

RISK FACTORS

An investment in the Bonds involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. This section entitled "Risk Factors" does not purport to disclose all of the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may request publicly available information on the Bonds and the Company from the SEC. Each Investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of, the securities to be invested in or the nature of risks involved in the trading of securities.

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this prospectus, before making any investment decision relating to the Bonds. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Company or that are currently considered immaterial could have a material adverse effect on the Company's business, financial performance, financial position and prospects and the investors may lose all or part of their investment.

The means by which the Company plans to address the risks discussed herein are principally presented in the sections of this prospectus entitled "Business Overview — Strengths," "Business Overview — Strategies" and "Management's Discussion and Analysis of Financial Position and Financial Performance."

RISKS RELATED TO THE COMPANY

The Company's business and prospects may be adversely affected by changes in consumers' preferences or purchasing power.

The ability of the Company to successfully launch new products and maintain demand for its existing products depends on the acceptance of these products by consumers, as well as the purchasing power of consumers. Consumer preferences may shift because of a variety of reasons, including changes in demographic and social trends or changes in leisure activity patterns. For example, younger drinkers tend to be less loyal to any brand or any type of drink than the previous generation of drinkers. Concerns about health effects due to negative publicity regarding alcohol consumption or other factors may also affect consumers' purchasing patterns. If the Company does not respond effectively to changes in consumer preference, the Company's business and prospects may be adversely affected.

Sales of beer are also tied closely to consumers' purchasing power and disposable income levels. Adverse economic developments in the Philippines may affect consumers' purchasing power and disposable income levels, thereby adversely affecting the Company's financial performance and financial position. For example, in periods of economic uncertainty or downturns, consumers may purchase more hard liquor and less beer or they may purchase less alcoholic beverages, either of which would affect the Company's financial performance. The Company intends to enhance the value proposition of its products which would make the Company's business and prospects more closely related to the consumer's needs. A significant decrease in disposable income levels or consumer purchasing power in the Company's target markets could materially and adversely affect the Company's financial position and financial performance.

For more information, see "Business Overview — Strategies" on page 68 of this prospectus.

The Company's financial position and financial performance may be adversely affected by any disruptions in the supply of, or the price fluctuations for, its major raw materials.

The Company's products depend on raw materials that the Company procures from third parties, including purchases of critical raw materials, primarily malted barley, from abroad and the water supply for Polo Brewery. Certain raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls. Although the Company actively monitors the availability and prices of raw materials, there can be no assurance that these items will be supplied in adequate quantities to meet the Company's needs or will not be subject to significant price fluctuations in the future. While the Company may, in certain limited instances, be able to shift to alternative raw materials used in the production of its products, the Company cannot assure prospective investors that it will be able to reduce its reliance on these raw materials in the future. The Company does not fully hedge against commodity prices and any such hedging may not work as planned. Moreover, the market prices of raw materials may increase significantly if there are material shortages due to, among other things, competing usage or drastic changes in weather or natural disasters. The Company cannot assure prospective investors that it will be able to pass increases in product costs to consumers. As a result, any significant shortages or material increase in the market price of such raw materials may have a material adverse effect on the Company's financial position and financial performance.

For more information, see "Management's Discussion and Analysis of Financial Position and Financial Performance" on page 49 of this prospectus.

Demand for the Company's products is highly price elastic, and if the Company increases its prices, sales volumes may fall, which may negatively affect the Company's financial results and financial performance.

The substantial majority of beer drinkers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. Accordingly, the beer market in the Philippines is highly price elastic. If the Company raises the prices of its products, sales volumes will likely decline or slow down which may result in a lower level of net sales. On April 1, 2008, the Company raised the selling prices of its beer products by an average of 7%, primarily in response to sharp increases in the prices of the Company's raw materials in 2007 and 2008. Despite the cost pressures and price increases, however, the Company's sales volume still grew by 4% in 2008, albeit at a slower rate than its hefty volume growth in 2007. In 2011, the Company also increased its selling prices by an average of 4% in May in response to the excise tax hike and higher production costs. This and the sluggish global economy resulted in the slowdown of sales volume growth of approximately 1%. Price elasticity of demand for the Company's products may limit the Company's ability to pass on increases in excise taxes, raw material costs or other expenses, which may negatively affect the Company's financial results and financial performance.

For more information, see "Business Overview — Strategies" on page 68 of this prospectus.

The Company may not be successful in implementing its strategy to increase its sales volume.

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

For more information, see "Business Overview — Strategies" on page 68 of this prospectus.

Competition in the Company's businesses and markets may cause the Company to lose market share or reduce its operating margins, which could adversely affect its financial performance and financial position.

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

For more information, see "Business Overview — Strategies" and "Business Overview – Competition" on pages 68 and 79, respectively, of this prospectus.

The Company depends on trademarks and proprietary rights to enhance its reputation, and infringement of these rights could adversely affect the Company's competitive position; reputational issues involving other entities entitled to use the brands and trademarks used by the Company could also adversely affect the Company.

The Company, through IBI and SMBIL, owns various brand names and related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in and outside the Philippines. The use of these brand names and related intellectual property rights is key to maintaining the Company's distinctive corporate and market identities. If other parties sell products that use counterfeit versions of the Company's brands or otherwise look like the Company's brands, consumers may confuse the Company's products with products that they consider inferior. This could cause consumers to refrain from purchasing the Company's brands in the future and adversely affect the Company's brand image and sales. Any failure by the Company to protect its proprietary rights could have an adverse effect on the Company's competitive position.

In addition to risks from infringement, certain brands and trademarks used by the Company, such as the San Miguel name and escudo, can also be used for other products produced by the SMC Group or other entities that SMC has licensed them to. As such, the Company's brand image could also be negatively affected by product quality or other reputational issues caused by these other users of the brands and trademarks. Any damage to the Company's brand image caused by other users of the brands and trademarks could have an adverse effect on the Company's sales and financial performance.

The Company is dependent on third parties in certain critical areas of its operations.

The Company relies on third parties, including certain subsidiaries and affiliates of SMC, in a number of critical areas of its operations, including packaging requirements, distribution and logistics services, for its finished products and certain raw material supplies. Additionally, the Company requires the services of SMC for certain corporate functions including treasury management and services related to mergers and acquisitions. If any of these third parties or SMC were to fail to provide these services or materials to the Company, the Company's business could be negatively affected, including its financial performance and growth prospects.

The Company's controlling shareholders are able to exercise substantial influence over the Company's corporate policies and direct the outcome of corporate actions.

Currently, the Company's controlling shareholders are SMC and Kirin which holds approximately 50.99% and 48.39%, respectively, of the Company's Common Shares. SMC and Kirin are able to influence the Company's business through their ability to control actions that require majority shareholders' approval and through their

representatives on the Company's Board of Directors. SMC and Kirin are not obligated to provide the Company with financial support or to exercise their rights as shareholders in the best interests of the Company or its other shareholders or creditors. In addition, SMC and Kirin may engage in activities that conflict with such interests. For example, a subsidiary of SMC is a major producer of hard liquor in the Philippines, a product that competes directly with many of the Company's products. SMC may take actions through that subsidiary, such as pricing or marketing activities, that could cause the Company's sales or margins to decrease. Kirin, on the other hand, has its own brands of beer, which it produces and sells outside of the Philippines. Kirin could take actions through these beer products, such as competing with the Company in markets outside the Philippines, which would not be in the best interest of the Company or its other shareholders or creditors.

In addition, the Company believes that it benefits from its ongoing relationship with SMC and Kirin and some of their subsidiaries and affiliates through their global reach and relationships. The Company cannot assure potential investors that SMC and Kirin will continue to enable the Company to benefit from these relationships in the future.

The Company's business and sales are affected by seasonality.

The Company's sales are affected by seasonality in customer purchase patterns. In the Philippines, alcoholic beverages, including those produced by the Company, experience increased sales during the summer and Christmas season and typically decline in the third quarter as a result of rainy weather. For example, from 2006 to 2008, on average, 26.5% of the Company's net sales were in the first three months of the year and 23.7% were in the second quarter; while 22.7% were in the third quarter, typically the slowest period for sales, and 27.1% were in the last three months of the year. However, seasonality pattern for beer demand exhibited changes in recent years primarily in view of climate change affecting weather pattern (e.g., heavy rains, onslaught of typhoons and drought). As a result of this pattern, the Company's financial position and financial performance may fluctuate significantly from quarter to quarter.

For more information, see "Business Overview — Strategies" on page 68 of this prospectus.

The Company depends on certain key personnel, and its business and growth prospects may be disrupted if their services were lost.

The Company's future success is dependent upon the continued service of its key executives and employees. The Company cannot assure potential investors that it will be able to retain these executives and employees. If many of its key personnel were unable or unwilling to continue in their present positions, or if they joined a competitor or formed a competing company, the Company may not be able to replace them easily, and the business of the Company may be significantly disrupted and its financial position and financial performance may be materially and adversely affected. For example, the Company has 34 brewmasters, a position critical to its manufacture of beer. These brewmasters typically have degrees in chemistry or chemical engineering, and each of them has over ten years of on-the-job-training experience working for the Company, making them difficult to replace. The Company cannot assure potential investors that it will be able to attract and retain the key personnel that it needs to achieve its business objectives.

For more information, see "Business Overview — Brewing Technology and Product Development" on page 76 of this prospectus.

Under certain circumstances, the Company may not be able to meet increased demand for its products and may have to incur significant additional capital expenditures to avoid capacity constraints.

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

For more information, see "Management's Discussion and Analysis of Financial Position and Financial Performance" on page 49 of this prospectus and "Business Overview – Production" on page 73 of this prospectus.

Consolidation of sales channels in the Philippines may adversely affect the Company's financial position and financial performance.

The Philippine retail market has historically been highly fragmented and dominated by numerous small neighborhood stores. These small neighborhood stores serve limited geographical areas and purchase relatively small quantities of the Company's products from dealers and larger supermarkets. In recent years, larger supermarkets have begun to gain market share in the Philippines. There is a risk that the Company's business may become concentrated in fewer, larger customers, which could increase the relative bargaining power of these customers. The Company cannot assure prospective investors that these customers will not exert downward pressure on wholesale prices of the Company's products, which may adversely affect the Company's financial position and financial performance.

For more information, see "Business Overview — Strategies" on page 68 of this prospectus.

Product liability claims or other circumstances could harm the integrity and customer support for the Company's brands and adversely affect the sales of its products.

The success of the Company depends in large part upon consumers' perception of its brands. The contamination of products by bacteria or other external agents, whether arising accidentally or through deliberate third party action, could result in product liability claims. Product liability claims, whether or not they are successful, could adversely affect the reputation of the brands used by the Company and the sales by the Company. Any of the problems mentioned above may adversely affect the Company's reputation and its ability to charge a premium for its products, which may result in reduced sales and profitability of the affected brand or all of the Company's brands.

Sales of the Company's products may be adversely affected if its relationship with dealers deteriorate.

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

For more information, see "Business Overview — Strengths" on page 66 of this prospectus and "Business Overview — Sales and Distribution" on page 77 of this prospectus.

Regulatory decisions and changes in the legal and regulatory environment in which the Company operates could limit its business activities or increase its operating costs.

Regulatory decisions or changes in the legal and regulatory requirements in a number of areas may have adverse effects on the Company's business. In particular, governmental bodies may subject the Company to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on the Company's sales. These governmental bodies may also impose limitations on advertising activities used to market beer, such as prohibitions or limitations on television or print advertising, which may inhibit or restrict the Company's ability to maintain or increase consumer support for and recognition of its brands. In addition, regulatory bodies may seek to restrict consumer access to the Company's products by, among other actions, regulating the hours when outlets are allowed to sell alcohol. These and other legal or regulatory changes could materially and adversely affect the Company's financial position and financial performance.

For more information, see "Business Overview —Taxation" on page 79 and "Regulatory Framework" on page 107 of this prospectus.

Increases in excise tax rates applicable to beer or increases in other taxes to which the Company is subject may reduce consumption of the Company's products or the Company's margins or reduce both.

Beer is subject to an excise tax, and increases in excise taxes or value added taxes, or VAT, may reduce overall consumption of the Company's products, the Company's profit margins or both. An additional 8% increase in the excise tax rates applicable to beer was implemented on January 1, 2009 and the same rate increase was implemented on January 1, 2011. Additional non-scheduled increases in excise tax or VAT rates are also possible. Previous increases in excise tax rates have adversely affected the Company's sales volume. The scheduled increases in excise tax or other increases in excise tax or other taxes to which the Company is subject to may (i) reduce consumption of the Company's products if passed on to the consumers by way of upward price adjustments, (ii) reduce the Company's margins if prices remain unchanged or (iii) have both such effects if additional taxes are not fully passed on to the consumers.

For more information, see "Business Overview — Strategies" on page 68 of this prospectus and "Business Overview —Taxation" on page 79 of this prospectus.

Philippine environmental laws and regulations create potential liabilities should the Company fail to comply with prescribed environmental standards and limits.

Various environmental laws and regulations govern the operations of the Company including, but not limited to, the management of solid wastes, water and air quality, toxic substances and hazardous wastes at the Company's breweries.

Non-compliance with the legal requirements or violations of prescribed standards and limits under these laws could expose the Company to potential liabilities, including both administrative penalties in the form of fines and criminal liability, which could result in imprisonment for officers of the Company who were involved in or who are otherwise held to be responsible for any such violations. Violations of environmental laws could also result in the suspension and/or revocation of permits or licenses held by the Company or the suspension or closure of operations.

For more information, see "Business Overview — Health, Safety and Environmental Matters" on page 81 of this prospectus and "Regulatory Framework — Environmental Matters" on page 107 of this prospectus.

The Company may be adversely affected by any change in environmental, health and safety, accounting standards and other laws and regulations.

The Company's operations are subject to a number of national and local laws and regulations. These include industry laws and regulations relating to environmental protection, health and safety, accounting standards and tax. The Company cannot assure prospective investors that changes in laws or regulations, including environmental, health and safety, accounting standards and laws and regulations, will not result in the Company having to incur substantial additional capital expenditures to upgrade or supplement its existing facilities or having to report lower income or being subject to an increased rate of taxation or fines and penalties. Any such changes in laws and regulations could have a material adverse effect on the Company's business, financial position and financial performance.

For more information, see "Business Overview — Health, Safety and Environmental Matters" on page 81 of this prospectus.

Outbreaks of disease may dampen demand for the Company's products and may therefore adversely affect the Company's financial position and financial performance.

Several countries in Asia and Europe have reported cases of avian influenza, or bird flu, while in the Philippines, several pig farms have reported cases of the ebola reston virus or "ebola virus". While there have been no known outbreaks of bird flu in the Philippines, previous reports have indicated that some farmers exposed to affected pig farms have tested positive for the ebola virus. There can be no assurance that these viruses will not mutate, thereby causing a human pandemic in the Philippines or elsewhere. Any outbreak of bird flu or the ebola virus that results in a human pandemic, or an outbreak of any other contagious disease for which there is no known, effective, or readily available treatment, cure or vaccine, could have a material

adverse effect on the Company's financial position and financial performance. For example, any outbreak of bird flu or ebola virus could adversely affect consumer demand for the Company's products, the Company's ability to adequately staff its operations, the distribution networks for the Company's products, as well as the general level of economic activity in the Philippines. The Company cannot assure prospective investors that any future outbreak of bird flu, ebola virus or any other contagious disease will not have a material adverse effect on the Company's financial position and financial performance.

RISKS RELATING TO THE PHILIPPINES

The Company is a Philippine corporation and substantially all of its operations are conducted, and a majority of its production facilities and other assets are located, in the Philippines. As a result, the Company's financial position and financial performance will be influenced by the political and social situation in the Philippines, as well as the general state of the Philippine economy and the economies in the surrounding region.

Political or social instability in the Philippines could have a negative effect on the financial position and business of the Company.

The Philippines has from time to time experienced political, social, economic and military instability. For example, the Philippines has experienced a number of street protests and violent civil unrest, including coup d'état attempts against the administration of former President Gloria Macapagal-Arroyo. On May 10, 2010, the Philippines held a presidential election, as well as elections for national (members of the Senate and the Congress) and local positions. This resulted in the election of Benigno Aquino III as the new President of the Philippines, effective June 30, 2010. Although there has been no major public protest of the change in government, there can be no assurance that the political environment in the Philippines will continue to be stable or that the new government will adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for the beverage business. The Aquino government has taken steps toward economic reforms and good governance in line with its campaign against graft and corruption, the latter demonstrated by the filing of high-profile tax evasion cases and graft and corruption charges against some prominent officials of the previous administration. Allegations of tax evasion and corruption with respect to some government officials may result in political and social uncertainty in the Philippines and may adversely affect economic activity within the country. There can also be no assurance that President Aquino will continue to implement the economic and development policies followed by former President Arroyo's administration, including those policies that have a direct effect on the beverage business. Any change in the administration's economic and development policies in these or other respects could have a material and adverse effect on the Company's business, financial condition and results of operations.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. Moreover, isolated bombings have taken place in the Philippines in recent years, mainly in cities in that part of the country. On January 25, 2011, a bomb was detonated on a bus in the northern city of Makati, Metro Manila, killing five persons. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

There have also been a number of violent crimes in the Philippines, including the August 2010 incident involving the hijacking of a tour bus carrying 25 Hong Kong tourists in Manila, which resulted in the deaths of eight tourists. High profile violent crimes have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current or future governments will adopt economic policies conducive to sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and operation environment in the Philippines, which could have a material impact on the Company's business, financial position and results of operation.

The Company's business and sales may be negatively affected by slow growth rates and economic instability in the Philippines as a result of the continued sluggish recovery of the global economy or other factors adversely affecting the country's economic performance.

The Company derives approximately 82% of its revenues from its Philippine operations. The Company's products are discretionary in nature and may be adversely impacted by weak economic conditions in the Philippines. The Company's future growth depends in large part on continued economic growth in the Philippines.

Recently, the continuing European debt crisis, turmoil in the Middle East (causing oil price increases) and the natural disaster in Japan (leading to supply chain disruptions worldwide) were the headlines affecting global capital markets last year. These aforementioned factors coupled with the Philippine government's under-spending, and decline in exports, construction, service, and industry sectors (by 3.8%, 4.1%, 5.0% and 1.9%, respectively) resulted to a GDP growth of just 3.7% for 2011. This was much lower than the government's 5-6% target for the year. Consumer spending remained strong last year, growing by 7.0%.

The Philippines is continuously threatened by the downstream effects of the recent global economic downturn. Aside from this, the country is currently experiencing sluggish GDP growth, slowdown in export growth, and stock trading volatility, among others.

No assurance can be given on the extent the sluggish global recovery shall effect the economic conditions and operating environment in the Philippines.

Historically, the Philippines has experienced volatility in the exchange rate between the Philippine peso and the U.S. dollar, as well as against other currencies. The Philippines has also experienced volatility of the prices of shares traded on the domestic stock market. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine consumers' purchasing power or product preferences, which could materially and adversely affect the Company's financial position and financial performance.

For more information, see "Management's Discussion and Analysis of Financial Position and Financial Performance — Financial Performance" on page 51 of this prospectus and "Business Overview — Strategies" on page 68 of this prospectus.

If foreign exchange controls were to be imposed, the Company's ability to purchase imported raw materials, primarily malted barley and technically advanced equipment, could be adversely affected.

The BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or
- require the delivery of foreign exchange to the BSP or its designated banks for the issuance and guarantee of foreign currency-denominated borrowings.

The Company purchases some critical raw materials, primarily malted barley, and most of its technically advanced equipment from abroad and needs foreign currency to make these purchases. The Company cannot assure prospective investors that foreign exchange controls will not be imposed by the Government in the future. If imposed, these restrictions could materially and adversely affect the Company's ability to obtain malted barley and other materials from abroad, which could materially and adversely affect its financial position and financial performance.

The occurrence of natural catastrophes or power outages may materially disrupt the Company's operations.

The Philippines has experienced a number of major natural catastrophes in recent years including typhoons, volcanic eruptions, earthquakes, mudslides, droughts and floods related to the El Niño and La Niña weather events. Natural catastrophes may impair the economic conditions in the affected areas, as well as the overall

Philippine economy, and disrupt the Company's ability to produce or distribute its products. The Philippines has also experienced power outages, both from insufficient power generation and from disruptions such as typhoons. These types of events may materially disrupt and adversely affect the Company's business and operations. The Company cannot assure prospective investors that the insurance coverage it maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes or blackouts, including possible business interruptions.

RISKS ASSOCIATED WITH THE OFFER

Secondary trading of the Bonds is subject to various market factors.

The Company plans to list the Bonds in the PDEx to provide price transparency and liquidity to the Bondholders. As with other fixed income securities, the Bonds could trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Company's operations, the overall market for debt securities, political and economic developments in the Philippines and other regions, among others. It is possible that a selling Bondholder would receive sales proceeds lower than his initial investment should a Bondholder decide to sell his Bonds prior to maturity.

The Bonds will constitute direct, unconditional, unsubordinated, and unsecured obligations of the Issuer.

The Bonds will rank at least *pari passu* in all respects and rateably without preference or priority (except for any statutory preference or priority applicable in the winding-up of the Issuer) with all other outstanding unsecured and unsubordinated obligations (contingent or otherwise, present and future) of the Issuer.

The Bonds may be redeemed prior to Maturity Date upon the occurrence of certain events such as change in taxation or regulation, or the exercise by the Company of the redemption option for Series E Bonds and Series F Bonds.

Upon the occurrence of certain events such as a change in Philippine tax or regulatory laws or their general application or interpretation having an effect on the Company, the Bonds could be redeemed in whole but not in part prior to the Maturity Date. In such an event, the Bonds shall be redeemed at the relevant Issue Price plus accrued interest.

The Company may also exercise its redemption option for the Series E Bonds and Series F Bonds. The amount payable to the Bondholders in respect of such redemptions shall be calculated based on the principal amount of the Bonds being redeemed, as the sum of (i) one hundred two percent (102%) of the principal amount; and (ii) accrued interest on the Bonds on the Optional Redemption Date.

There is no assurance that a market for the Bonds will exist, and the Bonds may offer limited liquidity.

The Bonds constitute a new issue of securities by the Company. Prior to this issue, there has been no public market for the Bonds. Although the Company intends for the Bonds to be listed on PDEx as soon as reasonably practicable, there can be no assurance that an active public market for the Bonds will develop and, if such a market were to develop, the Joint Lead Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities.

RISKS RELATING TO CERTAIN STATISTICAL INFORMATION IN THIS PROSPECTUS

Certain statistics in this prospectus relating to the Philippines, the industries and markets in which the Company's business operates, including statistics relating to market size and market share, are derived from various Government and private publications, including those produced by industry associations and research groups and the Canadean Report. This information has not been independently verified and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines.

USE OF PROCEEDS

The Company intends to use the net proceeds of this Offer to support the Company's redemption of the Series A Bonds and the partial prepayment of the Company's USD Facility. Specifically, the Company intends to use the net proceeds as follows:

- ₱ 13.59 billion for the redemption of the Series A Bonds; and
- ₱ 6.22 billion for the partial prepayment of the USD Facility*

The Series A Bonds have an interest rate of 8.250% per annum and will mature on April 3, 2012. The USD Facility has a floating interest rate of LIBOR plus margin of 2.10% per annum and will mature on January 2015.

The Company estimates that the net proceeds from this Offer, after deducting expenses payable by the Company, will be approximately ₱19,818,038,745.97 (the "Net Proceeds"). Net proceeds from the Offer are estimated as follows:

Estimated Proceeds from the Sale of the Bonds	₱20,000,000,000.00
Less: Estimated Expenses	
Documentary Stamp Tax	₱100,000,000.00
SEC Registration	
SEC Registration Fee	₱5,562,500.00
SEC Legal Research and Publication Fee	₱55,625.00
SEC Publication Fee	₱100,000.00
Underwriting and Other Professional Fees	
Underwriting and Selling Fee	₱ 64,516,129.03
Legal Fee	₱ 3,000,000.00
Rating Fee	₱ 6,552,000.00
Listing Application Fee**	₱ 300,000.00
Listing Maintenance Fee***	₱ 450,000.00
Printing Cost****	₱ 200,000.00
Trustee Fees*****	₱100,000.00
Paying Agency and Registry Fees******	₱ 825,000.00
Investor's Conference Expenses	₱ 100,000.00
Miscellaneous Fees	₱ 200,000.00
Estimated Net Proceeds to the Company	**₱19,818,038,745.97**

* *Peso equivalent of USD Facility is P 13,152,000,000.00 at reference rate of P43.84: US $1 as of December 31, 2011.*

** *The Issuer will be charged a one-time Application Fee per tranche of the Bonds, payable upon listing. The fee shown is VAT-exclusive.*

*** *The Issuer will be charged an Annual Maintenance Fee of P150,000.00 per tranche of the Bonds, payable every January of each year. The fee shown is for the first year only, and is VAT-exclusive.*

**** *Estimated based on previous issuances.*

***** *The Issuer will pay the Trustee a fixed annual fee of ₱100,000.00. The fee shown is for the first year only.*

****** *The Issuer will pay PDTC ₱ 100,000 per tranche per interest payment date. The Paying Agency fee shown is for the first year only. The Registrar will charge (i) a monthly maintenance fee based on the face value of the Bonds and the number of Bondholders and (ii) out of pocket expenses for cost of mailing statement of accounts to Bondholders. The total amount shown includes an account opening fee of ₱75.00 assuming 3,000 Bondholders.*

DETERMINATION OF ISSUE PRICE

The Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

PLAN OF DISTRIBUTION

The Company plans to issue the Bonds to institutional and retail investors through a general public offering to be conducted by the Joint Lead Managers.

JOINT LEAD MANAGERS AND UNDERWRITERS

ING Bank N.V., Manila Branch ("ING"), as Issue Manager, has agreed to act as arranger in the issuance, placement, distribution, and sale of the Bonds and together with BDO Capital & Investment Corporation ("BDO"), The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), SB Capital Investment Corporation ("SB Capital") and Standard Chartered Bank ("SCB") (collectively, the "Joint Lead Managers"), to distribute and sell the Bonds at the Issue Price, pursuant to an Issue Management and Underwriting Agreement entered into with the Company on March 15, 2012 (the "Issue Management and Underwriting Agreement"). Each Joint Lead Manager has committed severally to underwrite the Offer on a firm basis. The underwriting commitment of each of the Joint Lead Managers is as follows:

	Principal Amount of the Bonds
BDO	₱4,000,000,000.00
HSBC	₱4,000,000,000.00
ING	₱4,000,000,000.00
SB Capital	₱4,000,000,000.00
SCB	₱4,000,000,000.00
Total……	**₱20,000,000,000.00**

There is no arrangement for any of the Joint Lead Managers to put back to the Issuer any unsold Bonds.

The Issuer shall pay each of the Joint Lead Manager a fee of 0.30% flat based on its underwriting commitment, as Joint Lead Manager's fee (the "Joint Lead Manager's Fee").

The Joint Lead Manager's Fee shall be grossed up for gross receipts tax of 7%. The fees due to the Joint Lead Managers together with any applicable gross receipts tax or its equivalent less any applicable withholding tax arising in respect of such fee, shall be due and payable by the Issuer to the Joint Lead Managers immediately upon receipt of confirmation from the Issuer's bank that cleared funds representing payments for all accepted Applications to Purchase have been credited to the account designated by the Issuer. The Joint Lead Managers are authorized to organize a syndicate of Participating Underwriters for the purpose of the Offer. However, the Company has no obligation to any member of such syndicate for the payment of any fee, underwriting or participating commissions.

The Issue Management and Underwriting Agreement may be terminated or suspended by the Joint Lead Managers under certain circumstances prior to the issuance of the Bonds and payment being made to the Company of the net proceeds of the Bonds. The Joint Lead Managers are duly licensed by the SEC to engage in underwriting or distribution of the Bonds. The Joint Lead Managers may, from time to time, engage in transactions with and perform services in the ordinary course of business for the Company or any of its subsidiaries. The Joint Lead Managers have no direct relations with the Company in terms of ownership by either of their respective major stockholder(s), and have no right to designate or nominate any member of the Board of Directors of the Company.

The following includes a summary of certain provisions of the Issue Management and Underwriting Agreement entered into by the Issuer and the Joint Lead Managers. This summary does not purport to be complete and is qualified in its entirety by reference to the Issue Management and Underwriting Agreement.

SALE AND DISTRIBUTION

The distribution and sale of the Bonds shall be undertaken by the Joint Lead Managers who shall sell and distribute the Bonds to institutional and retail investors. The Joint Lead Managers are authorized to enter into sub-underwriting agreements with Participating Underwriters for the sale and distribution to the public of the Bonds; provided, however, that the Joint Lead Managers shall remain solely responsible to the Issuer in respect of their obligations under the Issue Management and Underwriting Agreement entered into by them with the Issuer and the Issuer shall not be bound by any of the terms and conditions of any agreement entered into by the

Joint Lead Managers with the Participating Underwriters. Nothing herein shall limit the rights of the Joint Lead Managers from purchasing the Bonds for their respective accounts.

TERM OF APPOINTMENT

The engagement of the Joint Lead Managers shall subsist in accordance with the terms of the Issue Management and Underwriting Agreement. The obligations of each Joint Lead Manager will be several, and not solidary with the other Joint Lead Managers, and nothing in the Issue Management and Underwriting Agreement shall be deemed to create a partnership or joint venture between or among any of the parties therein. Unless otherwise expressly provided in the Issue Management and Underwriting Agreement, the failure by any Joint Lead Manager to carry out its obligations shall not relieve any other Joint Lead Manager of its obligations thereunder, nor shall any Joint Lead Manager be responsible for the obligations of any other Joint Lead Manager thereunder.

MANNER OF DISTRIBUTION

The Joint Lead Managers, in consultation with the Issuer, shall agree on the procedure for application, acceptance, or rejection of the Applications to Purchase, whether in whole or in part (the "Allocation Plan"). Consistent with bank procedures and the Allocation Plan, each of the Joint Lead Managers and Participating Underwriters shall observe the policies and procedures regarding acceptance of Applications to Purchase, evaluation and assessment of such applications and supporting documentary requirements, allocations of the Bonds to clients and acceptance of deposits of its potential investors.

OFFER PERIOD

The Offer Period shall commence at 9:00 a.m. on March 19, 2012 and end at 5:00 p.m. on March 23, 2012 or such other dates as may be determined by the Issuer and the Issue Manager.

APPLICATION TO PURCHASE

All Applications to Purchase the Bonds shall be evidenced by a duly completed and signed Application to Purchase. An Application to Purchase may be obtained from the Joint Lead Managers and the Participating Underwriters by interested corporate/institutional investors and upon submission, must be accompanied by the following documents, among others: (i) two fully executed signature cards authenticated by the corporate secretary or authorized officer; (ii) a copy of its Certificate of Incorporation issued by the SEC or equivalent government institution, its Articles of Incorporation and By-Laws and latest amendments thereof stamped and signed as certified true copies by the SEC or the applicant's corporate secretary or by an equivalent authorized officer(s) who is/are authorized signatories; (iii) duly notarized certificate of its corporate secretary or other authorized officer setting forth the resolution of the board of directors or its equivalent body authorizing the purchase of the Bonds indicated in the Application to Purchase and designating the authorized signatory(ies) for the purchase of the said Bonds with their specimen signatures; and (iv) identification document(s) of applicant's authorized signatories. Individual applicants must, on the other hand, submit, among others, (a) a photocopy of any valid identification card duly issued by the Government showing the signature and residential address of the applicant and (b) two duly accomplished signature cards containing the specimen signature of the applicant.

Each Joint Lead Manager and Participating Underwriter shall be responsible for accepting payments accompanying the Applications to Purchase of their respective clients in accordance with the Issue Management and Underwriting Agreement.

An applicant who is exempt from or is not subject to withholding tax, or who claims reduced tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Lead Manager and Participating Underwriter (together with their Applications to Purchase) who shall then forward the same to the Registrar, subject to acceptance thereof by the Issuer and the Joint Lead Managers and Participating Underwriters as being sufficient in form and substance: (i) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR confirming the exemption or preferential rate; (ii) with respect to tax treaty relief, a certified true copy of the ruling issued by the International Tax Affairs Division of the BIR, confirming that the preferential tax treatment sought by the Bondholder is applicable; (iii) a duly notarized undertaking declaring and warranting the applicant's tax-exempt status or preferential tax rate entitlement and undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates and treaty privileges, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against all claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

Copies of the completed Applications to Purchase together with the supporting documents must be received by the Registrar from the relevant Joint Lead Manager and Participating Underwriter on such date/s as may be designated in the Issue Management and Underwriting Agreement. The corresponding payments received by each Joint Lead Manager and Participating Underwriter net of any refunds for a rejected or scaled down Application to Purchase must be deposited or be remitted not later than 2:00 p.m. of the Issue Date via RTGS to a depository account designated by the Issuer.

The Joint Lead Managers and the Participating Underwriters shall prepare a sales report of Applications to Purchase that each has approved, in the form required by the Registrar (the "Sales Report"). The Sales Report by each of the Joint Lead Managers and the Participating Underwriters shall be submitted to the Registrar no later than 5:00 p.m., three Business Days immediately preceding the Issue Date, together with such other documents as may be required by the Registrar under the Registry and Paying Agency Agreement to enable the Registrar to issue and prepare the Register of Bondholders and the relevant Securities Receipt Confirmations.

The actual number of Bonds that an applicant will be allowed to purchase is subject to the confirmation of the Joint Lead Managers. All Applications to Purchase shall be subject to the final approval of the Issuer and the Joint Lead Managers. The Issuer reserves the right to accept or reject in full or in part any Application to Purchase due to any of the grounds specified in the Issue Management and Underwriting Agreement. Moreover, any payment received upon submission of an Application to Purchase does not mean approval or acceptance by the Issuer or the Joint Lead Managers and the Participating Underwriters of the Application to Purchase. An Application to Purchase, once accepted, shall constitute the duly executed purchase agreement covering the amount of the Bonds so accepted and shall be valid and binding on the Issuer and the applicant. Once accepted, an Application to Purchase may not be unilaterally revoked or canceled by the applicant, in full or in part, and the rights and privileges pertaining thereto shall be non-transferrable.

MINIMUM PURCHASE

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

REFUNDS

In the event an Application to Purchase is rejected or the amount of Bonds applied for is scaled down, the relevant Joint Lead Manager and Participating Underwriter, upon receipt of the Allocation Report, shall notify the applicant concerned that his application has been rejected or that the amount of Bonds applied for is scaled down. Payments made by the applicants whose Applications to Purchase are rejected or scaled down will be returned to them no later than three Business Days after the Issue Date by the relevant Joint Lead Manager and Participating Underwriter to whom the Application to Purchase was submitted, in full (in case of a rejection) or in a proportionate sum corresponding to the amount of the Bonds partially rejected (in case of a scale down), but in both instances without any interest whatsoever. Refund shall be made either (i) through the issuance of a check payable to the order of the applicant and crossed "Payees' Account Only" and mailed or delivered, at the risk of the applicant, to the address specified in the Application to Purchase; or (ii) through the issuance of instructions for automatic credit payments to the accounts of the relevant applicants, as indicated in their respective Applications to Purchase. The Issuer and the Issue Manager shall not be liable in any manner to the applicant for any refund corresponding to any rejected or scaled-down Application to Purchase which is not

transmitted by the relevant Joint Lead Manager and Participating Underwriter. In such case, the relevant Joint Lead Manager and Participating Underwriter shall be responsible directly to their respective applicants for the actual refund of the payment.

REGISTER OF BONDHOLDERS

The Bonds shall be issued in scripless form. Master Bond Certificates representing the Bonds sold during the Offer Period shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the Registrar. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time. The Issuer will cause the Register of Bondholders to be kept at the specified office of the Registrar. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders.

EXPENSES

All reasonable and documented out-of-pocket expenses, including but not limited to, registration with the SEC, credit rating, printing, publicity, communication and signing expenses incurred by the Joint Lead Managers in connection with the Offer will be for the Issuer's account irrespective of whether the Offer is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account.

DESCRIPTION OF TERMS AND CONDITIONS OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the articles of incorporation, by-laws and resolutions of the Board of Directors of the Company submitted to the SEC, the information contained in this prospectus, the Trust Agreement, Registry and Paying Agency Agreement, Issue Management and Underwriting Agreement, and other documents relevant to the Offer.

The issue of the Bonds was authorized by a resolution of the Board of Directors of the Issuer passed on October 11, 2011, February 7, 2012 and March 13, 2012. The Bonds shall be governed by a Trust Agreement (the "Trust Agreement") executed on March 15, 2012 between the Issuer and Rizal Commercial Banking Corporation (the "Trustee" which expression shall wherever the context permits, include all other persons or companies for the time being acting as Trustee or Trustees under the Trust Agreement). The Trustee has no interest in or relation to the Issuer which may conflict with the performance of its functions. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A registry and paying agency agreement (the "Registry and Paying Agency Agreement") was executed on March 15, 2012 between the Issuer and the Philippine Depository & Trust Corp. as registrar (the "Registrar") and as paying agent (the "Paying Agent"). The Bonds will be offered and sold through a general public offering in the Philippines, and issued in minimum principal amounts of ₱50,000.00, and multiples of ₱10,000.00 in excess thereof, and traded in amounts of ₱10,000.00 as a minimum, and in multiples of ₱10,000.00 in excess thereof. Series D, Series E and Series F Bonds will mature on April 3, 2017, April 2, 2019 and April 2, 2022, respectively, unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment as summarized below.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement will be available for inspection during normal business hours at the specified offices of the Trustee. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and the Registry and Paying Agency Agreement applicable to them.

FORM, DENOMINATION AND TITLE

Form and Denomination

The Bonds are in scripless form, and will be issued in denominations of ₱50,000.00 each, as a minimum, and in multiples of ₱10,000.00 in excess thereof.

Title

Legal title to the Bonds will be shown in the electronic records of the Registrar (the "Register of Bondholders"). A notice confirming the principal amount of the Bonds purchased by each applicant in the offer for sale, distribution and issuance of the Bonds by the Issuer (the " Offer") will be issued by the Registrar to all Bondholders following April 2, 2012 (the " Issue Date").

BOND RATING

The Bonds have been rated PRS Aaa by PhilRatings. The rating is subject to regular annual review, or more frequently as market developments may dictate, for as long as the Bonds are outstanding.

TRANSFER OF BONDS

Register of Bondholders

The Issuer will cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least every quarter (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Bonds may be made during the period commencing on a Record Date as defined in the Section on "Interest Payment Date".

Transfers; Tax Status

The Bonds may be transferred upon exchange of confirmation of sale and confirmation of purchase, or by book entry in recording platforms maintained by approved securities dealers. The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfer. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Subject to the provisions of the Registry and Paying Agency Agreement, Bondholders may transfer their Bonds at anytime, regardless of tax status of the transferor *vis-à-vis* the transferee.

Should a transfer between Bondholders of different tax status occur on a day, which is not an Interest Payment Date, tax-exempt entities trading with non tax-exempt entities shall be treated as non tax-exempt entities for the interest period within which such transfer occurred. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement within three days from the settlement date for such transfer. Transfers taking place in the Register of Bondholders after the Bonds are listed on PDEx shall be allowed between tax-exempt and non tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC.

SECONDARY TRADING

The Issuer intends to list the Bonds in PDEx for secondary market trading. The Bonds will be traded in a minimum board lot size of ₱10,000.00 as a minimum, and in multiples of ₱10,000.00 in excess thereof for so long as any of the Bonds are listed in PDEx. Secondary market trading in PDEx shall follow the applicable PDEx rules and conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC.

RANKING

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future, contingent or otherwise, unsecured and unsubordinated obligations of the Issuer, except for any statutory preference or priority established by law.

INTEREST

Interest Payment Dates

Each Series D Bond bears interest on its principal amount from and including Issue Date at the rate of 6.05% per annum, payable semi-annually in arrears on April 2 and October 2 in each year (each of which, for purposes of this clause is an "Interest Payment Date") provided, however, that the first Interest Payment Date for Series D Bonds shall be on October 3, 2012 or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day.

Each Series E Bond bears interest on its principal amount from and including Issue Date at the rate of 5.93% per annum, payable semi-annually in arrears on April 2 and October 2 in each year (each of which, for purposes of this clause is an "Interest Payment Date") commencing on October 2, 2012 or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day.

Each Series F Bond bears interest on its principal amount from and including Issue Date at the rate of 6.60% per annum, payable semi-annually in arrears on April 2 and October 2 in each year (each of which, for purposes of this clause is an "Interest Payment Date") commencing on October 2, 2012 or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be the day two (2) Business Days prior to the relevant Interest Payment Date (the "Record Date"), which shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

Interest Accrual

Each Bond will cease to bear interest on the Maturity Date, as defined in the "*Final Redemption*" below, unless, upon due presentation, payment of the full amount due is improperly withheld or refused or default is otherwise made in respect of such payment, in which case, the Penalty Interest (see "*Penalty Interest*" below), will apply.

Determination of Rate of Interest

The interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days. However, the interest payable on the first Interest Payment Date for the Series D Bonds shall be calculated for a period of 181 days on the basis of a 360-day year.

REDEMPTION AND PURCHASE

Final Redemption

Unless previously redeemed, purchased and cancelled, the Series D Bonds, Series E Bonds and Series F Bonds will be redeemed at par or 100.00% of their face value on April 3, 2017, April 2, 2019 and April 2, 2022, respectively (the "Maturity Date"). However, payment of all amounts due on such dates may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if the relevant Maturity Date is not a Business Day.

Early Redemption due to Taxation, Change in Law or Circumstance

If payments under the Bonds become subject to additional or increased taxes other than the taxes prevailing on the Issue Date as a result of certain Changes in Law, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, then the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 days nor less than 30 days' notice to the Trustee) at par plus accrued interest.

In the event that there shall hereafter occur any Change in Law, or any approval, permit, license, consent, authorization, registration, exemption, or any other right to be granted or granted by the Government to the Issuer now or hereafter necessary for the conduct of the Issuer's business or operations is not obtained, or is

subsequently terminated, withdrawn, rescinded, or amended, and the result of any of the foregoing, as determined by the Issuer, will materially and adversely affect the ability of the Issuer to comply with its obligations under the Bonds or the Trust Agreement or the Issuer's financial position or operations, then the Issuer may redeem the Bonds at any time in whole, but not in part, (having given not more than 60 days nor less than 30 days' notice to the Trustee from the time of the occurrence of the event) at par plus accrued interest.

If any provision of the Issue Management and Underwriting Agreement, Trust Agreement, or the Registry and Paying Agency Agreement shall become, for any reason, invalid, illegal or unenforceable, or any act or condition or thing required to be done, fulfilled or performed at any time by the Issuer is not done, fulfilled or performed, to the extent that it will become unlawful for the Issuer to give effect to its rights and obligations under the Trust Agreement or the Bonds or to enforce the provisions of the Trust Agreement or the Bonds in whole or in part, then the Issuer may redeem the Bonds at any time in whole, but not in part, (having given not more than 60 days nor less than 30 days' notice to the Trustee from the time of illegality) at par plus accrued interest.

Optional Redemption

The Issuer may (but shall not be obligated to) redeem all (and not a part only) of the outstanding Bonds on the day after the 10th Interest Payment Date for the Series E Bonds and the 14th Interest Payment Date for the Series F Bonds (each an "Optional Redemption Date"). The Issuer shall give not less than 30 nor more than 60 days' prior written notice of its intention to redeem the Bonds to the Trustee, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds at the Optional Payment Date stated in such notice. The amount payable to the Bondholders in respect of such redemptions shall be calculated based on the principal amount of the Bonds being redeemed, as the sum of (i) one hundred two percent (102%) of the principal amount; and (ii) accrued interest on the Bonds on the Optional Redemption Date.

Payments

The principal of, interest on, and all other amounts payable on the Bonds shall be paid to the Bondholders through the Paying Agent by crediting the proper amounts via RTGS, net of final taxes and fees (if any), to the Philippine Peso cash account maintained and designated by or on behalf of the Bondholder in his/her Application to Purchase. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. The Issuer shall ensure that so long as any of the Bonds remain outstanding, there shall at all times be a Paying Agent for purpose of disbursing payments on the Bonds.

Taxation

Interest income on the Bonds is subject to a final withholding tax at rates of between 20% and 30% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

FINANCIAL COVENANTS

So long as any of the Bonds remain outstanding, the Issuer undertakes to maintain and to observe the following financial ratios:

1. Minimum interest coverage ratio of 4.75:1; and
2. Maximum debt to equity ratio of 3.5:1.

For purposes hereof,

(A) the term "interest coverage ratio" means the Issuer's EBITDA for the Relevant Period divided by its total Interest Expense for the same Relevant Period, where:

(1) the term EBITDA means, in respect of any Relevant Period, the net operating income of the Issuer: (a) before any provision on account of taxation; (b) before any interest, commission, discounts, fees, prepayment penalties or premiums and other finance payments incurred or payable, received or receivable by the Issuer in respect of the Issuer's total indebtedness for borrowed money; (c) before any items treated as exceptional or extraordinary items; and (d) before any amount attributable to the amortization of intangible assets and depreciation of tangible assets;

(2) the term "Interest Expense" means, for any Relevant Period, the aggregate amount of interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of the Issuer's total indebtedness for borrowed money whether accrued, paid or payable and whether or not capitalized by the Issuer in respect of that Relevant Period: (a) including the interest element of leasing and hire purchase payments; (b) including any amounts paid, payable or accrued by the Issuer to counterparties under any interest rate hedging instrument; and (c) deducting any amounts paid, payable or accrued by counterparties to the Issuer under any interest rate hedging instrument; and

(3) the term "Relevant Period" means each period of 12 months ending on the last day of the Issuer's financial year and each period of 12 months ending on the last day of each quarter of the Issuer's financial year; and

(B) the term "debt-to-equity ratio" means the Issuer's total indebtedness for borrowed money divided by its total stockholders' equity.

NEGATIVE COVENANTS

The Issuer covenants and agrees that the Issuer shall not, among others:

(a) create, assume, incur, permit or suffer to exist, any indebtedness to: (i) be secured by or to benefit from any liens, encumbrances, restrictions, pledges, mortgages, security interest, charges or preferential arrangements of any kind (collectively the "Liens") in favor of any creditor or class of creditors with respect to any present or future property of the Issuer or the right of the Issuer to receive income, unless the Bonds are secured by such Lien equally and ratably with such other indebtedness or (ii) receive any priority or preference over the claims of the Bondholders (which claims shall at all times rank *pari passu* in all respects with all other direct, unconditional, unsecured, and unsubordinated obligations of the Issuer other than those obligations preferred by mandatory provisions of law); *provided*, that for purposes of the foregoing, the terms "Lien," "priority" or "preference" shall not include the Permitted Liens as defined in the Trust Agreement.

(b) engage in any business except that authorized by its articles of incorporation.

(c) sell, transfer, convey, lend or otherwise dispose of all or substantially all of its assets.

(d) voluntarily suspend all or substantially all of its business operations.

(e) amend its Articles of Incorporation or By-laws, if such amendments have the effect of changing the general character of its business from that being carried on at the signing date of the Trust Agreement.

GOVERNING LAW

The Bonds and the Trust Agreement are governed by and are construed in accordance with Philippine law.

DEFAULT

Events of Default

The Issuer shall be considered in default under the Bonds in case any of the following events (each an "Event of Default") shall occur:

(a) *Non-payment*. The Issuer fails to pay any interest or principal on any of the Bonds when due and payable.

(b) *Insolvency Default*. The Issuer (i) is adjudged by a final order of a competent court to be insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts, or (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts. In addition, if a moratorium is agreed or declared in respect of or affecting all or any material part of the debts of the Issuer, such agreement or declaration shall also constitute an Event of Default.

(c) *Cross default*. The Issuer defaults in the repayment of any amount of principal and premium (if any) or interest, or violates any term or condition, in respect of any contract or contracts executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default, or with the giving of notice or the passage of time would constitute an event of default, under said contract; and which (i) if remediable, is not remedied by the Issuer within 30 days from such default, or is otherwise not contested by the Issuer, (ii) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity, or (iii) will adversely and materially affect the performance by the Issuer of its obligations under the Bonds, provided, that no Event of Default shall occur unless the aggregate amount of the principal, premium and interest in respect of which the Issuer has defaulted or which has been declared to be due and payable prior to the stated normal date of maturity under such contract or contracts equals or exceeds ₱500,000,000.00.

(d) *Winding Up proceedings*. The Issuer takes any corporate action or other steps are taken or legal proceedings are started by or against the Issuer for its winding up, bankruptcy, dissolution or reorganization (except in any such case for the purposes of a merger, consolidation, reorganization, reconstruction or amalgamation upon which the continuing corporation or the corporation formed thereby effectively assumes the entire obligations of the Issuer under the Bonds and the terms of which have previously been approved by Bondholders representing at least two-thirds of the Bonds then outstanding) or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of all or substantially all of its revenues and assets, provided that for winding-up proceedings instituted against the Issuer, an Event of Default may be declared only upon issuance of a final order of a court of competent authority.

(e) *Representation/Warranty Default.* Any representation and warranty of the Issuer or any certificate or opinion issued by the Issuer in connection with the issuance of the Bonds is untrue, incorrect, or misleading in any material respect as and when made and with reference to the facts and circumstances then existing, as the circumstances which caused such representation or warranty to be untrue, incorrect or misleading continue for not less than 15 days (or such longer period as Bondholders representing at least 51% of the outstanding principal amount of the Bonds (the "Majority Bondholders") shall approve).

(f) *Covenant Default.* The Issuer fails to perform or violates its covenants under the Trust Agreement, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of 30 days from notice by the Trustee to the Issuer. For the avoidance of doubt, any violation by the Issuer of its negative covenants set out above shall be deemed irremediable.

(g) *Breach of Obligations Default*. The Issuer does not perform or comply with any one or more of its obligations in the Bonds and in the Trust Agreement and such default or non-compliance is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Issuer at its specified office by any Bondholder or the Trustee.

(h) *Expropriation Default*. An order of the Government is issued to suspend the whole or a substantial portion of the operations of the Issuer or to condemn, seize, nationalize or expropriate (with or without compensation) the Issuer or any substantial portion of its properties or assets.

(i) *Judgment Default*. Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within 60 days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement and such final judgment, decree or award shall have a material and adverse effect on the Issuer's ability to perform its obligations under the Bonds.

(j) *Writ and Similar Process Default.* Any writ, warrant of attachment or execution, or similar process shall be issued or levied against all or substantially all of the Issuer's assets, and such writ, warrant, or similar process shall not be released, vacated, or fully bonded within 60 days after its issue or levy.

(k) *Closure Default.* The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of 30 days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or *force majeure*, and, provided that, in any such event, there is no material and adverse effect on the business operations or financial condition of the Issuer.

(l) *Change of Control Default.* The Issuer ceases to be at least 51% owned by its parent company, SMC.

(m) *Validity Default*. The validity of the Bonds or the Trust Agreement shall be contested by the Issuer.

Consequences of Default

If any one or more of the Events of Default shall occur and be continuing after the lapse of the period given to the Issuer within which to cure such Event of Default under the Trust Agreement, if any, or upon the occurrence of such Event of Default for which no cure period is provided, (i) the Trustee, upon the written direction of the Majority Bondholders, by notice in writing delivered to the Issuer, or (ii) the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, or (iii) the Trustee, in its discretion, in case of a Non-Payment or Insolvency Default, may declare the Issuer in default and declare the principal of the Bonds then outstanding, together with all interest accrued and unpaid thereon and all amounts due thereunder, to be due and payable not later than five Business Days from the receipt of the declaration ("Default Payment Date") with copy to the Paying Agent, who shall then prepare a payment report in accordance with the Registry and Paying Agency Agreement. Thereupon, the Issuer shall pay in accordance with the Registry and Paying Agency Agreement.

Notwithstanding the declaration of default, the Majority Bondholders, by written notice to the Issuer and to the Trustee, may rescind and annul such declaration made by the Trustee upon such terms, conditions and agreements, if any, as they may determine; provided, that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereto and shall not apply to the following Events of Default: Non-payment, Insolvency Default, Winding-up Proceedings, Expropriation Default and Closure Default. Any such rescission and annulment of declaration of default shall be conclusive and binding upon all the Bondholders and upon all future holders and owners of such Bonds, or of any Bond issued in lieu thereof or in exchange therefor.

Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty fee on the defaulted amount(s) at the rate of 1.00% per month (the "Penalty Interest") from the time the amount fell due until it is fully paid.

Payment in the Event of Default

Upon a declaration of default and acceleration of payment of the Bonds by the Majority Bondholders pursuant to the terms of the Trust Agreement, the Issuer shall pay to the Paying Agent for the benefit of the Bondholders the whole amount which shall then have become due and payable on such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest, where applicable.

Application of Payments

Subject to the provisions of the Trust Agreement or the Registry and Paying Agency Agreement, any money collected by the Trustee from the Issuer upon a declaration of default and any other funds held by it shall be applied by the Trustee in the order of preference as follows:

(a) To the pro-rata payment to the Trustee, the Registrar and the Paying Agent of the reasonable and documented costs, expenses, fees, and other charges of collection, including reasonable compensation to them, their agents, attorneys, and all reasonable and documented expenses and liabilities incurred or disbursements made by them, without gross negligence or bad faith in carrying out their respective obligations under their respective agreements with the Issuer in connection with the Bonds.

(b) To the payment of all outstanding interest, including any Penalty Interest, in the order of maturity of such interest.

(c) To the payment of the principal amount of the Bonds then due and payable.

(d) The remainder, if any, shall be paid to the Issuer, its successors, or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Prescription

Claims in respect of principal and interest or other sums payable under the Bonds will prescribe unless made within ten years (in the case of principal or other sums) or five years (in the case of interest) from the date on which the payment becomes due.

Remedies

All remedies conferred by the Trust Agreement upon the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce such direct rights under the Trust Agreement.

No delay or omission by the Trustee or the Bondholders, or any one of them, to exercise any right or power arising from or on account of any default shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy provided under the Trust Agreement to the Trustee and Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Waiver

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the Bondholders, upon the written request of the Issuer, to waive the application of the Events of Default and its consequences except for Non-payment, Insolvency Default, Winding-Up Proceedings, Expropriation Default and Closure Default, which Events of Default cannot be waived by the Bondholders. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all the Bondholders and upon all future holders and owners thereof.

Ability to File Suit

No Bondholder shall have any right by virtue or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer on account of principal or interest, or for the appointment of a receiver or Trustee, or for any other remedy hereunder, unless (i) such holder shall previously have given to the Trustee a written notice of default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds, and (ii) the Majority Bondholders shall have decided and made a written request upon the Trustee to institute such suit, action or proceeding in its own name, and (iii) the Trustee for sixty (60) days after receipt of such notice and request shall have neglected or refused to institute any such suit, action or proceeding, and (iv) no directions inconsistent with such written request or rescission and annulment of a declaration default by the Bondholders has been made.

No one or more Bondholder shall have any right in any manner whatsoever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner provided under the Trust Agreement and for the equal, ratable and common benefit of all Bondholders.

TRUSTEE

Appointment of Trustee

The Issuer has appointed Rizal Commercial Banking Corporation as Trustee for and on behalf and benefit of the Bondholders, in connection with the distribution and sale by the Issuer of the Bonds.

Duties and Responsibilities of the Trustee

The Trustee shall be responsible for performing, among others, the following duties for the benefit of the Bondholders:

(a) Monitor compliance by the Issuer with its obligations under the Trust Agreement;

(b) Report regularly to Bondholders any non-compliance by the Issuer with the Trust Agreement and any developments with respect to the Issuer that adversely affect the interest of the Bondholders and advise the Bondholders of the course of action that they may take to protect their interest; and

(c) Act on behalf of the Bondholders including calling for and/or attending meetings of the Bondholders.

Resignation and Change of Trustee

The Trustee may resign at any time by giving the Issuer at least sixty (60) calendar days prior written notice to that effect. Upon receipt of such notice of resignation, the Issuer shall immediately appoint a replacement trustee (the "Replacement Trustee") by written instrument in duplicate, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the Replacement Trustee. If no Replacement Trustee shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a Replacement Trustee.

The Issuer may, subject to the occurrence of certain events as specified in the Registry and Paying Agency Agreement, within 30 days therefrom, remove the Trustee and appoint a Replacement Trustee, by written instrument in duplicate, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the Replacement Trustee. If the Issuer fails to remove the Trustee and appoint a Replacement Trustee, any Bondholder may, on behalf of himself and all other Bondholders, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a Replacement Trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a Replacement Trustee.

The Majority Bondholders may at any time remove for cause the Trustee and with the consent of the Issuer, appoint a Replacement Trustee in accordance with the terms of the Registry and Paying Agency Agreement, without prejudice to whatever remedies may be available to the Majority Bondholders under the law or in equity.

Replacement Trustee

The Replacement Trustee shall execute, acknowledge and deliver to the Issuer and to the outgoing Trustee an instrument accepting his/her appointment, and thereupon the resignation or removal of the outgoing Trustee shall become effective and the Replacement Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor under the Trust Agreement.

Upon acceptance of appointment by the Replacement Trustee, the Issuer shall notify the Bondholders in writing and/or by publication in a newspaper of general circulation in Metro Manila, Philippines of the succession of such Replacement Trustee to the duties of the outgoing Trustee. If the Issuer fails to notify the Bondholders within ten days after acceptance of appointment by the Replacement Trustee, the latter shall cause the Bondholders to be so notified at the expense of the Issuer.

MEETING OF BONDHOLDERS

The Trustee may at any time call a meeting of the Bondholders, on its own accord or upon the written request by the Issuer or Majority Bondholders, for purposes of taking any actions authorized under the Trust Agreement.

Notice of Meetings

The Trustee shall give the Issuer and each Bondholder notice of every meeting of the Bondholders, setting forth the time, place, and purpose of such meeting in reasonable detail not less than 14 days prior to the date fixed for the meeting; *provided*, that any meetings of the Bondholders shall be held at such time and place within Metro Manila as the party requesting such meeting may determine.

Failure to Call a Meeting

The failure of the Trustee to call a meeting upon the written request of either the Issuer or the Majority Bondholders within three days from such request shall entitle the requesting party to send the appropriate notice of Bondholders' meeting and the costs therefor shall be charged to the account of the Trustee.

Quorum for Meetings

The presence of Bondholders representing at least fifty-one percent (51%) of the outstanding principal amount of the Bonds, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

Procedure for Meetings

The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall move for the election of the chairman and secretary of the meeting.

Any meeting of the Bondholders may be adjourned from time to time for a period not to exceed in the aggregate one year from the date for which the meeting shall originally have been called, and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person should be a registered holder of the Bonds as reflected in the Register of Bondholders or a person appointed by a public instrument in writing as proxy or agent by any such Bondholder (and, in case of corporate or institutional Bondholders, duly supported by the resolutions of its board of directors or equivalent body authorizing the appointment of the proxy or agent duly

certified by its corporate secretary or an authorized officer) as of the date of the meeting. For avoidance of doubt, ₱1.00 is equal to one vote.

Voting Requirements

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Bondholders holding at least fifty-one percent (51%) of the outstanding principal amount of the Bonds present or represented in a meeting at which there is a quorum, except as otherwise provided in the Trust Agreement. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders shall be binding upon all the Bondholders and the Trustee.

Action of the Bondholders

In cases where, pursuant to the Trust Agreement, the holders of a specified percentage of the aggregate outstanding principal amount of Bonds are allowed to take any action (including the making of any demand or request, the giving of any notice or consent, or the taking of any other action), the fact that at the time of taking any such action the Bondholders of such specified percentage have joined such action may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing; (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance with the Trust Agreement; or (iii) a combination of such instruments and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder represents and warrants to the Trustee and to the Issuer that it has independently and, without reliance on the Trustee or the Issuer, made its own credit investigation and appraisal of the financial position and affairs of the Issuer on the basis of such documents and information it has deemed appropriate and that it has subscribed to the Bonds on the basis of such independent appraisal, and that it shall continue to make its own credit appraisal without reliance on the Trustee or the Issuer.

Notices to Bondholders

Notices to Bondholders shall be sent to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for in the Issue Management and Underwriting Agreement, Trust Agreement, or the Registry and Paying Agency Agreement, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iii) by publication for at least once a week for two consecutive weeks in at least two newspapers of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. All notices shall be deemed to have been received: (i) 10 days from posting, if transmitted by registered mail; (ii) 15 days from mailing, if transmitted by ordinary mail; (iii) on date of last publication, if notice is made through publication; or (iv) on date of delivery, for personal delivery.

SELECTED FINANCIAL INFORMATION

The following tables present summary financial information for the Company and should be read in conjunction with the report of independent auditors, Company's audited historical financial statements and notes thereto contained in this prospectus and the section entitled "Management's Discussion and Analysis of Financial Position and Financial Performance."

The information below is not indicative of the results of future operations.

	Audited Consolidated Financial Statements		
	For the Years Ended		
	December 31, 2011	December 31, 2010	December 31, 2009
	₱	₱	₱
	(in millions, except per share figures or where otherwise indicated)		
Statements of Income [1]			
Sales	71,910	67,575	51,009
Cost of Sales	(36,819)	(34,505)	(26,261)
Gross Profit	35,091	33,070	24,748
Selling and Administrative Expenses	(14,620)	(14,519)	(8,737)
Operating Income	20,471	18,551	16,011
Interest Expense and Other Financing Charges	(4,132)	(3,983)	(2,600)
Interest Income	658	696	538
Income from Acquisition of Assets at Fair Value	-	2,418	-
Impairment Losses on Noncurrent Assets	(30)	(3,694)	-
Other Income (Charges) - Net	402	1,247	(19)
Income Before Income Tax	17,369	15,235	13,930
Income Tax Expense	(5,187)	(4,862)	(3,897)
Net Income	12,182	10,373	10,033
Attributable to:			
Equity holders of the Parent Company	11,962	11,768	10,033
Non-controlling interests	220	(1,395)	-
	12,182	10,373	10,033
Earnings per share [2]	0.78	0.76	0.65
Number of shares outstanding	15,410	15,410	15,410
Statements of Financial Position [1]			
Current Assets			
Cash and cash equivalents	18,279	15,076	13,563
Trade and other receivables - net	4,977	4,366	3,311
Inventories	3,370	3,557	3,246
Prepaid expenses and other current assets	996	1,149	653
Total Current Assets	27,622	24,148	20,773
Noncurrent Assets			
Investments - net	132	135	-
Property, plant and equipment - net	20,214	19,635	5,765
Investment property - net	664	1,379	-
Intangible assets - net	36,063	36,136	32,020
Deferred tax assets	341	68	232
Other noncurrent assets - net	6,387	5,620	5,300

	Audited Consolidated Financial Statements		
	For the Years Ended		
	December 31, 2011	December 31, 2010	December 31, 2009
	₱	₱	₱
	(in millions, except per share figures or where otherwise indicated)		
Total Noncurrent Assets	63,801	62,973	43,317
Total Assets	91,423	87,121	64,090
Current Liabilities			
Drafts and loans payable	1,857	1,644	-
Accounts payable and accrued expenses	7,296	6,833	4,077
Income and other taxes payable	2,606	2,263	1,679
Current maturities of long-term debt, net of debt issue costs	13,577	-	-
Total Current Liabilities	25,336	10,740	5,756
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue cost	37,962	51,364	38,416
Deferred tax liabilities	35	89	-
Other noncurrent liabilities	216	107	-
Total Noncurrent Liabilities	38,213	51,560	38,416
Total Liabilities	63,549	62,300	44,172
Equity			
Capital Stock	15,410	15,410	15,410
Additional paid-in capital	515	515	515
Cumulative translation adjustments	(672)	(542)	-
Retained Earnings	10,618	7,286	3,993
Non-controlling interests	2,003	2,152	-
Total Equity	27,874	24,821	19,918
Total Liabilities and Equity	91,423	87,121	64,090
Cash Flow			
Net cash flows provided by (used in):			
Operating activities	14,344	14,912	12,024
Investing activities	(2,302)	(17,746)	(33,645)
Financing activities	(8,842)	4,584	29,147
Effect of exchange rate changes on cash and cash equivalents	3	(237)	(4)
Net increase in cash and cash equivalents	3,203	1,513	7,522
Cash and cash equivalents at beginning of year	15,076	13,563	6,041
Cash and cash equivalents at end of year	18,279	15,076	13,563

Other Financial and Operating Data	For the Years Ended		
	December 31, 2011	December 31, 2010	December 31, 2009
EBITDA [3]	23,536	21,522	17,836
EBIT [3]	20,471	18,551	16,011
Capital Expenditure	1,778	956	626
Depreciation and amortization	2,631	2,802	1,858
Gross profit margin	48.8%	48.9%	48.5%
EBITDA margin	32.7%	31.8%	35.0%
EBIT margin	28.5%	27.5%	31.4%
Volume (Equivalent Cases)	223.8	220.8	175.8
Volume (hectoliters)	17.2	17.0	13.5
Average selling price/case (in pesos)- domestic operations	313.64	300.65	288.94
Average selling price/case (in pesos)- international operations	350.14	327.55	315.64
Average selling price/Hectoliter (in pesos) – domestic operations	4,084	3,915	3,762
Average selling price/Hectoliter (in pesos) – international operations	4,559	4,265	4,110

Notes:

(1) The Consolidated Statements of Income and Consolidated Statements of Financial Position for the years ended and as at December 31, 2011 and 2010 refer to the consolidated accounts of the Company, IBI, BPI and SMBIL while the Consolidated Statements of Income and Consolidated Statements of Financial Position for the year ended and as at December 31, 2009 refer to the consolidated accounts of the Company and IBI only.

(2) Computed as net income divided by the weighted average number of Common Shares issued and outstanding each period.

(3) EBITDA and EBIT are measures used by the Company's management to internally evaluate the performance of its business. EBITDA means, in respect of any Relevant Period, the net operating income of the Company: (a) before any provision on account of taxation; (b) before any interest, commission, discounts, fees, prepayment penalties or premiums and other finance payments incurred or payable, received or receivable by the Company in respect of the Company's total indebtedness for borrowed money; (c) before any items treated as exceptional or extraordinary items; and (d) before any amount attributable to the amortization of intangible assets and depreciation of tangible assets. Neither EBITDA nor EBIT is a measure determined in accordance with PFRS or IFRS, and should not be considered as an alternative to net income as a measure of operating performance or to cash flow as a measure of liquidity. The items of net income excluded from EBITDA are significant components in understanding and assessing the Company's financial performance. Neither EBITDA nor EBIT is intended to be a measure of free cash flow for management's discretionary use, as it does not reflect certain cash requirements such as interest payments, tax payments and capital expenditures. The Company's calculation of EBITDA and EBIT may be different from the calculation used by other companies and, as a result, the Company's EBITDA and EBIT may not be comparable to other similarly titled measures of other companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

Prospective investors should read the following discussion and analysis of the Company's financial position and financial performance together with (i) the report of independent auditors; (ii) the audited consolidated financial statements as of December 31, 2011 and 2010, for the years ended December 31, 2011, 2010 and 2009 and the notes thereto.

OVERVIEW

The Company is the largest producer of beer in the Philippines, with a total market share of more than 90% in 2010, according to Canadean Limited ("Canadean"). The Company's beer brands include all of the top four beer brands in the Philippines, namely *San Miguel Pale Pilsen, Red Horse, San Mig Light* and *Gold Eagle. San Miguel Pale Pilsen*, the Company's flagship brand, has a history of over 122 years. San Miguel beer was first produced by La Fabrica de Cerveza de San Miguel ("San Miguel Brewery"), a small brewery in the Philippines that began its operations in 1890. San Miguel Brewery provided the foundation from which SMC has grown to become the largest food, beverage and packaging company in the Philippines today. San Miguel Brewery was renamed San Miguel Corporation ("SMC") in 1963.

From a single brewery producing a single product in 1890, SMC's corporate history and business portfolio have evolved over the years. It entered the soft drinks business in 1922 and became the first overseas bottler of The Coca-Cola Company in 1927. To meet the needs of its beer and soft drinks businesses, SMC established a glass packaging plant in Manila in 1938 to supply its own requirements. SMC has expanded to include other food, beverage and packaging products. It has also grown geographically from a Philippine-based beer company to become a regional producer in the Asian beer market. The San Miguel brewery in Hong Kong was founded in 1948 and by the 1970s, San Miguel beer had established a strong market position in Hong Kong. Building on San Miguel beer's leading positions in the Philippines and Hong Kong, SMC expanded into new markets, including China in 1991, Indonesia in 1992, Vietnam in 1993, and Thailand in 2004. Prior to the creation of the Company, all of SMC's beer operations were under the San Miguel Beer Division ("SMBD"), a business unit of SMC.

INTRODUCTION

This discussion summarizes the significant factors affecting the financial performance, financial position and cash flows of San Miguel Brewery Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the years ended December 31, 2011, 2010 and 2009. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2011 and 2010, and the related statements of income, changes in equity and cash flows for the years ended December 31, 2011, 2010 and 2009. All necessary adjustments to present fairly the Group's financial position as of December 31, 2011 and 2010 and the financial performance and cash flows for the years ended December 31, 2011, 2010 and 2009, have been made.

I. BASIS OF PREPARATION

Basis of Measurement

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

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

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Company's functional currency. All values in the tables in this section are rounded off to the nearest million (₱000,000), except when otherwise indicated.

Statement of Compliance

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

Significant Accounting Policies

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS. Accordingly, the Group changed its accounting policies in the following areas:

Adopted Effective January 1, 2011

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

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

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

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

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

    - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the International Accounting Standards Board ("IASB") amended and removed

existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

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

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

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

II. MAJOR DEVELOPMENTS IN 2011

- On September 29, 2011, the Company inaugurated the Sta. Rosa bottling plant in Laguna. The plant was constructed to address the higher demand for big package products and rationalize distribution costs.

- On October 11, 2011, the Board of Directors of the Company approved the issuance of the Bonds. The proceeds thereof will be used to refinance the Series A Bonds issued by the Company in 2009, which are maturing in 2012. The Board of Directors has also delegated to management the authority to determine, negotiate and finalize the terms and conditions of the issuance, including the interest rates and listing thereof.

  Subsequently, on February 7, 2012, further to the approval by its Board of Directors of the issuance by the Company of the Bonds in October 2011, the Board of Directors also approved the use of proceeds of the Bonds for the prepayment of the USD Facility, which will mature in January 2015.

- The Company launched a consent solicitation process on December 26, 2011 to obtain consents from the holders of the 2009 Fixed Rate Bonds, to amend the Trust Agreement therefor ("Trust Agreement") by replacing the financial covenant to maintain a minimum current ratio of 1:1 under the Trust Agreement with a minimum interest coverage ratio of 4.75:1. Bank of the Philippine Islands – Asset Management and Trust Group ("Trustee"), the trustee for the 2009 Fixed Rate Bonds, has certified that record bondholders holding and/or representing 76.92% of the outstanding 2009 Fixed Rate Bonds have consented to the proposed replacement. Accordingly, the Company and the Trustee executed a Supplemental Agreement on February 7, 2012 to effect the amendment to the Trust Agreement, which Supplemental Agreement shall take effect on February 10, 2012 in accordance with the Consent Solicitation Statement dated December 26, 2011 issued by the Company for the consent solicitation process.

  The Company likewise effected a similar amendment to its USD Facility on December 12, 2011, with all lenders consenting to such amendment.

III. FINANCIAL PERFORMANCE

2011 vs. 2010

The Group registered volume and revenue growth for the year 2011 for both domestic and international operations. Total revenue amounted to ₱71,910 million, 6.4% higher than last year while total volume grew by 1.35%. Domestic and international operations contributed ₱58,727 million and ₱13,233 million in revenue, respectively.

Cost of sales amounted to ₱36,819 million in 2011, 6.7% higher than last year mainly due to the higher volumes and the excise tax increase in the Philippines this year. Domestic operations accounted for ₱28,300 million while international operations accounted for ₱8,569 million.

With the cost reduction measures implemented in both domestic and international operations, operating expenses were kept at ₱14,620 million, only 0.7% higher than last year. These measures coupled with the volume growth resulted in a 10.3% increase in operating income.

Interest income, however, declined by 5.5% in 2011 compared to 2010 owing to lower short-term money market placements this year on account of the partial payment made by the Company in November 2010 to SMC of its 40% stake in BPI.

Impairment losses on noncurrent assets amounting to ₱30 million pertain to international operations' investments, intangibles, property plant and equipment and deferred containers. Other income decreased by ₱845 million from last year's balance of ₱1,247 million mainly due to foreign currency translation adjustments of foreign currency-denominated transactions.

The Group's net income amounting to ₱12,182 million is higher by 17.4% as compared to last year's net income of ₱10,373 million. Without the non-recurring income from acquisition of assets at fair value amounting to ₱2,418 million and one-time impairment of noncurrent assets amounting to ₱3,694 of international operation in 2010, net income would still be increased by 4.6%.

Non-controlling interests significantly increased by 116% due to the gain on sale of San Miguel Beer Thailand Ltd.'s ("SMBTL") Bangpho property.

The operating and financial highlights of each business segment are as follows:

Domestic Beer Operations

Domestic operations contributed ₱58,727 million in sales revenue, an improvement of 5.2 % from last year due to higher sales volumes and a moderate price increase implemented in May, 2011. The Company managed to grow its sales despite the market slowdown and aggressive competition with intensified volume-generating and image-enhancing programs to strengthen patronage and fortify market leadership of the San Miguel Beer brands.

Cost of sales for 2011 of ₱28,300 million was 4.2% higher than last year owing to higher sales volumes and the 8% increase in excise taxes beginning January 1, 2011. The increase in cost of sales was partially offset by improvements in manufacturing efficiencies and favorable prices of raw materials. As a result of stronger revenues and cost containment efforts, gross profit was ₱30,427 million, significantly higher by 6.1% from 2010.

On the other hand, operating expenses in 2011 was ₱10,408 million, higher by 2.9% versus last year due to increase in personnel expenses, allocation of resources to support new product introductions, brand equity building and market development initiatives.

With the Company's thrust on besting previous year's sales performance and cost containment initiatives, operating income reached ₱20,018 million, resulting to an operating income margin of 34.1%, up from 33.2% in 2010. Consequently, net income also increased from ₱11,472 million in 2010 to ₱11,765 million in 2011.

International Beer Operations

SMBIL capped 2011 with a solid volume performance from North China, Hong Kong, Indonesia, and SMBIL Exports as well as from the San Miguel brands in Vietnam. The growth in these units was enough to offset the decline in South China and Thailand. As such, SMBIL ended the year with a 5% volume growth versus 2010.

Hong Kong's volumes were 9% ahead of 2010, due to the significant growth of *San Mig Light*,the incremental volumes from San Miguel Brewery Hong Kong Limited ("SMBHK") distribution of Budweiser and Harbin in Hong Kong and Macau, and the improvement in its premium brand volumes. In North China, the wholesaler management program and aggressive trade and outlet promotions in 2011 pushed volumes to a 6% growth in 2011. In spite of the crackdown implemented by the National Excise Tax office earlier in the year on compliance of dealers with regulatory licenses and permits, Indonesia was still able to improve domestic beer volumes by 10% for the year, as Indonesia focused on the implementation of wholesaler/on-premise management program and outlet penetration drive. Meanwhile, SMBIL's Exports business once again turned in

a solid performance for 2011, growing volumes by 23% on the back of the strong performance of San Miguel brands in its existing markets and the continued opening of new markets. In Vietnam, San Miguel brands improved by 11% over 2010 owing to the growth in *San Miguel Pale Pilsen* canned and draught variants.

The last quarter of 2011 was an extremely challenging period for Thailand as the widespread flooding that hit the country weighed heavily down on volumes, pulling annual domestic total to a 7% decline versus last year. Meanwhile, volumes in South China remained sluggish due to aggressive competitor activities and lower volumes from the core markets of Dongguan and Foshan.

As a result of the volume improvement and higher average input and conversion costs, cost of sales increased by 20.5%. Operating expenses marginally grew by 0.2% as increases in labor costs were offset by the rationalization in other expenses.

International operations posted a turnaround in 2011, from a US$0.41 million loss in 2010, to an operating profit of US$10.5 million owing to higher volumes and managed increase in operating costs.

2010 vs. 2009

The Group accelerated growth in 2010 owing to the strong economic recovery, election-related spending, an improving cost environment and stepped-up consumption-generating programs despite volume declines from its international operations. With the consolidation of international operations, consolidated sales revenue for the year amounted to ₱67,575 million, ₱55,834 million of which came from domestic operations and US$262 million or ₱11,789 million from international operations.

Cost of sales amounted to ₱34,505 million while operating expenses amounted to ₱14,519 million. Operating income amounted to ₱18,551 million, with domestic operations accounting for ₱18,563 million while international operations suffered US$0.41 million or ₱12 million in losses. The loss was due to lower volumes and write-off of certain receivables, inventories and prepaid expenses amounting to US$3.4 million or ₱146 million of its SMBHK and San Miguel (Guangdong) Brewery Company Limited ("SMGB") breweries.

Interest expense and other financing charges increased primarily due to the additional financing cost of the USD Facility. Interest income also increased due to consolidation of international operations' balances and increased short-term money market placements for domestic operations. The increase in other income is primarily due to appreciation of local currencies against the US Dollar.

Despite higher financing charges and impairment loss of SMBHK's and SMGB's noncurrent assets amounting to ₱3,694 million which was offset by the income from acquisition of assets at fair value, consolidated net income amounted to ₱10,373 million, an improvement of 3.4% from last year. The income from acquisition of assets at fair value is the excess of the net identifiable assets including non-controlling interests over the consideration paid.

The operating and financial highlights of each business segment are as follows:

Domestic Beer Operations

Total domestic beer volumes reached 183.6 million cases, representing a growth of 5.2% versus year 2009 levels. The Company maintained its lead of the growing beer market, directly attributable to the Company's outlet conversion and occasion-creation programs and improved frequency of call and SRP (suggested retail price) campaigns. Comprehensive brand-building and offtake-generating programs also strengthened preference and consumption of beer brands.

To capture the growing ranks of entry-point and female drinkers, the Company introduced *San Miguel Alcoholic Malt Beverage* in lemon and apple flavors through a soft launch in mid-December 2010. The new products have lower alcohol content relative to regular beers and are available in 330ml bottles. All together, this robust performance generated stronger financial results in 2010. Net sales revenue grew by 9.5% due to higher volumes and a price increase implemented in November 2009. Cost of sales increased by only 3.4% despite the increase in volume due to lower cost of imported raw materials.

Operating expenses increased by 15.8% due to higher advertising and promotional activities, purposive replacement of containers and higher pension expense.

Operating income continued to grow, closing the year with a 15.9% increase over 2009 owing to higher revenues and contained costs, while net income posted a 14.3% growth versus 2009, notwithstanding higher interest expense.

An important milestone for the Company included the acquisition of a 100% stake in SMBIL in February 2010. In SMBIL, the Company has acquired a platform for its beer business in Southeast Asia and China. By integrating both the domestic and international beer businesses, the Company will improve the growth and returns of the business as a whole and broaden the Company's geographic participation, strengthening its brands and presence in the region.

International Beer Operations

SMBIL's Exports business as well as San Miguel brands in Vietnam and Thailand performed strongly, with volumes significantly higher compared to 2009. These gains however were not enough to offset volume losses suffered in South China, Hong Kong and Indonesia. As a result, consolidated volumes for SMBIL fell by 11% behind 2009.

Beer export volumes surged by 15% in 2010 versus 2009 fueled by incremental volumes from new markets as well as sustained on-premise promotional activities in existing major markets. In Vietnam, San Miguel brands continued their growth momentum in 2010 as a result of outlet coverage expansion and strong sales of draught beer. Despite the political unrest in Thailand during the first half of 2010, domestic volumes grew by 18% in the last seven months of the year driven by increased outlet penetration and yield. Volumes in North China were slightly ahead versus 2009 due to improvements in wholesaler channel management.

In South China, sales remained sluggish due to aggressive trade offers of competitors and lower volumes from base markets Dongguan and Foshan, which continue to suffer from the lingering effects of the global recession. Hong Kong's domestic volumes continued to be weighed down by intense competition. Sales in Indonesia were adversely affected by the beer tax restructuring in the country, with the decline in *Anker* brands offsetting double-digit growth of *San Miguel Pale Pilsen* and *San Mig Light*.

Consequently, cost of sales decreased by 3%. However, operating expenses increased by 23.2% due to the full-year impact in 2010 of the acquisition of San Miguel Marketing Thailand Limited ("SMMTL") in 2009 and write-off of certain receivables and inventories amounting to US$3.4 million.

With lower volumes and higher operating costs, international operations suffered an operating loss of US$.41 million. Subsequently, net loss amounting to US$92.3 million was incurred primarily due to impairment of SMBHK and SMGB noncurrent assets amounting to US$95.8 million.

IV. FINANCIAL POSITION

2011 vs. 2010

The statements of financial position for 2011 and 2010 already reflect the consolidated assets, liabilities and equity of both domestic and international operations.

As at December 31, 2011, the Group's total assets improved by 4.9% to ₱91,423 million compared to December 31, 2010 balance of ₱87,121 million. The improvement came primarily from current assets which increased by 14.4% or ₱3,474 million higher compared to December 31, 2010.

The Group's cash balance increased by ₱3,203 million from ₱15,076 million to ₱18,279 million as of December 31, 2011. Domestic cash and cash equivalents of ₱13,714 million is 22.2% higher than December 2010 balances due to higher cash generated from operations. International operations' cash and cash equivalents balance increased by 18.4% compared to December 2010 balance of ₱3,855 million (US$104 million) mainly due to the proceeds from the sale of Bangpho property of SMBTL.

Trade and other receivables rose by 14% due to increased revenues for both domestic and international operations.

Inventories decreased to ₱3,370 million compared to ₱3,557 million in 2010. Domestic operations' inventory decreased by ₱307 million due to higher sales volume for the year 2011 while international operations' inventories increased by 15.4% or ₱120 million due to importation of Budweiser and Harbin products ("SMBHK") and build up of inventories in anticipation of higher production and sales requirements for the summer months.

Prepaid expenses and other current assets of ₱996 million as of December 31, 2011 decreased by 13.3% compared to December 2010 balance mainly due to the domestic operations' reclassification of pension asset to pension contribution for 2011.

Property, plant and equipment increased by 3% from ₱19,635 million in 2010 to ₱ 20,214 million in 2011. As of December 31, 2011, fully depreciated assets of the Group still being used amounted to ₱5,728 million. These are composed of buildings and improvements, machinery and equipment, transportation equipment and office furniture and fixtures.

Investment properties decreased by 51.8% primarily due to the sale of SMBTL's Bangpho property.

Deferred tax assets increased to ₱341 million from ₱68 million mainly due to domestic operations' temporary taxable differences due to accrual of expenses.

Other noncurrent assets increased by 13.6% to ₱6,387 million primarily due to purchase of new bottles for domestic operations and funding of SMBHK's retirement plan.

Drafts and loans payable, which is solely the account of international operations, increased to ₱1,857 million due to the additional short-term loan availed by San Miguel Guangdong Brewery Co. Ltd. in March 2011 amounting to US$7.9 million. International operations made a total payment amounting to US$4.4 million in 2011.

Accounts payable and accrued expenses increased to ₱7,296 million in 2011 from ₱6,833 million in 2010 due to the accrual of interest expense on long-term debt and purchase of inventories in support of increasing sales trend for both domestic and international operations.

Income and other taxes payable amounted to ₱2,606 million in 2011 as against ₱2,263 million in 2010 due to higher income from both domestic and international operations.

The current maturities of long-term debt pertains to the Series A Bonds issued by the Company in 2009 which will mature on April 3, 2012 amounting to ₱13,590 million. Conversely, long-term debt decreased as a result of the reclassification of the current portion of the bonds.

Deferred tax liabilities decreased to ₱35 million from ₱89 million balance as at December 2010 mainly due to reversal of taxable temporary differences pertaining to the revaluation of long-term debt and the marked-to-market gains on embedded derivatives of domestic operations.

Other noncurrent liabilities pertain to domestic and international operations' retirement benefit accruals.

Cumulative translation adjustments of ₱672 million relates to the foreign currency translation adjustments of international operations' accounts.

Non-controlling interests, which pertain to the share of the non-controlling stockholders in the net assets of P.T. Delta Djakarta, TBK ("PTD"), San Miguel Holdings Thailand Ltd. ("SMHTL"), SMBHK group and BPI, decreased by 6.9% primarily due to dividend payment to non-controlling shareholders.

2010 vs. 2009

The statement of financial position for 2010 already reflects the consolidated assets, liabilities and equity of both domestic and international operations, while the 2009 statement of financial position only reflects the financial position of the Company and IBI.

Cash and cash equivalents amounted to ₱15,076 million in 2010 compared to ₱13,563 million in 2009 primarily due to consolidation of international operations' cash amounting to ₱3,855 million. Domestic operations' cash balance decreased by ₱2,342 million primarily due to the purchase of the BPI shares amounting to ₱6,629 million.

Trade and other receivables amounted to ₱4,366 million compared to ₱3,311 million in 2009. Receivables from domestic operations decreased by ₱993 million basically due to higher cash sales. International operations accounted for ₱2,267 million after reflecting an impairment loss of other receivables in SMGB and SMBHK amounting to ₱47 million.

Inventories increased to ₱3,557 million in 2010 as against ₱3,246 million in 2009 mainly due to consolidation of international operations' inventory balance. Domestic operations' inventories decreased by ₱462 million primarily due to lower materials and supplies and containers on hand. International operation's inventory accounted for ₱773 million. SMGB and SMBHK posted impairment loss in materials and supplies and containers amounting to ₱45 million.

Prepaid expenses and other current assets increased by ₱496 million to ₱1,149 million in 2010 mainly due to the consolidation of international operations' assets. International operations prepaid expenses decreased by ₱55 million in 2010 mainly due to impairment loss in SMBHK and SMGB amounting to ₱54 million.

Investments pertain to investment in shares of stocks and other club shares of international operations.

Property, plant and equipment increased from ₱5,765 million in 2009 to ₱19,635 million in 2010 primarily due to the consolidation of the international operations' and BPI's fixed assets. With the addition of BPI's land assets, domestic operations' property, plant and equipment increased by ₱7,053 million to ₱12,818 million. Meanwhile, international operations' fixed assets decreased by US$91 million in 2010 primarily due to the impairment loss of SMBHK and SMGB's fixed assets amounting to ₱3,848 million.

Intangible assets increased by ₱4,116 million from ₱32,020 million in 2009 to ₱36,136 million in 2010 primarily due to the addition of international operations' brands and licenses. International operations intangible assets posted a decrease of ₱346 million in 2010 mainly due to impairment loss of SMBHK and SMGB's goodwill and land use rights amounting to ₱291 million.

Deferred tax assets amounted to ₱68 million in 2010 from ₱232 million in 2009. The balance pertains to international operations only as domestic operations' gain from revaluation of long- term debt and marked-to-market gains resulted in a deferred tax liability.

Other noncurrent assets amounted to ₱5,620 million in 2010 from ₱5,300 million in 2009 primarily due to the consolidation of international operations' balance of ₱607 million after reflecting an impairment loss of deferred containers in SMGB and SMBHK amounting to ₱43 million.

Drafts and loans payable pertain to short-term loans of international operations.

Accounts payable and accrued expenses increased to ₱6,833 million in 2010 from ₱4,077 million in 2009 due to consolidation of international operations' payable balances.

Income and other taxes payable amounted to ₱2,263 million in 2010 as against ₱1,679 million in 2009. Taxes payable from domestic operations increased by ₱447 million to ₱2,126 million due to higher fourth quarter net income as compared to the last quarter of 2009. International operations' taxes payable accounted for ₱137 million of the total amount.

Long-term debt increased by ₱12,948 million from ₱38,416 million in 2009 primarily due to the US$300 million loan availed of by the Company for the purchase of the SMBIL shares.

Deferred tax liabilities amounting to ₱89 million is the result of domestic operations' gain from revaluation of long-term debt and marked-to-market gains on embedded derivatives, and the international operations temporary taxable differences amounting to ₱46 million.

Other noncurrent liabilities pertain to international operations' pension liability accruals.

Cumulative translation adjustments of ₱542 million is basically the foreign currency translation adjustment of international operations' accounts.

Non-controlling interests pertain to the share of the non-controlling stockholders in the assets and liabilities of PTD, SMHTL, SMBHK and BPI.

The increase in equity is due to:

	December 31		
	2011	2010	2009
Income during the period	**₱ 12,182**	₱ 10,373	₱ 10,033
Non-controlling interests from acquisition of a subsidiary	**-**	3,861	-
Effect of translation adjustments	**(146)**	(542)	45
Cash dividends declared	**(8,983)**	(8,789)	(9,170)
	₱ 3,053	₱ 4,903	₱ 908

V. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2011	2010	2009
Net cash flows provided by operating activities	**₱ 14,344**	₱ 14,912	₱ 12,024
Net cash flows used in investing activities	**(2,302)**	(17,746)	(33,645)
Net cash flows provided by (used in) financing activities	**(8,842)**	4,584	29,147

Net cash flows from operations basically consist of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows provided by (used in) investing activities included the following:

	December 31		
	2011	2010	2009
Increase in intangible assets and other noncurrent assets	**(₱ 2,257)**	(₱ 1,032)	(₱ 1,559)
Acquisition of property, plant and equipment	**(1,778)**	(956)	(626)
Acquisitions of investment property	**(29)**	(1)	-
Proceeds from sale of property, plant and equipment, investment property and intangibles	**1,106**	13	5
Interest received	**656**	694	535
Acquisition of subsidiaries, net of cash received	**-**	(16,464)	(32,000)

Major components of cash flow provided by (used in) financing activities are as follows:

	December 31		
	2011	2010	2009
Cash dividends paid	**(₱ 8,630)**	(₱ 8,475)	(₱ 9,170)
Dividends paid to non-controlling shareholders	**(361)**	(300)	-
Proceeds (payment) from (of) borrowings - net	**147**	(27)	-
Increase (decrease) in other noncurrent liabilities	**2**	(83)	(39)
Proceeds from long-term debt	**-**	13,469	38,356

The effect of exchange rate changes on cash and cash equivalents amounted to ₱3 million, (₱237 million), and (₱4 million) as of December 2011, 2010 and 2009 respectively.

VI. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data on the periods indicated below:

	December 31	
	2011	**2010**
Liquidity:		
Current Ratio	1.09	2.25
Solvency:		
Debt-to-Equity Ratio	2.28	2.51
Interest-bearing Debt to Equity Ratio	1.93	2.16
Total Assets to Equity Ratio	3.28	3.51
Interest Coverage Ratio	5.70	5.40
Profitability:		
Return on Average Equity	49.3%	55.3%
Domestic operations		
Operating Efficiency:		
Volume Growth	0.7%	5.2%
Revenue Growth	5.2%	9.5%
Operating Margin	34.1%	33.2%
Group operations		
Operating Efficiency		
Volume Growth	1.35%	
Revenue Growth	6.4%	
Operating Margin	28.5%	

The manner by which the Group calculates the above indicators is as follows:

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt-to-Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-Controlling Interest + Equity}}$
Interest-bearing Debt-to-Equity Ratio	$\frac{\text{Interest-bearing Liabilities}}{\text{Non-Controlling Interest + Equity}}$
Total Assets to Equity Ratio	$\frac{\text{Total Assets}}{\text{Non-Controlling Interest + Equity}}$
Interest Coverage Ratio	$\frac{\text{EBITDA}}{\text{Interest Expense and Other Financing Charges}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$

KPI	Formula
Volume Growth	$\left(\frac{\text{Current Period Sales Volume}}{\text{Prior period Sales Volume}}\right)-1$
Revenue Growth	$\left(\frac{\text{Current period Net Sales}}{\text{Prior Period Net Sales}}\right)-1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

VII. OTHER MATTERS

a) Cash Dividends

On February 7, 2012, the Company's Board of Directors declared cash dividends of ₱0.14 per share payable on March 5, 2012 to all stockholders of record as of February 22, 2012.

b) Commitments

The outstanding purchase commitments of the Group as of December 31, 2011 and 2010 amounted to ₱ 4,377 million and ₱ 4,272 million, respectively.

Amounts authorized but not yet disbursed for capital projects as of December 31, 2011 and 2010 is approximately ₱608 million and ₱ 1,980 million, respectively.

c) Foreign Exchange Rates

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries to Philippine peso in 2011 were closing rates of ₱ 43.84 and average rates of ₱ 43.31 for income and expense accounts.

d) There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

e) There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial year.

f) There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

g) There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

h) There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation, other than those disclosed in the Management's Discussion and Analysis and the Audited Consolidated Financial Statements.

i) There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period.

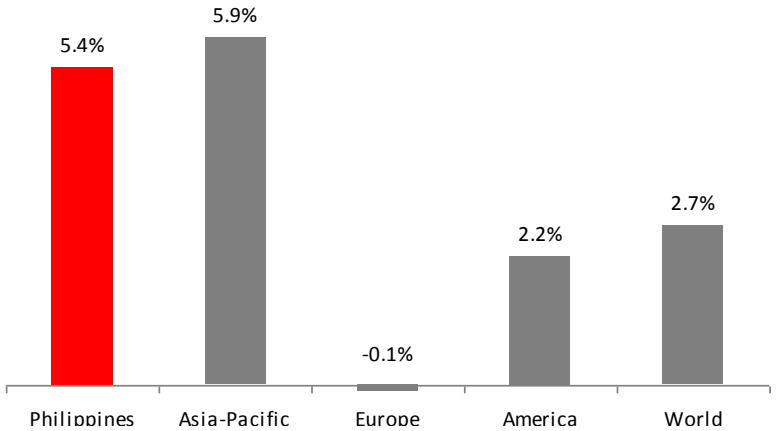
THE BEER INDUSTRY IN THE PHILIPPINES

The information and data contained in this Prospectus relating to the Philippine beer industry has been provided by Canadean Limited ("Canadean"), a leading global beverage research company, and is taken from Canadean's database and other sources. The Company does not have any knowledge that the information provided by Canadean is inaccurate in any material respect. Canadean has advised that (i) some information in Canadean's database is derived from estimates or subjective judgments, (ii) the information in the databases of other data collection agencies may differ from the information in Canadean's database, and (iii) while Canadean has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures and may accordingly contain errors.

OVERVIEW

Between 2006 and 2011, global beer sales volumes increased at a compound annual growth rate ("CAGR") of 2.7%. Over the same time period, the Philippines beer market also grew at a CAGR of 5.4%. Regionally, Asia Pacific beer sales volumes grew at a faster rate than markets in all other regions around the world. The following table sets forth the beer sales volumes CAGR from 2006 and 2011 for the Philippines, Asia Pacific and various regions:

Beer Sales Volumes CAGR 2006-2011E



Source: Canadean "The Beer Service, Global Beer Trends 2011 Cycle"

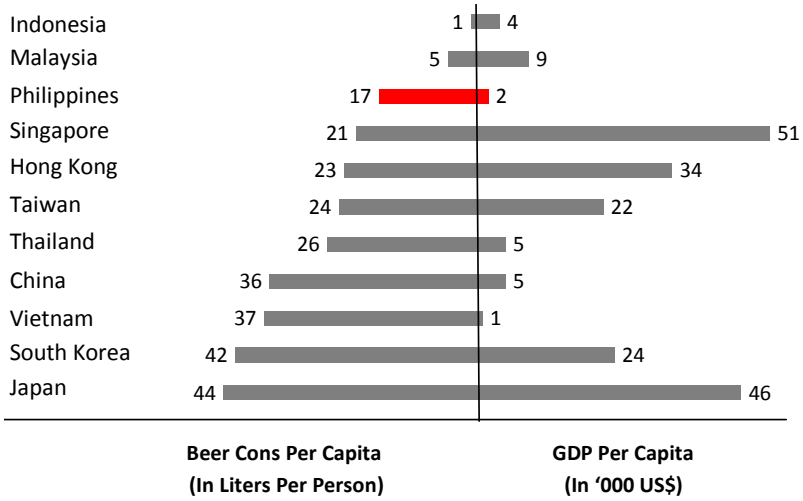
The Philippines is the third largest beer market in Southeast Asia (Vietnam, Thailand, the Philippines, Indonesia, Malaysia and Singapore) and the sixth largest beer market in greater Asia by sales volume. In 2011, sales volume for beer in the Philippines was 16.5 million hectoliters. The following table sets forth beer sales volumes in 2011 and the 2006 to 2011 CAGR for various countries in Southeast and greater Asia:

Major Asian Beer Countries 2011

Country	Sales Volume (HL Millions)	CAGR (2006-2011E)
China	487.3	7.1%
Japan	56.2	(2.8)%
Vietnam	33.2	14.9%
South Korea	20.3	4.0%
Singapore	17.6	(2.8)%
Philippines	16.5	5.4%
Taiwan	5.5	(0.5)%
Indonesia	2.3	4.8%
Hong Kong	1.6	0.9%
Malaysia	1.5	4.7%
Singapore	1.0	4.8%
Total	**643.1**	**5.7%**

Between 2006 and 2011, the per capita sales volume of beer for the Philippines grew from approximately 15 liters to 17 liters. The following table sets forth the largest Asian beer markets ranked by per capita consumption and per capita GDP.

Major Asian Beer Countries
Beer Consumption Per Capita vs GDP Per Capita, 2011



Source: Canadean "The Beer Service, Global Beer Trends 2011 Cycle," International Monetary Fund (IMF).

The following table sets forth changes in the Philippines' per capita sales volume of beer for the periods indicated:

Development of Philippines Beer Market Per Capita Sales Volume

	Liters per person
2002	14.0
2003	15.3
2004	17.3
2005	16.5
2006	14.7
2007	15.4
2008	16.0
2009	16.0
2010	17.2
2011	17.4

Source: Canadean, "The Beer Service, Annual report — 2011 Cycle, Philippines."

Beer Segmentation

The beer market in the Philippines can be broken down into four segments: (i) economy brands, (ii) standard brands, (iii) premium brands and (iv) super-premium brands, principally differentiated by pricing. Brands from economy and standard segments are heavily advertised and promoted and can be generally differentiated by marketing policy and packaging.

Economy brands. Economy brands are low-priced products, which are brewed locally and accounted for approximately 12.1% of sales volume in the Philippines in 2010. Economy beer is widely available to the mass market through a range of different outlets and is distributed mostly in glass bottles through small supermarkets, sari-sari stores ("mom and pop") and on-premise channels throughout the country. Consumers in this segment are particularly price-sensitive. The typical retail selling price of a 320ml bottle is between ₱16.00 and ₱17.00. Economy brands in the Philippines include Beer Na Beer and *Gold Eagle*.

Standard brands. Standard brands are mostly brewed locally and represented approximately 60.2% of the beer market by sales volume in 2010. The brands in this segment are targeted at consumers nationally. The brands within this segment are generally priced 25% to 35% above economy brands, with the typical retail selling price of a 330ml bottle generally between ₱ 20.00and ₱ 23.00. Standard brands have been increasingly popular with consumers given the stronger alcohol content on leading brands such as *Red Horse* and Colt 45.

Premium brands. Premium brands are mostly brewed locally and represented approximately 27.2% of sales volume in 2010. The brands in this segment are targeted at consumers mostly in urban areas with a purchasing power greater than the mass market. The brands in this segment are generally priced 20% to 22% above standard brands, with the typical retail selling price of a 330ml bottle generally between ₱24.00 and ₱28.00. San Miguel is the dominant force in this segment through *San Miguel Pale Pilsen* and *San Mig Light*.

Super-premium. This segment represented the remaining 0.5% of the beer market by sales volume in the Philippines in 2010, and comprises mainly local brands and international brands imported into the Philippines. The brands in this segment are targeted at urban consumers with relatively high purchasing power and tourists. These products are mostly sold through high-end bars, restaurants and hotels in the Metro Manila area. Super premium brands are significantly more expensive than economy, standard and premium brands and use more sophisticated packaging designed to appeal to urban consumers. The typical retail selling price of a 330ml bottle is approximately ₱29.00 and upwards. The most popular local brands include *San Mig Strong Ice, San Miguel Super Dry*, *Cerveza Negra* and Premium All-Malt whilst imported brands include Foster's, Heineken and Carlsberg.

Compared with other leading beer markets in Asia, both off and on-premise pricing per liter in the Philippines represent one of the lowest for Asia. The following table sets forth average beer pricing per liter in 2010 across the major beer markets in Asia:

Leading Asian Beer Markets Average Per Liter Prices 2010 — US$

Country		Ave. Price per Liter (in US$)
China	……	1.07
Hong Kong	……	3.23
Indonesia	……	3.28
Japan	……	8.20
Philippines	……	2.06
Vietnam	……	1.34

Source: Canadean "The Beer Service, Annual Report — 2011Cycle."

Key Industry Trends

Economic impact. Consumer incomes have been improving in recent years supported by a favorable economic performance and higher incomes as farmers and farm workers have traditionally been a key consumption segment for beer. In 2006, VAT was raised from 10% to 12% as the government attempts to reduce the fiscal deficit resulted in a softening of consumer demand. Excise tax on beer was likewise increased by 8% in 2007, 2009 and 2011. Despite cost pressures, the beer industry managed to grow. Industry profitability has come under increasing pressure as a result of the higher prices of commodities and volatility of the local peso which affects the distribution and raw materials import costs.

Preference for mainstream over premium brands. The Philippine beer market is largely a pilsner lager type beer market. In recent years, there is increasing preference for mainstream beer which contains higher alcohol content than premium beer due to affordability with consumers. *Red Horse* produced by San Miguel Brewery Inc. contains alcohol-by-volume ("ABV") of 6.9% is the leading brand in the mainstream segment whilst *San Miguel Pale Pilsen*, the leading brand in the premium segment contains an ABV of 5%.

Distribution challenges. The Philippines is composed of over 7,000 islands that renders distribution a highly complex and expensive business and represents a significant barrier to market entry for new brewers wishing to distribute nationally. San Miguel Brewery Inc. and Asia Brewery Inc. ("ABI") remain dominant in the beer market and limit competition nationally.

Competition

The beer market in the Philippines is highly concentrated with San Miguel Brewery Inc continuing to consolidate its leadership locally. The company recorded a high market share of 90% in 2010 as a result of its extensive distribution network and strong brand portfolio. Key brands include *San Miguel Pale Pilsen*, *Red Horse* and *San Mig Light*.

The other key local player is ABI which started out brewing Carlsberg under license in 1987 and followed in 1988 with the launch of its own Beer na Beer brand. ABI's market share was estimated at 10% in 2010. Key brands include licensed brand Colt 45, Beer na Beer and Manila Beer.

Imported beer comprises a small proportion of the market as these products can only be found in upscale hotels, bars, restaurants and supermarkets in Metro Manila.

On January 1, 2005 the Philippines Government raised excise duty by 20% on beer which was unpopular with both the industry and consumers. Unlike other markets where excise duty is levied on the specific gravity of alcohol, in the Philippines, excise duties charged according to net retail price / per liter of volume capacity.

On February 1, 2006, VAT was raised to 12% from 10% as part of the Government's policy to reduce the fiscal deficit. As a result, beer retail prices increased during 2006 which had a dampening effect on beer consumption during the same year.

On January 1, 2007, 2009 and 2011, beer excise tax rate was increased by 8%.

Philippines — Leading Brewers / Importers 2008-2010 (000 hl)

Company		**2008**	**2009**	**2010**
San Miguel	…….	13,454	13,669	14,369
Asia Brewery	…….	832	894	1,560
Others	…….	20	22	26

Source: Canadean "The Beer Service, Annual Report — 2011 Cycle."

Distribution

The Philippines is composed of 7,000 islands that renders distribution a highly complex and expensive business, and create a significant barrier to market entry for new brewers wishing to compete nationally. Metro Manila on the island of Luzon is the most densely populated conurbation and accounts for more than 30% of all beer consumption in the country.

The brewers distribute direct to retailers through a network of independent, exclusive dealers. In the provinces, these dealers work with a large number of sub-dealers and wholesalers. In 2004, San Miguel embarked on a strategic programme of initiatives to improve its distribution system at the expense of local rival ABI.

The returnable glass bottle enjoys widespread distribution across all channels as it is popular with consumers. For example, the leading brand *Red Horse* costs ₱58.00 for a one liter returnable glass bottle with a ₱4.50 deposit on the bottle when purchased from sari-sari stores. On average, each returnable glass bottle can be used anywhere from 40 to 60 manufacturing cycles depending on the quality of the glass used to make the bottles.

Beer distribution covers large modern supermarkets, smaller supermarkets, convenience stores, gas stations and sari-sari stores as well as on-premise outlets such as bars, clubs, hotels and restaurants. Modern retail such as supermarkets is growing from a small base particularly in Metro Manila.

The following table sets forth the outlet universe for beer in the Philippines:

Outlet Universe for Beer (2010)

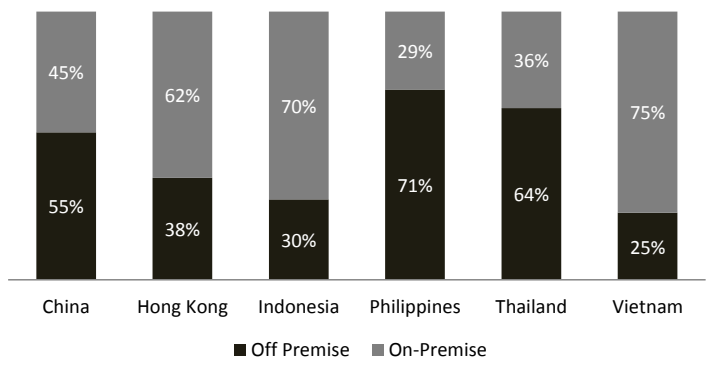
	Number	% share
Retail		
Convenience stores	1,105	0.27%
Supermarkets	218	0.05%
Warehouse Clubs	36	0.01%
Gas Stations	315	0.08%
Sari-Sari Stores	400,000	99.51%
Other retail	280	0.07%
Total Retail	401,954	100.00%
On-Premise		
Hotels	3,788	4.20%
Restaurants, cafes, fast food	69,464	77.04%
Clubs, kiosks, others	16,912	18.76%
Total On-Premise	90,164	100.00%

Source: Canadean "The Beer Service, Annual Report — 2011 Cycle, Philippines."

The on-premise channel accounts for around 29% of overall beer consumption in 2010 which remained relatively stable in recent years. The volume contribution of modern trade outlets which include convenience stores and large supermarkets remain minimal.

The following table sets forth distribution of beer in leading Asian markets for 2010:

Major Asian Beer Countries — Off vs. On Premise Volume Sales 2010



Source: Canadean "The Beer Service, Global Beer Trends 2011 Cycle."

Outlook

The Philippine economy is projected to post moderate growth of 5% in the medium-term, with inflationary pressures expected to ease to 4%. Support will mainly come from strong macroeconomic fundamentals and the resilient consumer market buoyed by higher business process outsourcing incomes and sustained inflow of overseas Filipino worker remittances, increased industrial and services activities and higher investments.

Outlook for the beer market remains favorable in the medium-term, with growth expected to average at 3%. Volume expansion will be mainly fuelled by higher incomes, segment-specific opportunities, moderate pricing strategy and demand-generating activities from beer players.

BUSINESS OVERVIEW

The Company is the largest producer of beer in the Philippines, with a total market share of more than 90% in 2010, according to Canadean Limited ("Canadean"). The Company's beer brands include all of the top four beer brands in the Philippines, namely *San Miguel Pale Pilsen, Red Horse, San Mig Light* and *Gold Eagle. San Miguel Pale Pilsen*, the Company's flagship brand, has a history of over 122 years. San Miguel beer was first produced by La Fabrica de Cerveza de San Miguel ("San Miguel Brewery"), a small brewery in the Philippines that began its operations in 1890. San Miguel Brewery provided the foundation from which SMC has grown to become the largest food, beverage and packaging company in the Philippines today. San Miguel Brewery was renamed San Miguel Corporation ("SMC") in 1963.

From a single brewery producing a single product in 1890, SMC's corporate history and business portfolio have evolved over the years. It entered the soft drinks business in 1922 and became the first overseas bottler of The Coca-Cola Company in 1927. To meet the needs of its beer and soft drinks businesses, SMC established a glass packaging plant in Manila in 1938 to supply its own requirements. SMC has expanded to include other food, beverage and packaging products. It has also grown geographically from a Philippine-based beer company to become a regional producer in the Asian beer market. The San Miguel brewery in Hong Kong was founded in 1948 and by the 1970s, San Miguel beer had established a strong market position in Hong Kong. Building on San Miguel beer's leading positions in the Philippines and Hong Kong, SMC expanded into new markets, including China in 1991, Indonesia in 1992, Vietnam in 1993, and Thailand in 2004. Prior to the creation of the Company, all of SMC's beer operations were under the San Miguel Beer Division ("SMBD"), a business unit of SMC.

On July 24, 2007, the shareholders of SMC approved the transfer of SMC's domestic Philippine beer business assets to the Company in exchange for additional shares in the Company, a wholly-owned subsidiary of SMC. The assets transferred to the Company comprise the domestic beer business' net assets as of June 30, 2007, excluding land, brands and income and other taxes payable. The Company was incorporated on July 26, 2007, and the domestic beer business was spun off from SMC effective October 1, 2007. The spin-off of SMC's domestic beer business into the Company was intended to realize the value of SMC's flagship business. Following approval by the shareholders of SMC of the spin-off of the domestic beer business and the creation of the Company, all plant and equipment used by SMBD in the domestic beer business were transferred to the Company, while SMC retained ownership of the brands and land assets used in the domestic beer business. Under this structure, the Company has agreed to pay SMC royalties for the use of brands and other intellectual property rights of SMC, rentals for the lease of the land assets, fees for shared services and dividends.

The Company undertook an initial public offering of its shares ("IPO") in April-May 2008. Prior to the IPO, the Company had total outstanding shares of 15,333,426,960 common shares. In the IPO, a total of 77,052,000 common shares were offered by way of primary offering, while a total of 809,050,000 common shares owned by SMC were offered by way of secondary offering. After the IPO, the Company's resulting outstanding shares totaled 15,410,478,960 common shares which were listed on the PSE on May 12, 2008.

In 2009, Kirin Holdings Company, Limited ("Kirin") acquired a 48.39% shareholding in the Company, of which 43.249% was acquired from SMC and the remaining 5.141% by virtue of a mandatory tender offer. SMC retained majority ownership of the Company with shareholding of 51%.

The Company issued on April 3, 2009, the 2009 Fixed Rate Bonds to finance its acquisition of the interests of SMC in Iconic Beverages, Inc. ("IBI") and Brewery Properties Inc. ("BPI"). IBI is the company into which SMC transferred certain Philippine beer and malt-based beverages brands, including related trademarks, copyrights, patents, and other intellectual property rights and know-how, while BPI is the company into which SMC transferred certain parcels of land on which all of the Company's production facilities (other than the Sta. Rosa production facility) and certain sales offices used by the Company for its beer businesses are located ("SMB Land"). Brewery Landholdings, Inc. ("BLI"), the wholly-owned subsidiary of BPI, also owns land on which certain sales offices used by the Company in its domestic beer operations are located.

The Company completed its purchase of SMC's interests in IBI on April 29, 2009, as a result of which IBI became a wholly-owned subsidiary of the Company. On the other hand, the Company and SMC executed a Deed of Absolute Sale of Shares on November 10, 2010 for the purchase by the Company of all the interests of SMC in BPI, comprising 40% of the issued and outstanding capital stock of BPI. The outstanding portion of the purchase price for the said shares will be paid upon transfer of the remaining eight SMB Land titles.

In January 2010, the Company completed its acquisition of the international beer and malt-based beverage business of SMC, San Miguel Brewing International Limited ("SMBIL"), from San Miguel Holdings Limited, a wholly-owned subsidiary of SMC. The Company operates one brewery each in Indonesia, Vietnam, Thailand and Hong Kong, and two breweries in China. As of 2011, international operations account for 18% of the total revenues of the Company. SMBIL's beer brands in the international market, include the San Miguel beer brands, and local brands such as *Blue Star, Anker* and *Dragon.*

On January 1, 2012, the amended rules on minimum public ownership of the PSE took effect. The Company is exploring various options to comply with the minimum public ownership requirement of the PSE, which options include, among others, issuance of new shares, secondary offering, and private placement.

Strengths

The Company believes that its principal strengths include the following:

- ***Dominant market share and brand leadership.*** From a single product produced in a single brewery in 1890, San Miguel beer has, over 122 years later, grown into an array of popular beer products catering to the distinct tastes and preferences of beer drinkers across all segments and markets in the Philippines. *San Miguel Pale Pilsen*, the Company's flagship brand, has been an iconic Philippine brand for most of the 20th century and up to today. After considering the Filipino beer drinker's evolving preferences, other brands and products have been introduced, and these have been very successful. Today, the Company offers a portfolio of eleven strong and popular brands: *San Miguel Pale Pilsen, Red Horse, San Mig Light, San Miguel Super Dry, Cerveza Negra, San Mig Strong Ice, Gold Eagle, San Miguel Premium All-Malt, San Miguel Alcoholic Malt Beverage, Oktoberfest Brew* (a seasonal beer), and *Cali*, the country's only malt-based non-alcoholic drink. The various products carry distinct attributes that cater to the various segments of the Philippine beer market. The Company's products have been internationally recognized for quality, garnering a total of one grand gold award, 35 gold medals, 20 silver medals, two bronzes, three International High Quality trophy, and one Crystal Prestige award from Monde Selection International since 2000.

  - ***Strong brand Equity***
    The Company's products have consistently dominated the market for beer in the Philippines, the country's largest alcoholic beverage segment. Based on Canadean data, the Company's products captured a high market share of more than 90% in 2010. The country's top four beer brands are all produced by the Company. Unlike most other markets for beer, in the Philippines, imported brands account for only 0.2% of the market, with distribution limited to upscale bars and hotels and high-end supermarkets. Despite the entry of local competition in 1981 and the introduction of a few locally brewed versions of foreign brands, the Company has maintained an extremely strong market position. The popular acceptance and widespread availability of the Company's products have helped strengthen market position over the years. The Company's size and scale of operations provide significant economies of scale in production, research and development, distribution, and managerial and marketing functions over a diversified product portfolio and geographic base. Its size also results in substantial leverage and significant bargaining power with suppliers and retailers.

  - ***Ownership of Events***
    The Company conducts trademark nationwide special events such as San Miguel Oktoberfest, Red Horse Muziklaban and Summer "Sarap MagBabad", and is a dominant presence in major fiestas and festivals which have increased brand exposure to the consumers.

- ***Efficient Manufacturing Process.***

  - ***Proximity of Production Facilities to Consumer Markets.*** To ensure product availability and freshness, as well as to minimize distribution costs, the Company maintains a network of six production facilities that are strategically located in the three main islands of the Philippines: Luzon, Visayas and Mindanao. The Company has facilities in each of Valenzuela City in Metro Manila, Sta. Rosa in Laguna, San Fernando City in Pampanga, Mandaue City in Cebu, Bacolod City in Negros Occidental and Darong, Sta. Cruz in Davao del Sur, with a total annual production capacity of 16.8 million hectoliters. The facilities are equipped with automated equipments capable of brewing and

packaging the Company's products in a variety of sizes and formats, including bottles, cans, and kegs. The strategic location of the Company's production facilities reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists the Company in ensuring that the beer is freshly delivered to dealers at an optimal cost. The archipelagic nature of Philippine geography and the relative difficulty of transporting products to the country's substantial rural population make these dispersed production facilities particularly valuable.

- ***Cost Leadership.*** The Company maintains a strong cost leadership position through high productivity and efficiency, as well as cost control measures, which facilitate pricing flexibility and greater profit growth by maintaining the Company's margins. The Company's product quality initiatives, process enhancements, and improvement programs for plant operations and facilities management are all expected to be sustained. The Company continuously implements process optimization efforts and technology enhancements to generate cost savings.

- ***Extensive Distribution System and Wide Dealership Network.*** The Company has a far-reaching and efficient distribution system in the Philippines, which is based on six strategically located production facilities and effective management of third party service providers and provides the Company with a competitive advantage. The Company's 50 sales offices, contracted logistics service providers and transportation assets including hauling trucks, routing trucks, pre-sell vans and service pick-ups and its network of 501 dealers across the Philippines enable it to maintain optimum stock levels in terms of quality and quantity in 481,103 on-premise and off-premise outlets nationwide. The Company's products are delivered from any one of the Company's six production facilities by contract haulers to a sales office or dealer warehouse within five days of production date or less. The sales office or dealer then delivers the beer to the wholesaler or retailer promptly afterward, ensuring ample stock and quality wherever and whenever the Company's products are needed.

- ***Returnable Glass Bottle System.*** The Company's returnable bottle system helps keep the price of its beer products affordable. The Company is able to achieve a 95% average retrieval rate for its bottles, maximizing bottle usage and substantially reducing its packaging costs.

- ***Positioned in strategic growth markets in Asia-Pacific with a broad portfolio of San Miguel and local brands.*** The Company through its subsidiary, SMBIL, has business operations in five countries which are major beer markets in Asia and offer attractive growth prospects in the medium-term (i.e., China, Hong Kong, Vietnam, Indonesia and Thailand). SMBIL has a broad portfolio of strong international and local brands, with the premium brand San Miguel growing in most of its international markets while local brands Blue Star in Baoding in north China and Anker in Indonesia remain as major brands in their respective markets. SMBIL also employs focused sales and distribution systems and owns six breweries which have a total production capacity of 7.1 million hectoliters to support its operations. The Company's footprint in the global beer market is also backed by SMBIL's export operations which cover over 50 markets in the Asia-Pacific.

- ***Financial Strength.*** The Company has consistently shown a strong financial position with attractive growth prospects. Stable sales growth and cost efficiencies achieved have resulted in consistent improvements in EBITDA margins. The Company continues to exhibit strong cash flows due to efficient working capital management and prudent capital expenditure programs.

- ***Highly Experienced management and production team.*** The Company has an extensive pool of experienced managers, with many senior managers having been with the Company for an average of 20 years. The management team is well accustomed to the Philippine operating environment, and has been able to effectively manage the Company through periods of crisis and instability in the Philippines. The Company also has established experts in its production process, including 34 brewmasters, each of whom has completed advanced training and has more than ten years of on-the-job-training experience working for the Company.

Strategy for Domestic Operations

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

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

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

  - ***Segmented pricing strategy.*** The Company intends to keep its products affordable for the middle and lower socio-economic sectors by maintaining a moderate pricing strategy for its products in the Popular and Economy markets, where sales are highly price elastic. For the more upscale, or Upper Popular market, where sales are less price elastic, the Company plans to sustain the higher price positioning of its specialty brands, supported by image-building activities to strengthen their premium positioning and improve their profitability. Amid the global economic slowdown, the Company intends to manage and align the timing and magnitude of price increases for all its products to sustain volume growth as well as cover increases in tax rates on beer and higher material costs. With the forecasted moderate Philippine economic growth in 2012, the Company intends to pursue this segmented pricing strategy to protect its gains and to sustain the general uptrend for the industry as evidenced by the Company's high market share and increased level of sales in 2011.

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

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

  - ***Increase size of the upper premium and premium segment and tap emerging consumer segments and channels.*** The Upper Premium and Premium markets for beer in the Philippines are relatively small segments, but they play important roles in brand-building and overall market development. The segments offer promising prospects, underpinned by rising consumer incomes, increasing consumer sophistication, rapidly changing drinker habits and preferences, as well as increasing urbanization. The Company intends to further develop the higher-priced segments of the beer industry by offering higher-priced and higher-margin products catering to these segments. For example, in August 2008,

the Company launched *San Miguel Premium All-Malt* and *Oktoberfest Brew*, a seasonal beer, which are marketed to the Upper Premium and Upper Popular segments, respectively. With this strategy, the Company aims to take advantage of opportunities in segmenting the market as well as preempting the incursion of foreign brands. Relative to other Asian countries, the Philippine beer market offers greater potential with regard to premium pricing of brands given the current relatively narrow price gap between the Premium and Upper Popular brands. In addition to the upscale segment, the Company intends to continuously tap new growth segments such as the business process outsourcing sector, overseas Filipino workers, and tourism sector through initiatives tailor-fit for these segments and utilization of channels which cater to these markets. The Company also recognizes the importance of fast-growing modern trade channels such as large supermarket chains, hypermarkets and modern convenience stores in marketing and carrying its products to consumers, especially in urban areas. Accordingly, the Company is focusing on sales and marketing programs for identified products to these fast growing segments of the market.

- ***Intensify Trade Execution and Innovation.*** The Company intends to further expand its trade reach and increase the visibility and availability of its products in retail outlets by accelerating point-of-sale promotions and merchandising programs for both on- and off-premise outlets to increase sales and outlet yield. In pursuing this strategy, the Company will focus on improving the efficiency of its trade operations, including trade penetration levels and adherence to suggested retail prices in all distribution channels by strengthening per-outlet management, intensifying route assisting activity and alternative distribution mode management such as pedicabs (bicycle-driven cabs) and tricycles, which help to deliver the Company's products to remote areas. The Company also intends to raise its frequency of calls to retail outlets. Management of the dealers' territories will be strengthened through intensified retail-based servicing and territorial reconfiguration.

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

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

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

Strategy for International Operations

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

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

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

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

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

PRODUCTS AND BRANDS

In the Philippines, beer has become synonymous with San Miguel, a company that has been known for its quality products for over 120 years. Specifically, Filipinos readily associate beer with a San Miguel product that embodies the attributes and values they look for in their beverage. The Company has differentiated its product offerings through effective marketing programs. With the Company's diverse product portfolio, Filipino beer drinkers can have a San Miguel product that caters to their specific tastes and preferences. The Company considers the strong brand associations and imagery that San Miguel beer brands carry to be among the important selling points for San Miguel beer products.

The Company markets its beer under the following brands: *San Miguel Pale Pilsen*, which is the Company's flagship brand, *San Miguel Super Dry*, *San Mig Light*, *San Miguel Premium All-Malt*, *San Mig Strong Ice*, *Cerveza Negra*, *Red Horse*, *Oktoberfest Brew*, and *Gold Eagle*. The Company also sells *Cali*, the country's only malt-based non-alcoholic drink. *Cali* is available in three variants: *Cali Pineapple*, *Cali Ice* and *Cali Light* (low-calorie). The company recently launched *San Miguel Alcoholic Malt Beverage* which comes in apple and lemon flavors.

The Company's products can be categorized into three classes based on the target market: Premium/Upper Premium/Upper Popular, Popular and Economy. Premium, Upper Premium and Upper Popular products cater to upscale markets especially in highly urbanized areas, while the Popular segment serves the majority of the population or the mass market. The Economy segment caters to the low-end market. The share of the Company's upscale brands (which includes the Premium/Upper Premium and Upper Popular market segments) to total Company's sales has been steadily increasing from 2% in 2000 to 10% in 2011. In contrast, the share of the Company's Popular and Economy brands as a percentage of sales has been decreasing. These trends reflect primarily shifts in consumer preferences given improvements in incomes, increased urbanization and changes in lifestyles.

The following table sets forth each of the Company's principal products, organized by market segment, and includes a description of each product as well as the specific packaging in which the product is sold.

		Brand and Product Portfolio		
Market Segment	**Brand/ Product**	**Description/Target Market**	**Packaging**	**Product Price[1] (₱)**
Upper Premium		*San Miguel Premium All-Malt Beer* has a malty flavor with pleasant hoppy notes. It is full-flavored with a smooth balanced bitterness. It is slightly sweetish in taste and has medium to full body. Targeting both male and females aged 25-45. Alcohol content: 5%	330ml bottle, 330ml can	49.00
Premium		*San Miguel Super Dry* is the first and only "dry" beer in the Philippine market. The target market for this beer is primarily males, aged 22-45 in higher socio-economic groups. It is known for the strong impression of its aromatic hop: A light to medium body and accompanied by a bitterness that is just right. Alcohol content: 5% by volume.	330ml bottle, 330ml can	29.00
		*Cerveza Negra* is a full-bodied dark lager with a balance of moderate bitterness and sweetish roasted malt bouquets. Alcohol content: 5% by volume. It is marketed to both men and women, primarily those between the ages of 25-34 in higher socio-economic groups.	330ml bottle	29.00

Brand and Product Portfolio

Market Segment	Brand/ Product	Description/Target Market	Packaging	Product Price[1] (₱)
Upper Popular		*San Mig Strong Ice* is a high-alcohol pale amber lager characterized by pleasant estery notes and mild balanced bitterness. A brilliant ice-filtered beer that gives exceptional smoothness and a refreshingly cool afterdrink experience. It is marketed primarily to men aged 18-24. Alcohol content: 6.3% by volume.	330ml bottle, 330ml can	28.00
		*San Mig Light* is the first light/low-calorie beer in the market. Alcohol content: 5% by volume. This beer is marketed to men and women aged 18-34, primarily those in higher socio-economic groups.	330ml bottle, 330ml can, 15L, 30L &, 50L kegs	25.00
		*San Miguel Alcoholic Malt Beverage* is the first fruit flavored alcoholic malt beverage in the country targeted at entry point drinkers in the higher socio-economic groups. It comes in two flavors: Apple and Lemon. Alcohol content: 3% by volume.	330ml bottle	24.00
		*Oktoberfest Brew* (seasonal) is a pale lager with malty notes balanced with floral and citrus hop notes. It is full flavored yet light-bodied, sweet and smooth without the inebriating effect of alcohol. Targeting both males and females aged 18-24. Alcohol content: 3.6% by volume	330ml bottle	25.00
Popular		*San Miguel Pale Pilsen* is a pale golden lager with a clean, hoppy finish. It has a medium body, with a distinct bitter hop character. This beer, the Company's flagship brand, is marketed to all socio-economic groups, primarily to those in the 24-45 age group, but also to those aged 18-24. It is marketed through various campaigns, including those linked to national marketing events and local festivals that are sponsored or supported by the Company. Alcohol content: 5% by volume.	320ml bottle, 330ml bottle, 355ml bottle, 640ml bottle, 1000ml bottle, 330ml can, 500ml can, 30L & 50L Kegs	21.00

Market Segment	Brand/ Product	Brand and Product Portfolio Description/Target Market	Packaging	Product Price[1] (₱)
		*Red Horse Beer* has a distinctive, full flavored taste and extra satisfying strength of a world class premium strong beer. This beer is marketed primarily to men between the ages of 18-24 in middle and lower socio-economic groups. Marketing for this beer is often tied to rock music and sports. Alcohol content: 6.9% by volume	330ml bottle 500ml bottle 1000ml bottle 330ml can, 500ml can	20.00
Economy		*Gold Eagle* is a low-priced beer. It has a pale amber hue and is moderately light-bodied. It is brewed to have an "easy-drinking" character. It is marketed primarily to men aged 24-45 in middle and lower socio-economic groups. Alcohol content: 4.5% by volume.	320ml bottle 1000ml bottle, 330ml can	17.00
Non-Alcoholic		*Cali* is a line of clear, non-alcoholic malt-based beverages with fruit flavors and slight effervescence. Cali has three variants: Cali Pineapple, Cali Ice (apple) and Cali Light (low-calorie).	330ml bottle 330ml can	21.00

(1) Product prices represent the Company's suggested retail price for each product, expressed in 320ml/330ml bottle

Over the years, the Company's beer products have been the recipient of numerous international awards for product quality and excellence. *San Miguel* beer brands are consistent Monde Selection winners. Monde Selection is a Belgian based international institute for quality selections founded in 1961. The Company considers "Monde Selection" awards to constitute an exceptional advertising asset and a recognized quality assurance for consumers. The latest awards in 2011 give *San Miguel* a grand total of one grand gold award, 35 gold medals, 20 silver medals, two bronzes, three International High Quality trophy, and one Crystal Prestige award since 2000.

PRODUCTION

Facilities

Due to the high cost of shipping relative to product cost — as well as the importance of maintaining freshness and other distribution considerations — the Company maintains a system of regional production facilities rather than a central consolidated production facility. Each of the Company's production facilities is equipped with automated equipment capable of brewing and packaging the products to meet market preferences. The Company currently owns and operates six production facilities in the Philippines which are strategically located in the country's three main island groups of Luzon, Visayas and Mindanao, and are located close to the intended end-markets in order to reduce transportation costs.

In 2011, the overall utilization rate of the Company's production facilities, calculated as the quotient of production divided by capacity, was 83%. The following table sets forth the year of establishment and annual production capacity in hectoliters, of each of the Company's production facilities in December 2011:

Production Facilities	Year Established	Capacity
		(in millions of hl)
Polo Brewery	1947	4.6
Sta. Rosa Plant	2011	
San Fernando Brewery	1981	5.9
Mandaue Brewery	1968	3.3
Bacolod Brewery	1990	1.0
Davao Brewery	1995	2.0
Total		16.8

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

The Company employs state-of-the art brewing technology. Its main brewing equipment and technology are sourced from Huppmann Handel GmbH & Co. KG, one of Germany's leading brewing equipment manufacturers. Beer fermentation and maturation are done in stainless steel cylindro-conical tanks. Beer is filtered using vertical filters with horizontal plates made by a German company, SeitzSchenk Filtersystems GmbH. Most of the Company's packaging machines are from leading packaging equipment manufacturers from around the world, including Klöckner, Holstein Seitz AG and Sidel S.p.A. The Company also uses washers from Barry-Wehmiller Companies, Inc. and pasteurizers with regenerative energy savings systems from the United States and camera-type electronic bottle inspectors capable of detecting transparent foreign materials in the empty bottles from Kirin Techno-System Corporation of Japan. The Company's labeling equipment is from Krones AG of Germany and Production Engineering (PE) Labellers of Italy.

The Company's packaging materials are sourced from the San Miguel Packaging Group. All of the Company's breweries are in a state of certifiability for ISO 9001:2008 and ISO 14001:2004, as reviewed by SMC's Corporate Quality Management and Environment Management units. All of the breweries are also good manufacturing practices-certified by the Food Development Center.

Raw Materials

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

The Company depends on raw materials sourced from third parties to produce its products. The Company procures key raw materials through a procurement group that uses standardized procurement procedures. Beer production requires malted barley and hops, which are sourced generally from the United States, Canada, Australia and Europe, while new sources in China and South America are being developed; and adjuncts, primarily corn, sugar and rice, which are generally sourced domestically (where the breweries are located).

The Company enters into supply contracts with key raw material suppliers with terms ranging from approximately one year to five years. These contracts typically provide for a pre-determined fixed and formula price for the duration of the contract. In addition, depending on considerations such as price trends and the quality of raw materials, the Company also makes spot purchases in the open market. To ensure the quality of its products, the Company closely monitors the quality of its raw materials.

The following table indicates the trend of the Company's raw material costs:

	For the years ended December 31,		
	2011	2010	2009
	In ₱ per kilogram		
Malt price	22.90	25.80	32.36
Corn Price	20.92	19.95	19.27

Bottles, Packaging Materials and Water Supply

Packaging costs are also a significant factor in the manufacture of beer. The Company mostly sells its products in returnable glass bottles of varying sizes and shapes, as well as in aluminum cans and kegs. As of December 31, 2011, approximately 95% of the glass bottles used by the Company were returned bottles. The returnable glass bottle is by far the most important and popular package for beer in the Philippines, accounting for 99% of the Company's sales as of December 31, 2011. The Company enjoys wide distribution across all trade channels, from supermarkets, grocery and convenience stores to sari-sari ("mom and pop") stores and on-premise outlets throughout the country. The Company's efficient returnable bottle system decreases its exposure to rising packaging costs driven by increases in fuel and therefore helps the Company to keep its products affordable. The durable nature of the returnable glass bottles and plastic crates results in an average usage of 60 cycles over a span of ten years. Retail outlets selling the Company's products collect deposits on these bottles when customers buy the beer and return the deposit when the bottles are returned. New glass bottles are purchased from time to time to support accelerating sales and to replace broken and scuffed bottles.

For the international operations, the returnable bottle system is also used in Vietnam and Indonesia, except for products which are intended for exports which use one-way containers. Products in Hong Kong and Thailand are also in one-way containers, while China employs both returnable bottle system and one-way containers.

Cans are less popular mainly because they are more expensive, although the number of cans has been increasing in recent years with greater availability. Kegs for draft beer which come in 15, 30 and 50 liter sizes are very limited and represent a decreasing share of the market.

The Company sources most of its packaging materials from San Miguel Yamamura Packaging Corporation, a subsidiary of SMC, and its subsidiaries, which manufacture, among other packaging products, new glass bottles, aluminum cans, crowns, plastic cases and carton boxes.

All water supply used by the Company in its production is provided by deep wells owned by SMC and are operated by the Company, except for water used at the Polo Brewery, which is supplied by the Maynilad Water Services, Inc., a privatized water company serving parts of Metro Manila.

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

Major Raw Materials and Packaging Supplies

Key Materials	Sources
Malted Barley	Australia Europe USA, Canada, China
Hops	USA Germany
Adjuncts	
Corn Grits	Philippines
Sugar	Philippines
Food Starch (from Cassava)	Thailand, Vietnam
Rice	Philippines
Packaging Materials	
Bottles	Philippines
Crowns	Philippines
Aluminum Cans	Philippines
Plastic Cases	Philippines
Cartons	Philippines
Labels	Philippines, Malaysia

BREWING TECHNOLOGY AND PRODUCT DEVELOPMENT

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

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

The following table presents the amounts spent by the Company on research and development activities, in millions of pesos and as a percentage of net sales, for the periods indicated:

	For the years ended December 31,		
	2011	2010	2009
Amount (in millions)	₱66.0	₱70.0	₱45.0
Percentage of net sales	0.09%	0.10%	0.09%

To promote technical manpower development, the Company runs the San Miguel School of Brewing, which offers various programs spanning all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school included those highly advanced classes necessary to qualify the most senior of its technical personnel as brewmasters. Each of the Company's 34 brewmasters has extensive advanced coursework and over ten years of on-the-job-training experience working for the Company.

SALES AND DISTRIBUTION

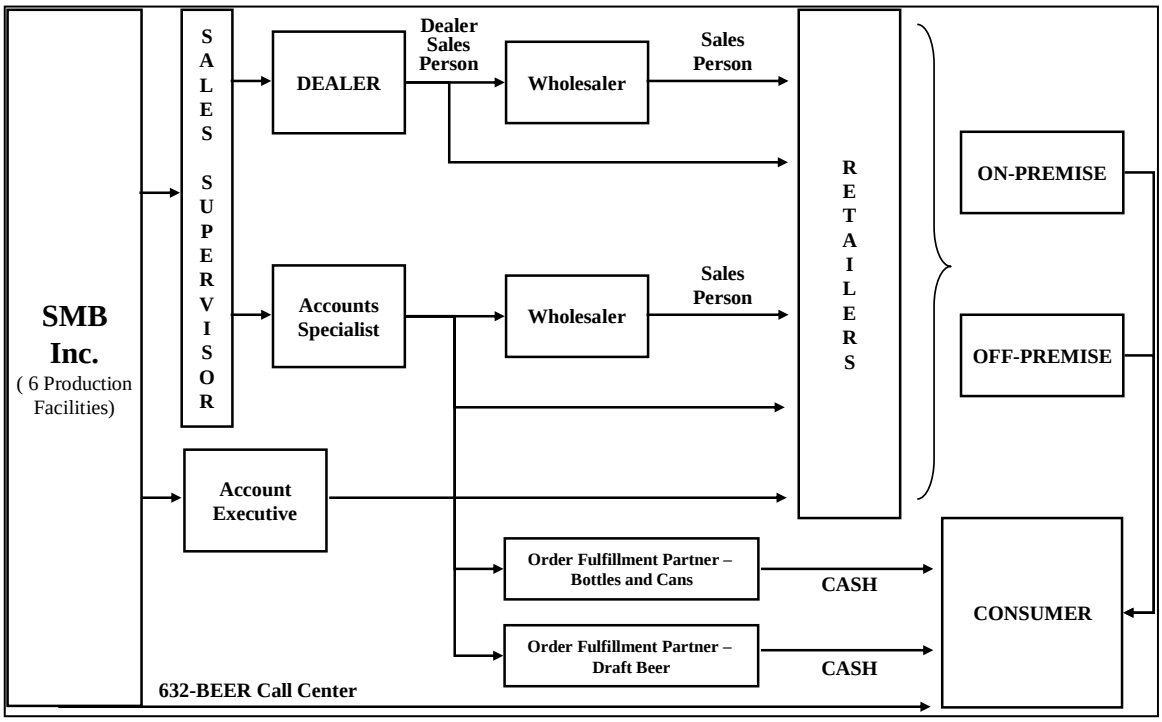
Domestic Market

The Company markets, sells and distributes its products principally in the Philippines. Many of the Company's products have strong market positions in the Philippines. The Company believes that it maintains the most extensive distribution network in the Philippine beverage market. The Company's beer products are distributed and sold at 481,103 outlets, including off-premise outlets such as supermarkets, grocery stores, sari-sari stores, and convenience stores, as well as on-premise outlets such as bars, restaurants, hotels and beer gardens.

The Company maintains a network of six production facilities that are strategically located in the three main islands of the Philippines: Luzon, Visayas and Mindanao. The Company has production facilities in each of Valenzuela City in Metro Manila, Sta. Rosa in Laguna, San Fernando City in Pampanga, Mandaue City in Cebu; Bacolod City in Negros Occidental, and Darong, Sta. Cruz in Davao del Sur. The strategic location of the Company's production facilities in the Philippines reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists the Company in ensuring that the beer is freshly delivered to customers at an optimal cost.

The Company has a far-reaching and efficient distribution system in the Philippines, which is based on six strategically located production facilities and effective management of third party service providers. The Company's products are delivered from any one of the Company's six production facilities by contract haulers and, in certain circumstances, by a fleet of boats contracted by the Company, to a sales office or dealer warehouse generally within five days from production in the breweries. The sales office or dealer then delivers the beer to the wholesaler or retailer promptly afterward, ensuring ample stock and quality wherever and whenever San Miguel Beer products are needed. As of December 31, 2011, the Company had 50 sales offices and 501 dealers throughout the Philippines.

The following chart is a graph of the Company's distribution network as of December 31, 2011:



Dealers generally provide their own warehouse facilities and trucks, considerably reducing the Company's own investment requirements. To increase distribution efficiency, the Company has gradually reduced the number of its dealers. The Company has also increased the support that it provides to its dealers, including software support with respect to streamlining logistics, promotional support and financial management training. The Company enters into written distribution agreements with its dealers that specify the territory in which the dealer is permitted to sell the Company's products, the brands that the dealer is permitted to sell, the performance

standards applicable to the dealer, procedures to be followed by the dealer in connection with the distribution rights and circumstances upon which distribution rights may be terminated. The Company's sales force designs and awards strategic sales territories to dealers based on research of the specific territory covered. Distribution rights, performance standards and sales procedures are developed by the Company and implemented in tandem with dealers to ensure high quality of services. As dealers are given exclusivity over defined geographic areas that the Company actively monitors and enforces, these franchises are heavily sought after by potential dealers.

The Company also formed the Market Development Group under its Sales function to handle accounts management and business building of the modern trade accounts such as hypermarkets and convenience stores and high visibility on-premise outlets. Field sales operations, on the other hand, are responsible for the servicing requirements of these accounts. Volume contribution of modern trade off-premise sector was estimated at 2% in 2011.

As of December 31, 2011, the Company, together with its dealers and account specialists, had a sales force of approximately 1,810 in the Philippines. The Company recently introduced initiatives to increase sales performance, including sales technique training for the Company's dealers. Training that the Company provides to its dealers includes selling systems and procedures, logistics management systems, finance, quality management and human resource management. The Company also provides training to dealer personnel, including selling systems and procedures, selling skills workshops and quality management. The Company has also instituted systems to improve communication between its sales force and retail outlets, including an electronic sales-booking system for large customers.

International Market

The Company also has brewery operations in Hong Kong, China, Vietnam, Thailand and Indonesia through its subsidiary San Miguel Brewing International Ltd. ("SMBIL").

SMBIL has one brewery each in Indonesia, Vietnam, Thailand, and Hong Kong, and two breweries in China, with total capacity of 7.1 million hectoliters. Third party service providers transport the products produced from these breweries to the customers, which may consist of dealers, wholesalers, retail chains, or outlets, depending on the market. SMBIL maintains a total sales force of approximately 640 in the said five countries with 12 sales regions in China (Guangzhou, Greater Foshan, Baoding), seven in Thailand, four in Vietnam and five in Indonesia. In Thailand, all local sales are done through the Group's marketing arm, San Miguel Marketing Thailand Limited ("SMMTL"), while in Indonesia, the distribution of products is through Jangkar Delta Indonesia ("JDI"), a subsidiary of SMBIL.

In addition, SMBIL also exports its beer products to over 50 countries, with key markets such as UAE, Japan, Sudan, Taiwan, Malaysia, Singapore and United States. SMBIL's exports are primarily sold under various San Miguel beer brands as well as under private labels. In 2011, export sales accounted for 20% of total beer sales of SMBIL.

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

MARKETING ACTIVITIES

The Company actively pursues marketing initiatives to promote new and existing products, as well as to maintain and enhance brand awareness of its existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, conducting various consumer and trade promotions and other merchandising activities. The Company also uses television, radio and print advertisements, outdoor billboards and posters that can be placed on the walls of retail outlets and restaurants, bars and other on-premise outlets. The Company operates a call center, "632-BEER," which provides free beer delivery service for parts of Metro Manila. Advertising and promotion expenses of the Company's domestic beer operations were ₱3,169 million in 2010 and ₱2,883 million in 2011.

The Company holds trademark special events. San Miguel Beer Oktoberfest has been the brand's flagship event for over three decades. This festival of beer and activities takes places at numerous locations simultaneously across the Philippines. Popular bands and celebrities, including *San Miguel* beer endorsers, are on hand to entertain the crowds. The Company also holds *San Miguel Pale Pilsen's* nationwide Sarap MagBabad, which is an annual get-together which involves games, concerts and parties at the country's popular summer destinations. In addition to *San Miguel Pale Pilsen*, *Red Horse* is also often a major sponsor of concerts and affiliated with Muziklaban, the country's biggest annual rock challenge. For *San Mig Light*, the Company conducts music party initiatives such as "Party All Night" and club music events. The Company also offers Beer Tasting Bar Tours in upscale outlets for *San Miguel Premium All-Malt, San Miguel Super Dry* and *Cerveza Negra.*

COMPETITION

The Company faces competition from another domestic producer, Asia Brewery, Inc. ("ABI"), which sells both its own brand and foreign brands it produces under license, and from foreign brewers. ABI is the Company's largest competitor in the Philippine market. It operates two breweries and also holds the license for Coors and Colt 45 in the Philippines. ABI competes, mainly on the basis of price, through its own Beer na Beer and Colt 45 brands. ABI also competes with the Company's market-leading high-alcohol beer product, *Red Horse*, with its licensed Colt 45, Manila Beer and recently, Tanduay Ice, an alcopop product which competes with *San Mig Light* and *San Miguel Alcoholic All-Malt Beverage*. Competition from imported beers is minimal.

The Company also competes with producers of other alcoholic beverages, primarily gin, rum, brandy, and recently, alcopops which are close substitutes to beer. In the beer industry — and more generally the alcoholic beverage industry — competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. The Company believes that its market leadership, size and scale of operations, and extensive distribution network in the Philippines create high entry barriers and provide the Company with a competitive advantage in the Philippines.

In its main international markets, the Company contends with both foreign and local beer brands, such as Blue Girl (Hong Kong), Carlsberg (Hong Kong, Thailand), Heineken (Hong Kong, South China, Thailand, Vietnam and Indonesia), Tsingtao (Hong Kong, China), Yanjing (China), Tiger (Thailand, Vietnam and Indonesia), Guinness (Hong Kong and Indonesia), Bintang (Indonesia), Budweiser and Snow (China), Singha and Asahi (Thailand), and Foster's and Saigon Beer (Vietnam).

TAXATION

In the Philippines, excise tax represents a significant component of beer production costs. Excise tax is payable by the producer, and the tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. Excise tax accounts for a significant portion of the Company's production costs. Excise tax rates applicable to beer have been raised by a further 8% effective January 1, 2011. The excise tax rates applicable to the Company's products ranged from ₱10.41 per liter to ₱20.57 per liter. The sale of beer in the Philippines is also subject to VAT.

The Company's products are also subject to excise tax in the markets in which the Company operates. The rates are: IDR11,000/liter for Indonesia; 45% of taxable price for Vietnam; 60% of the ex-factory price (which is an established price floor, the product is the "beer tax") plus 10% of the beer tax (interior tax) plus 2% of the beer tax (healthy tax) plus 1.5% TBPS for Thailand; and RMB220/ton for products priced less than RMB3,000 and RMB250/ton for products priced more than RMB3,000 for China.

EMPLOYEES

The table below presents the Company's personnel numbers by functional category for the periods indicated.

Category	Number of Employees For the year ended Dec. 31, 2011	For the year ended Dec. 31, 2010	For the year ended Dec. 31, 2009
Executives (Officers and Managers).	231	237	153
Project employees and Consultants.	69	90	99
All other employees.	4,392	4,168	2,511
Total.	4,692	4,495	2,763

The Company does not expect the number of its employees to materially change in the next 12 months.

The Company has nine existing domestic Collective Bargaining Agreements ("CBAs") as of December 31, 2011 that cover approximately 40% of the Company's domestic employees. The international operations has four existing collective labor agreements ("CLAs"). Details of the CBAs and CLAs and their expiration dates, in respect of both the term of the agreement for employment and the term for the union to represent employees, are set out in the table below.

Domestic Unions	No. of Members	No. of CBAs	Expiration Economic	Expiration Representation
Concerned Workers of SMC – Polo Brewery	219	1	June 30, 2013	June 30, 2014
SMBI Employees Union (SMBIEU) – PTGWO	159	1	June 30, 2013	June 30, 2014
Ilaw at Buklod ng Manggagawa (IBM) Local No 24-San Fernando Beer Bottling Plant Chapter	244	1	Feb. 15, 2014	Feb. 15, 2015
San Fernando Complex Monthly-Paid Emp. Union IBM No. 48	100	1	Dec. 31, 2013	Dec. 31, 2014
New San Miguel Corporation Sales Force Union	93	1	Jan. 31, 2014	Jan. 31, 2015
San Miguel Bacolod Brewery Employees Union – Independent	63	1	July 31, 2013	Apr. 27, 2014
Phil. Agricultural, Commercial and Industrial Workers Union	40	1	Oct. 31, 2013	Oct. 31, 2013
Kahugpongan Sa Ligdong Mamumu-O (KLM)	129	1	Dec. 31, 2014	Dec. 31, 2015
San Miguel Davao Brewery Employees Independent Union	74	1	Nov. 30, 2012	Nov. 30, 2012

International Unions				Period of CLA	
Country	Installation	Name of Union / Org representing employees	No. of CLAs	Start	Expiration
Vietnam	San Miguel Brewing Limited	SMBVL Trade Union is under the supervision of Trade Union of the Khan Hoa Industrial & Economic Zone, Khan Hoa Province, Vietnam	1	Jan 1, 2011	Dec 31, 2012
China / HK	Guangzhou San Miguel Brewery Co. Ltd	Trade Union Committee of Guangzhou San Miguel Brewery Co. Ltd	1	Jan 4, 2010	Jan 3, 2012
	San Miguel Guangdong Brewery Co.	SMGB Trade Union Committee	1	June 26, 2010	June 25, 2013
	San Miguel Baoding Brewery Co. Ltd.	SMBB Trade Union Committee	1	July 1, 2010	June 30, 2013

The Company has not experienced any such strikes or work stoppages since the effectivity of the spin-off on October 1, 2007. The Company considers its relationship with its employees to be good.

The Company and some of its international subsidiaries have funded, non-contributory retirement plans covering all of their permanent employees.

Under the Company's plan, all regular monthly-paid employees and daily-paid workers of the Company are eligible members. Eligible members who reach the age of 60 (65 for employees transferred from SMC) are entitled to compulsory retirement. The Company may, however, at its own discretion, continue an employee's membership under the plan on a year-to-year basis after he/she reaches compulsory retirement. Eligible members may opt to retire earlier after they have completed at least 15 years of credited service at the Company. Upon retirement, eligible members will receive a certain percent of their final monthly pay for each year of their credited service. The amount varies depending on the years of service of the retiree. Eligible members may receive certain resignation benefits if they resign before they reach an eligible retirement date if they have completed at least five years of service at the Company.

INSURANCE

The Company has an all-risk policy that covers its facilities and inventories against a variety of risks, including, among others, fire, lightning, catastrophic perils (typhoon, flood, earthquake, volcanic eruption), machinery breakdown, explosion, civil commotion, riot/strike, malicious damage, and other perils liability. The total sum insured under this policy is approximately US$1,148 million for global property insurance, with a maximum recovery for any one loss of US$250 million, and ₱2.48 billion for local fire insurance. The Company does not maintain business interruption insurance for its production facilities.

In addition to the all-risk policy, the Company maintains various general liability and product liability insurance policies covering its operations. These policies do not cover liability as a result of pollution or environmental damage by the Company.

The Company has a marine cargo insurance policy to cover domestic and international shipment of goods and equipment. A product liability insurance policy insures all of the Company's exported products. The Company's insurance policies are provided by leading Philippine insurance companies that are generally reinsured by major international insurance companies.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

The Company is subject to extensive regulation by the Philippine Department of Environment and Natural Resources ("DENR"). The Company is required to comply with the provisions of the Philippine Environmental Impact Statement System ("EIS System"). The EIS System is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical; or (ii) is situated in an environmentally critical area. The law is implemented by the DENR. Under the EIS System, an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area is required to submit an Environmental Impact Statement and secure an Environmental Compliance Certificate ("ECC"). This ECC requirement is applicable to each of the six production facilities and one malt terminal that the Company operates throughout the Philippines.

The Company is also subject to the provisions of the Philippine Clean Water Act of 2004 ("Clean Water Act") and its implementing rules and regulations. The Clean Water Act requires the Company to secure a wastewater discharge permit, which authorizes it to discharge liquid waste and/or pollutants of specified concentration and volume from its breweries into any water or land resource for a specified period of time. The Environmental Management Bureau ("EMB") of the DENR is responsible for issuing discharge permits and monitoring and inspection of the facilities of the grantee of the permit.

The provisions of the Philippine Clean Air Act and its implementing rules and regulations are likewise applicable to the Company. The Clean Air Act provides that before any business may be allowed to operate facilities and equipment, which emit regulated air pollutants, the establishment must first obtain a Permit to Operate Air Pollution Source and Control Installations. The EMB is responsible for issuing permits to operate air pollution source and control installations as well as monitoring and inspection of the facilities of the grantee of the permit.

Other regulatory environmental laws and regulations applicable to the Company are as follows:

- The Water Code, which governs the appropriation and use by any entity of water within the Philippines. Water permits are issued by the National Water Resources Board.
- Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 and its implementing rules and regulations, which requires waste generators to register with the EMB. The law aims to regulate the management of hazardous wastes generated by various establishments such as the Company.

In 2011, the Company spent ₱65 million in complying with environmental laws and regulations.

LEGAL PROCEEDINGS

As of the date of this prospectus, the Company is not a party to any material pending legal proceedings, and none of the properties of the Company is the subject of any legal proceeding. SMC is responsible for all pending legal proceedings that involve the domestic beer business prior to the effectivity of the spin-off on October 1, 2007 (such as collection cases and foreclosure of properties given as collateral for product purchases and cases for tax refunds filed with the BIR).

BOARD OF DIRECTORS AND MANAGEMENT

The table below sets forth each member of the Board of Directors of the Company as of the date of this prospectus:

Name	Age	Citizenship	Position
Ramon S. Ang	58	Filipino	Chairman and Director
Roberto N. Huang	63	Filipino	President and Director
Ferdinand Constantino	60	Filipino	Director
Keisuke Nishimura	55	Japanese	Director
Yoshinori Isozaki	58	Japanese	Director
Carlos Antonio M. Berba	47	Filipino	Director
Virgilio S. Jacinto	55	Filipino	Director
Teruyuki Daino	51	Japanese	Director
Shobu Nishitani	48	Japanese	Director
Carmelo L. Santiago	69	Filipino	Independent Director
Alonzo Q. Ancheta	79	Filipino	Independent Director

Ramon S. Ang, 58, Filipino, has served as Chairman of the Company since July 26, 2007 and is the Chairman of the Company's Executive Committee. He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer of SMC; Chairman of San Miguel Properties, Inc. ("SMPI"), San Miguel Yamamura Packaging Corporation ("SMYPC"), Anchor Insurance Brokerage Corporation ("AIBC"), and San Miguel Brewery Hong Kong Limited (Hong Kong) ("SMBHK"); and a Director of Ginebra San Miguel, Inc. ("GSMI"), San Miguel Pure Foods Company, Inc. ("SMPFC") and Top Frontier Investment Holdings, Inc. ("Top Frontier"). He is also the Chairman and Chief Executive Officer of Petron Corporation and SMC Global Power Holdings Corp. ("SMC Power"); Chairman of Liberty Telecoms Holdings Inc., Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc., Atea Tierra Corporation and Cyber Bay Corporation; Vice Chairman of The Manila Electric Company; and an Independent Director of Philweb Corporation. Mr. Ang has held directorships in various subsidiaries of SMC during the last five years and was previously the Company's President (2007-2009). Mr. Ang holds a Bachelor's Degree in Mechanical Engineering from Far Eastern University.

Roberto N. Huang, 63, Filipino, has served as Director since October 8, 2007 and President of the Company since April 30, 2009. He is also a Member of the Company's Executive Committee, Director of SMBIL, and Chairman and President of IBI, BPI and BLI. He also served as General Manager of the Company (2007-2009), Director of GSMI (2004-2008), SMPFC (2004-2008); President of San Miguel Beverages, Inc. (2007-2008); and President of Coca-Cola Bottlers Philippines, Inc., Cosmos Bottling Corporation and Philippine Beverage Partners, Inc. (2003-2007). Mr. Huang holds a Bachelor's Degree in Mechanical Engineering from Mapua Institute of Technology.

Ferdinand K. Constantino, 60, Filipino, has served as Director of the Company since July 26, 2007 and is the Chairman of the Company's Executive Compensation Committee and a Member of its Audit Committee. He also holds, among others, the following positions: Director, Senior Vice President, Chief Finance Officer and Treasurer of SMC; President of AIBC; and a Director of SMYPC, SMC Power, and Top Frontier. Mr. Constantino previously served as Director of SMPFC (2008-2009), GSMI (2008-2010) and SMPI (2001-2009); Chief Finance Officer of Manila Electric Company (2009); and as Chief Finance Officer and Treasurer of the Company (2007-2009). He has held directorships in various subsidiaries of San Miguel Corporation during the last five years. Mr. Constantino holds a Bachelor's Degree and Master's Degree in Economics from the University of the Philippines.

Keisuke Nishimura, 55, Japanese, has served as Director of the Company since April 30, 2009. He is the Executive Officer and General Manager, Strategy Planning Department of Kirin Holdings Company, Limited ("Kirin"). He was previously the Company's Executive Vice President (2009-2011). He is a former Director of SMBHK (2010-2011), and SMBIL. He was previously Director (2005) and Chairman and CEO (2007) of Kirin (China) Investment Company, Limited. Mr. Nishimura holds a Bachelor's Degree in Business from Yokohoma National University and a Master's Degree in Business from the University of Washington.

Yoshinori Isozaki, 58, Japanese, has served as Director of the Company since May 18, 2010. He is the Managing Director of Kirin. His previous work experience in Kirin includes: Managing Executive Officer and

General Manager (2009), and Executive Officer and General Manager, Corporate Planning Department (2008). He was previously a Director of SMC (2004-2008). Mr. Isozaki holds a Bachelor's Degree in Economics from Keio University and a Master's Degree in Hotel Administration from Cornell University.

Carlos Antonio M. Berba, 47, Filipino, has served as Director of the Company since August 10, 2010. He is the Managing Director of SMBIL since January 1, 2008. He is also currently Vice Chairman of SMBHK, a Commissioner of PT Delta Djarkarta Tbk (Indonesia); and a Director of San Miguel Beer (Thailand) Limited and San Miguel Holdings (Thailand) Ltd. He previously served SMC as President of the San Miguel Beer Division (2006). Mr. Berba holds a Bachelor's Degree in Electrical Engineering from the University of the Philippines, a Master's Degree in Japanese Business Studies from the Japan America Institute of Management Science & Chaminade University of Honolulu, and a Master's Degree in Business Administration from the Wharton School, University of Pennsylvania.

Virgilio S. Jacinto, 55, Filipino, has served as Director of the Company since October 14, 2010 and is a Member of the Audit Committee and the Governance and Nomination Committee. He is the Corporate Secretary, Compliance Officer, Senior Vice- President and General Counsel of SMC; Director of Petron, and Corporate Secretary of GSMI and Top Frontier. He was formerly the Vice President and First Deputy General Counsel of SMC (2006-2010). He was Director and Corporate Secretary of United Coconut Planters Bank; Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Atty. Jacinto is an associate professor at the University of the Philippines College of Law. He holds various directorships in various local and offshore subsidiaries of SMC. Atty. Jacinto holds a Bachelor's Degree in Philosophy and Bachelor of Laws Degree from the University of the Philippines and a Master's Degree in Law from Harvard University.

Teruyuki Daino, 51, Japanese, has served as Director of the Company since April 12, 2011 and as Executive Vice President since October 11, 2011. He is a member of the Executive Committee and Executive Compensation Committee, and a Director of SMBHK and SMBIL. He was previously the Executive Financial Advisor of the Company (April-October 2011). His previous work experience includes: General Sales Manager of Gifu Branch of Kirin Brewery Company Limited (2009-March 2011); and President and Chief Executive Officer of Four Roses Distillery, LLC (2002-2009). Mr. Daino holds a Bachelor's Degree in Economics from Hitotsubashi University and a Master's Degree in Business Administration from the Massachusetts Institute of Technology.

Shobu Nishitani, 48, Japanese, has served as Director of the Company and Executive Financial Advisor since October 11, 2011. He is a member of the Executive Committee and Audit Committee and a Director of SMBHK and SMBIL. He served as Deputy General Manager of Finance and Accounting Department of Kirin Group Office Company, Limited. He was also the Deputy General Manager of Finance and Accounting Department of Kirin Business Expert Company, Limited (2008-2010) and Manager of Finance Group (2006-2007). Mr. Nishitani holds a Bachelor's Degree in Commerce from Waseda University and a Graduate of the Program for Management Development from the Harvard Business School.

Carmelo L. Santiago, 69, Filipino, has served as Independent Director of the Company since February 25, 2010. He was an Independent Director of the Company from October 8, 2007 to April 30, 2009. He is the Chairman of the Company's Audit Committee and a Member of its Executive Committee, Executive Compensation Committee and Governance and Nomination Committee. He is currently an Independent Director of SMC, Liberty Telecoms Holdings Inc. and SMBHK; and Director of Terbo Concept, Inc.. Mr Santiago was a former independent director of GSMI, SMPI and AIBC. Mr. Santiago is the founder and owner of several branches of Melo's Restaurant and founder of Wagyu Restaurant. Mr. Santiago holds a Bachelor's Degree in Business Administration from University of the East.

Alonzo Q. Ancheta, 79, Filipino, has served as an Independent Director of the Company since April 30, 2009 and is the Chairman of the Company's Governance and Nomination Committee and a Member of its Audit Committee. Atty. Ancheta is a Director of Philippine Tobacco Flue-Curing and Redrying Corporation; President of Zobella & Co. (A.Q. Ancheta and Partners), Ogilvy & Mather (Philippines), Inc., Kinoshita Pearl (Philippines), Inc. and Growe Investments Ltd.; Member of the Board of Trustees and Corporate Secretary of St. Luke's Medical Center; Corporate Secretary of Ingasco, Inc.; Council Adviser of the Intellectual Property Association of the Philippines; and Philippine National Committee member and Vice Chair of the ASEAN Law Association. He was the Senior Vice President (2000-2006) and President (2006-2009) of the Asian Patent Attorneys Association. Atty. Ancheta holds a Bachelor of Arts Degree and Bachelor of Laws Degree from the University of Manila.

SENIOR MANAGEMENT

The table below sets forth the Company's executive officers as of the date of this prospectus.

Name	Age	Citizenship	Position
Roberto N. Huang	63	Filipino	President
Teruyuki Daino	51	Japanese	Executive Vice President
Mercy Marie Jacqueline L. Amador	50	Filipino	Vice President, Chief Finance Officer and Treasurer
Shobu Nishitani	48	Filipino	Executive Financial Advisor
Minerva Lourdes B. Bibonia	53	Filipino	Senior Vice President and Marketing Manager
Debbie D. Namalata	46	Filipino	Vice President and National Sales Manager
Rosabel Socorro T. Balan	48	Filipino	Vice President, General Counsel, Corporate Secretary and Compliance Officer
Rebecca S. Flores	56	Filipino	Assistant Vice President and Head – Brewing Technical Group
Rene T. Ceniza	49	Filipino	Assistant Vice President and Head – Logistics
Enrico E. Reyes	49	Filipino	Assistant Vice President and Head – Human Resources

Mercy Marie Jacqueline L. Amador, 50, Filipino, is Vice President and Chief Finance Officer and Treasurer of the Company since March 16, 2009. She was previously Chief Finance Officer of San Miguel Brewing International Limited (2007-2009); and Division Finance Officer of the San Miguel Beer Division (2006-2007), and Vice President and Manager, Financial Planning Analysis and Investor Relations (2001-2006), of SMC. Ms. Amador holds a Bachelor's Degree in Business Economics from the University of the Philippines and Master's Degree in Business Administration from the Amos Tuck School of Business, Dartmouth College.

Minerva Lourdes B. Bibonia, 53, Filipino, is Senior Vice President and Marketing Manager of the Company since October 1, 2007. She previously served SMC as Senior Vice President and Marketing Head for Corporate Marketing (2002- 2007); and was Director of SMBHK (2006-2010). Ms. Bibonia holds a Bachelor's Degree in Accounting from the University of Nueva Caceres.

Debbie D. Namalata, 46, Filipino, is Vice President and National Sales Manager of the Company since October 1, 2007. She was previously Vice President and National Sales Manager of the San Miguel Beer Division of SMC (2007); Executive Assistant to the San Miguel Beer Division President (2007); General Manager of San Miguel Super Coffeemix Co., Inc. (2006-2007); and General Manager of Magnolia, Inc. (2005-2006). Ms. Namalata holds a Bachelor's Degree in Business Administration, Major in Accounting from the University of the Philippines and a Master's Degree in Management from the Asian Institute of Management.

Rosabel Socorro T. Balan, 48, Filipino, is Vice President and General Counsel since January 1, 2010 and Corporate Secretary and Compliance Officer since October 14, 2010. She is also currently the Corporate Secretary of SMBIL and its various subsidiaries, IBI, BPI and BLI. She was Vice President and Deputy General Counsel of SMC (2003-2009) and Assistant Corporate Secretary of the Company prior to her appointment as Corporate Secretary. She also acted as Assistant Corporate Secretary of SMC, GSMI, SMPFC and SMPI; and Compliance Officer of AIBC and SMC Stock Transfer Service Corporation. Atty. Balan has also been a director, corporate secretary and/or assistant corporate secretary of other various subsidiaries of SMC, during the last five years. Atty. Balan holds a Bachelor's Degree in Economics from the University of the Philippines, a Juris Doctor Degree from the Ateneo Law School, and a Master's Degree in Business Administration from De La Salle University.

Rebecca S. Flores, 56, Filipino, is Assistant Vice President and Head of the Brewing Technical Group of the Company since February 16, 2008. She was previously Plant Manager of San Miguel Baoding Brewery, North China Operations (2006-2008) and Mandaue and Bacolod Breweries (2001- 2006), San Miguel Beer Division.

She was previously a Brewmaster and Brewing Manager of Mandaue Brewery of the San Miguel Beer Division of SMC. Ms. Flores holds a Bachelor's Degree in Chemical Engineering from the University of San Carlos.

Rene T. Ceniza, 49, Filipino, is Assistant Vice President and Logistics Head since October 1, 2007. He previously served SMC in the following capacities, among others: Assistant Vice President and Manager for National Logistics of the San Miguel Beer Division (May 2005-2007), and Manager, National Logistics (2004-2005) of the San Miguel Beer Division. Mr. Ceniza holds a Bachelor's Degree in Industrial Management Engineering from the Cebu Institute of Technology.

Enrico E. Reyes, 49, Filipino, is Assistant Vice President and Human Resources and Business Affairs Communications Head since October 1, 2007. He previously served SMC in the following capacities: Assistant Vice President and Human Resources and Business Affairs and Communications Head (2007) and Compensation and Benefits Manager, Human Resources Division (2006-2007). Mr. Reyes holds a Bachelor's Degree in Business Economics from the University of the Philippines.

The Company has engaged the consultancy services of Mr. Josefino C. Cruz to direct the Company's manufacturing operations.

TERM OF OFFICE

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

QUALIFICATIONS AND DISQUALIFICATIONS

The Company's amended by-laws require that directors have at least 5,000 shares registered in their names in the books of the Company.

No person shall qualify or be eligible for nomination or election to the Board of Directors if such person is engaged in any business, which competes with or is antagonistic to the business of the Company. Without limiting the generality of the foregoing, a person shall be deemed to be engaged in a business competing with or antagonistic to the Company's business under the following circumstances:

(a) If the person is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any corporation (other than one in which the Company owns at least 30% of the capital stock) engaged in a business which the Board of Directors, by at least three-fourths vote, determines to be competitive or antagonistic to that of the Company; or

(b) If the person is an officer, manager or controlling person, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any other corporation or entity engaged in any line of business of the Company, when in the judgment of the Board of Directors, by at least three-fourths vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors of the Company; or

(c) If the Board of Directors, in the exercise of its judgment in good faith, determines by at least three-fourths vote that he is the nominee of any person set forth in (a) or (b) above.

The Board of Directors may also take into account other factors such as business and family relationship in determining whether or not a person is a controlling person, beneficial owner or the nominee of another.

EXECUTIVE COMPENSATION

By resolution of the Board of Directors, each director shall receive a reasonable per diem allowance for his attendance at each board meeting. The Company intends to provide each director with reasonable per diem of ₱20,000 and ₱10,000 for each Board and Board Committee meeting, respectively, attended by such director. Other than these per diem amounts, 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 as of the date of this prospectus.

The table below sets out the aggregate compensation paid or incurred by the Company in 2010 and 2011 and estimated to be paid in the ensuing fiscal year to the President and senior executive officers of the Company:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
			(in ₱ millions)		
Total Compensation of the Chief Executive Officer (President) and Senior Executive Officers other than the President [1]	2012 (est)	79.0	28.8	21.0	128.8
	2011	71.4	37.9	19.0	128.3
	2010	63.1	28.5	16.7	108.3
All other officers and directors as a group unnamed	2012 (est)	112.2	41.0	38.0	191.2
	2011	96.3	50.0	33.3	179.6
	2010	81.1	41.7	30.6	153.4
Total	2012 (est)	191.2	69.8	59.0	320.0
	2011	167.7	87.9	52.3	307.9
	2010	144.2	70.2	47.3	261.7

[1] includes the Managing Director of SMBIL

OTHER ARRANGEMENTS

There are no other 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 as of the date of this prospectus.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL

There are no employment contracts between the Company and its executive officers. There is no compensatory plan nor arrangement with respect to an executive officer which results or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

WARRANTS AND OPTIONS OUTSTANDING

As of the date of this prospectus, there are no outstanding warrants or options in respect of the Company's shares held by the Company's President, named executive officers and all directors and officers as a group.

SIGNIFICANT EMPLOYEES

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

FAMILY RELATIONSHIPS

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

None of the directors and executive officers of the Company have been involved in any legal proceeding, including, without limitation, being the subject of any (a) bankruptcy petition, (b) conviction by final judgment, (c) order, judgment or decree of suspension, enjoinment or limitation of his involvement in any type of business, securities, commodities or banking activities, or (d) violation of a securities or commodities law, for the past five years up to the latest date, that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

DISCLOSURE ON COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

Manual on Corporate Governance

The Company's Manual on Corporate Governance (the "Manual") was approved by the Board of Directors on October March 25, 2007, and was amended on April 10, 2008, March 25, 2010, March 11, 2011 and December 8, 2011. The Manual is in compliance with the SEC's Code of Corporate Governance.

Independent Directors

Under the present SEC policy, the Company is required to have at least two independent directors in its Board of Directors. The Manual, in turn, requires the Company to have at least two independent directors or such number of independent directors that constitutes 20% of the members of the Company's Board of Directors, whichever is lesser. At least two independent directors must serve on the Company's Audit Committee and one independent director on each of the Governance and Nomination Committee and the Executive Compensation Committee. Under the Manual and implementing rules and regulations of the SRC, an independent director is defined as a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director. An independent director must satisfy the qualifications and must have none of the disqualifications of an independent director set out in the SRC and its implementing rules and regulations, the Manual, the amended articles of incorporation and amended by-laws of the Company.

Board Committees

To aid the Board of Directors in complying with the principles of good corporate governance, the Board of Directors constituted the following Board Committees. Each of the Board Committees has adopted its own charter that sets out its role, authority, duties and responsibilities, and the procedures which guide the conduct of its functions.

Executive Committee

The Executive Committee is currently composed of five directors, which includes the Chairman of the Board, the President, and an independent director. The Committee 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.

The Company's Executive Committee is chaired by Mr. Ramon S. Ang with Mr. Roberto N. Huang, Mr. Carmelo L. Santiago (independent director), Mr. Teruyuki Daino and Mr. Shobu Nishitani.

Audit Committee

The Audit Committee is comprised of at least three members of the Board of Directors, at least two of whom shall be independent directors. One of the independent directors must be the Chairman of the Audit Committee.

All members of the Committee shall preferably have accounting and finance backgrounds and one member with audit experience. Each member shall have an adequate understanding of the Company's financial management systems and environment, including the Company's risk management and environment. The Audit Committee is responsible for assisting the Board of Directors in discharging its corporate governance and fiduciary duties in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions. It reviews and monitors, among others, the integrity of the Company's financial statements and reports, and ensures their compliance with pertinent accounting standards and regulatory requirements, and evaluates the adequacy and effectiveness of its internal control procedures and enterprise risk management framework and processes, performs oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Company, and crisis management.

The Company's Audit Committee is chaired by Mr. Carmelo L. Santiago (independent director) with Mr. Ferdinand K. Constantino, Mr. Alonzo Q. Ancheta (independent director), Mr. Virgilio S. Jacinto and Mr. Shobu Nishitani as members.

Governance and Nomination Committee

The Governance and Nomination Committee is composed of at least three voting members, and one non-voting member in the person of the Human Resources director or manager. One of the three voting members must be an independent director. Other members of the Committee may be non-directors and shall be non-voting. The Governance and Nomination Committee assists the Board of Directors in the performance of its oversight responsibilities in the development and implementation of the corporate governance principles, policies and systems of the Company, and in the establishment and implementation of mechanisms for the assessment and improvement of the performance of the Board of Directors, its members and the Board Committees, and evaluation of the Company's compliance with the Manual. It is also 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 pre-screens and shortlists all nominees in accordance with the qualifications and disqualifications for directors set out in the Manual, the amended articles of incorporation and amended by-laws of the Company and applicable laws, rules and regulations.

The Company's Governance and Nominations Committee is chaired by Mr. Alonzo Q. Ancheta (independent director) with Mr. Virgilio S. Jacinto and Mr. Carmelo L. Santiago (independent director) as voting members, and Ms. Mercy Marie J.L. Amador and Ms. Lynn B. Santos as non-voting members.

Executive Compensation Committee

The Executive Compensation Committee is composed of three members, one of whom must be an independent director. It is responsible for advising and assisting the Board of Directors in the establishment of formal and transparent policies and practices on directors and executive remuneration, succession planning, promotion and career advancement, and providing oversight over remuneration of directors, senior management and other key personnel to ensure that the Company's compensation scheme fairly and responsibly reward directors and executives based on their performance and the performance of the Company, and remain competitive to attract and retain directors and officers who are needed to run the Company successfully.

The Executive Compensation Committee is chaired by Mr. Ferdinand K. Constantino with Mr. Carmelo L. Santiago (independent director) and Mr. Teruyuki Daino as members.

Compliance and Monitoring System

The Chairman of the Board of Directors has designated Ms. Rosabel Socorro T. Balan as Compliance Officer of the Company. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual and ensuring adherence to corporate principles and best practices. The Compliance Officer holds the position of Vice President or its equivalent and has direct reporting responsibilities to the Chairman of the Board.

RELATED PARTY TRANSACTIONS

The following are summaries of the material terms of the Company's transactions with related parties and should not be considered to be a full statement of the terms and provisions of such transactions or the contracts relating thereto. Accordingly, the following summaries are subject to the full text of each contract.

Below is a summary of the Company's related party transactions.

SMC	• SMC receives a fixed monthly service fee under a shared services agreement in consideration for rendering to the Company as part of the San Miguel group of companies, certain corporate services and facilities related to finance, audit, legal, human resources, procurement, investor and stakeholder relations, information and technology management, and services relating to mergers and acquisitions. The Company pays SMC the actual costs and expenses incurred by SMC in performing the said services. The shared services agreement continues to be in effect until terminated by the parties in accordance with its terms. SMC further receives fees for managing accounts of the Company's employees who have subscribed to SMC's employee stock purchase plan. The fees for these services in 2011 and 2010 amounted to ₱292 million and ₱262 million, respectively.
	• The Company pays, under a cost-sharing agreement, its monthly proportionate share of certain expenses and costs of services incurred by SMC, such as but not limited to janitorial and security services, utilities, corporate systems maintenance, email, and photocopying charges, from which services and expenses the Company has benefited. The Company's proportionate share is based on the amount billed by the third party service provider or the amount of the expenses and the agreed basis of allocation as set out in the agreement and shall be without mark-up or profit on the part of SMC. The cost-sharing agreement commenced continues to be in effect until terminated upon mutual agreement of the parties. The Company's proportionate share of such services and expenses in 2011 and 2010 amounted ₱1,087 million and ₱1,544 million, respectively.
Lucky Nine Properties, Inc. ("LNPI")	• LNPI, an indirect wholly-owned subsidiary of SMC, receives lease payments under a contract of lease for the lease by the Company of parcels of land on which its production facilities in Sta. Rosa, Laguna are located. The term of the lease is seven years, renewable for another three years under such terms and conditions as may be agreed upon by the parties. The Company also pays LNPI for utilities. These amounts were ₱21 million and ₱6 million, in 2011 and 2010, respectively.
SMYPC	• SMYPC, a subsidiary of SMC, supplies packaging products, such as glass bottles, caps, metal crowns, cans, plastic pallets and crates, to the Company under a supply agreement with a term of three years, renewable for another two years after review of unit prices. Purchases of packaging products from SMYPC in 2011 and 2010 amounted to ₱2,858 million and ₱2,909 million, respectively. Reimbursements of expenses and services rendered for SMYPC amounted to ₱27 million and ₱17 million in 2011 and 2010, respectively.
	• SMYPC likewise purchases from the Company glass bottles and plastic crates which are no longer fit for use or service for the Company's operations and which are capable of being turned into cullets and pellets. These purchases amounted to ₱60 million and ₱19 million in 2011 and 2010, respectively.

Mindanao Corrugated Fibreboard, Inc. ("Mincorr") and SMYAC	• Mincorr and SMYAC, all subsidiaries of SMC, receive payments from the Company for packaging materials, such as glass bottles and cartons, purchased by the Company. These purchases are covered by various purchase orders which define the prices and delivery schedules negotiated and agreed upon by the parties. Payment term for these purchases, unless agreed otherwise, is 30 days after delivery date and presentation of invoices and delivery receipts. Purchases of packaging products from Mincorr and SMYAC in 2011 and 2010 amounted to ₱893 million and ₱124 million, respectively.
Petron Corporation ("Petron")	• The Company purchases its petroleum products requirements from Petron. These purchases are covered by various purchase orders which define the prices and delivery schedules negotiated and agreed upon by the parties. In 2011 and 2010, purchases of petroleum products from Petron amounted to ₱936 million and ₱392 million, respectively. Reimbursements of expenses and services rendered for Petron amounted to ₱140 million in 2011.
SMCSL	• SMCSL, a 70% subsidiary of SMC and a joint venture between SMC and KADIWA Transport Corporation, receives fixed fees for cargo handling, warehousing and shipping services. SMCSL also receives rental payments for the Company's lease of container vans used for the transport of raw materials and finished goods. Fees and rentals under these agreements in 2011 and 2010 amounted to ₱459 million and ₱449 million, respectively.
GSMI	• GSMI, a majority-owned subsidiary of SMC, pays a fee on a per case basis in consideration for toll-manufacturing services rendered by the Company for GSMI's non-alcoholic beverages, which services are performed in the Company's breweries using such breweries' excess capacities. The agreement is valid until December 31, 2012. GSMI also reimburses the Company for use of utilities and services. These amounted to ₱17 million and ₱4 million in 2011 and 2010, respectively. The Company also purchases products of GSMI for its employees' annual Christmas gift packages.
SMPFC and subsidiaries	• SMPFC, a majority-owned subsidiary of SMC, has a subsidiary which obtains spent grains and malt dust that are among the waste products resulting from the Company's brewing process. SMPFC's subsidiary uses spent grains and maltdust as a minor component in the production of animal feeds. All costs associated with the withdrawal of the spent grains are for the account of SMPFC's subsidiary. Spent grains would be a pollutant if retained in the Company's facilities, and their disposal would be an expense for the Company. SMPFC and its subsidiaries also reimburse the Company for expenses and services rendered. In 2011 and 2010, these amounted to ₱68 million and ₱29 million, respectively. The Company also purchases products of the subsidiaries of SMPFC for its employees' annual Christmas gift packages and promo bundles.
SMITS and a subsidiary	• SMITS, a wholly-owned subsidiary of SMC, and a subsidiary receive monthly fees from the Company for information technology and systems services, including maintenance of the Company's software and hardware facilities, and business process outsourcing and customer care services. SMITS also provides advisory services on the development of new systems and/or up-grade of existing systems which are outsourced to non-related third parties on a per engagement and/or per service basis. The term of these engagements/services is dependent on the requirements of the Company. The fees for such services in 2011 and 2010 were ₱150 million and ₱199 million, respectively.

Anchor Insurance Brokerage Corporation ("AIBC")	• AIBC, a subsidiary of SMC, receives service fees on a per transaction or engagement basis from the Company for the Company's share in the insurance brokering services rendered by AIBC for the entire SMC Group for the SMC Group's consolidated insurance requirements such as insurance for motor vehicles, fire insurance, etc. For the comprehensive insurance coverage of the SMC Group which it bids out to global insurance institutions, AIBC is engaged to assist in the bidding process and pre-qualification of insurance companies. The fees for such services in 2011 and 2010 were ₱1 million and ₱1 million, respectively.
Archen Technologies, Inc. ("Archen")	• Archen, a wholly-owned subsidiary of SMC, receives a fixed service fee for liaison and consultancy services relating to power and energy concerns of the Company. The agreement has a term of one year, renewable at the option of the parties. Archen also receives fees for consultancy services relating to the capital expenditures of the Company. In 2011 and 2010, the fees for these services amounted to ₱16 million and ₱8 million, respectively, for such services.
SMCSTSC	• SMCSTSC, a wholly-owned subsidiary of SMC, receives retainer fees and processing fees for stock transfer services rendered to the Company. The agreement has a term of one year, which is renewed annually. In 2011 and 2010, the Company paid ₱1 million and ₱1 million, respectively, for such stock transfer services.
Bank of Commerce ("BOC")	• BOC is held aggregately as to 78.7% of its capital stock by SMPI, a subsidiary of SMC, and SMC Retirement Plan. In consideration for the use of BOC's deposit pick up and payroll services, the Company agrees to maintain an agreed-upon reasonable average daily balance in a specified account with BOC. The agreement shall remain in effect until terminated by either party.
Kirin	• The Company purchases products, equipment and raw materials from Kirin. These transactions amounted to ₱18 million and ₱105 million in 2011 and 2010, respectively. Kirin also reimburses the Company for expenses incurred by their consultants assigned to the Company.
SMPI	• SMPI receives rental fees from the Company for lease of office space. Rental fees in 2011 and 2010 amounted to ₱46 million and ₱72 million, respectively.
SMIL and subsidiaries	• SMBIL and its subsidiaries purchase packaging products from SMIL and its subsidiaries. Purchases amounted to ₱63 million in 2011. SMIL and its subsidiaries also pays rental to the Company for use of its premises.

For further information on the Company's related-party transactions, including detailed breakdowns of amounts receivable from affiliated companies, see Note 27 of the Company's audited consolidated financial statements.

DESCRIPTION OF PROPERTIES

OWNED PROPERTIES

The Company's principal owned properties consist of twelve production facilities, 35 out of its 51 sales offices and 11 warehouses. The land improvements, buildings, machinery, transportation equipment, office equipment and furniture, and/or tools and small equipment owned by the Company in these breweries, region offices, sales offices and warehouses, as well as those in certain terminals and wharfs leased by the Company, have a net book value of ₱20,878 million as of December 31, 2011. The locations and general asset description of these properties and equipment are set out below:

Production Facilities

The Company has 12 production facilities in the following locations:

- Polo Brewery
  Marulas, Valenzuela City, Metro Manila

- San Fernando Brewery
  Brgy. Quebiawan, McArthur Highway, San Isidro, San Fernando, Pampanga

- Sta. Rosa Plant
  Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna

- Bacolod Brewery
  Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental

- Mandaue Brewery
  National Highway, Brgy.Tipolo, Mandaue City

- Davao Brewery
  Brgy. Darong, Sta. Cruz, Davao del Sur

- San Miguel Beer (Thailand) Ltd.
  89 Moo2, Tivanon Rd., Bann Mai, Muang , Pathumtani 12000

- PT. Delta Djakarta Tbk
  Inspeksi Tarum Barat Desa Setia Darma Tambun Bekasi

- San Miguel Brewery Hong Kong Limited (SMBHK) 22 Wang Lee St. Yuen Long Industrial Estate
  Yuen Long, New Territories, Hong Kong

- San Miguel (Guangdong) Brewery Co.,Ltd (SMGB)
  San Miguel Road 1#, Longjiang Town, Shunde District, Guangdong Province, China

- San Miguel (Baoding) Brewery Co. Ltd. (SMBB)
  Shengli street, Tianwei West Road, Baoding City ,Hebei Province, China

- San Miguel Brewery Vietnam Ltd.
  Quoc Lo 1 , Suoi Hiep , Dien Khanh , Khanh Hoa

A more detailed description of these breweries are found in the section entitled "Business Overview — Production."

Sales/Area Offices and Warehouses

The Company owns land improvements, buildings, machinery, transportation, office equipment, tools and/or furniture in the following sales/area offices and warehouses located nationwide.

- *Central North Luzon Area*
  - SMC Complex, Brgy. Quebiawan, McArthur Highway, San Fernando, Pampanga
  - Carmen East, Rosales, Pangasinan
  - Caranglaan Dist., Dagupan City, Pangasinan
  - Naguilian Road, San Carlos Heights, Brgy. Irisan, Baguio City, Benguet
  - Pennsylvania Ave., Brgy. Madayegdeg, San Fernando, La Union
  - Brgy. San. Fermin, Cauayan, Isabela
  - National Road, Brgy. Mabini, Santiago City, Isabela
  - San Andres St., San Angelo Subdivision, Sto. Domingo, Angeles City, Pampanga
  - Maharlika Road, Bitas, Cabanatuan City, Nueva Ecija
  - Brgy. 22, San Guillermo, San Nicolas, Ilocos Norte
- *Greater Manila Area North*
  - Cagayan Valley Rd., Brgy. Sta. Cruz, Guiguinto, Bulacan
  - Gapan-Olongapo Rd., Poblacion San Isidro, Nueva Ecija
  - A. Cruz St., Brgy. 96, Caloocan City
  - Honorio Lopez Blvd., Guidote St., Tondo, Manila
  - Brgy. Mangga, Cubao , Quezon City
  - Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila
  - Quirino Highway, Novaliches, Quezon City, Metro Manila
- *Greater Manila Area South*
  - Brgy. 425, Zone 43, Sampaloc District, Manila
  - M. Carreon St., Brgy. 864, Sta. Ana District, Manila
  - Manila East Rd., Brgy. Dolores, Taytay, Rizal
  - No. 100 Bernabe Subd., Brgy. San Dionisio, Sucat, Parañaque City, Metro Manila
  - Mercedes Ave., Pasig City, Metro Manila

- *South Luzon Area*
  - Silangan Exit, Canlubang, Calamba City, Laguna
  - Maharlika Highway, Brgy. Isabang, Lucena City, Quezon
  - Maharlika Highway, Brgy. Villa Bota, Gumaca, Quezon
  - Maharlika Highway, Brgy. Concepcion Grande Pequeña, Naga City, Camarines Sur
  - Brgy. Mandaragat, Puerto Princesa City, Palawan
  - Aurora Quezon and Calderron St., Brgy. Labangan, San Jose, Occidental Mindoro
  - Brgy. Lankaan II, Governor's Drive, Dasmariñas, Cavite
  - National Rd., Brgy. Balagtas, Batangas City, Batangas
  - Ayala Highway, Brgy. Balintawak, Lipa City, Batangas
  - Corner Gogon and Patricio Streets, Bgy. Cruzada, Legaspi City, Bicol
  - Tirona Highway, Habay, Bacoor, Cavite
  - T. de Castro St., Zone 8, Bulan, Sorsogon
  - Matungao, Tugbo, Masbate City
  - Brgy. Bulilan Norte, Pila, Laguna
- *Negros*
  - Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental
  - Muelle Loney St., Brgy. Legaspi, Iloilo City
  - National Hi-way, Brgy. 4, Himamaylan City, Negros Occidental
  - Flores St., Brgy. Sum-Ag, Bacolod City, Negros Occidental
  - Brgy., Camansi Norte, Numancia, Aklan
  - Brgy. Libas, Roxas City, Capiz
  - Brgy. Pulang Tubig, Dumaguete City
- *Visayas*
  - National Highway, Brgy. Tipolo, Mandaue City
  - Access Rd., Fatima Village, Brgy. 73 (formerly part of Brgy. Sagcahan), Tacloban City, Leyte
  - Graham Ave., Tagbilaran City, Bohol
  - San Bartolome St., Catbalogan, Samar
- *Mindanao*
  - Brgy. Darong Sta. Cruz, Davao del Sur

- Ulas Crossing, Ulas, Davao City
- National Highway, Brgy. Magugpo, Tagum City
- Sergio Osmeña, Brgy. Poblacion, Koronadal City
- National Highway, Brgy. Lagao, Gen. Santos City
- National Highway, Brgy. Luyong Bonbon, Opol, Misamis Oriental
- R.T. Lim Blvd., Baliwasan, Zamboanga City
- Fort Poyohan, Molave St., Butuan City, Agusan del Norte
- Brgy. Mangangoy, Bislig City, Surigao del Sur (building only)
- Brgy. Bongtod, Tandag City, Surigao del Sur
- J.P. Rizal Ave., Poblacion, Digos City
- National Highway, Sta. Felomina, Dipolog City
- Pandan, Sta. Filomena, Iligan City
- Baybay, Liloy, Zamboanga del Norte

- *San Miguel Brewery Limited*
  - 9th Floor, Citimark Building , No.28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, NT, Hong Kong
  - San Miguel Industrial Building, Nos. 9-11 Shing Wan Road, Tai Wai, Shatin, NT, Hong Kong
- *Guangzhou San Miguel Brewery*
  - Shantou Sales Office
    Room 803 and Room 804, Underground Parking, Huamei Garden, Shantou City

Power Plant

San Miguel Baoding Utility Shengli Street, Tianwei West Road, Baoding City, Hebei Province, China

Terminal

Bataan Malt Terminal, Mariveles, Bataan (building, machineries and equipment, furniture and fixtures only).

LEASED PROPERTIES

The Company leases buildings and improvements in various locations in the Philippines. Set out below are the details on the leases of the Company.

Leases from Third Parties

Domestic

	Location	Leased Asset Description	Monthly Rental (₱)	Expiration Date
Terminal				
Bataan Malt Terminal	Mariveles, Bataan	Land	460,000.00*	12/16/2013

*average

	Location	Leased Asset Description	Monthly Rental (₱)	Expiration Date
Head Office				
Head Office	40 San Miguel Ave., Mandaluyong City	Office Space	3,592,441	12/31/2012
Greater Manila Area North				
Tondo S.O.	Guidote St., Tondo Manila	Land	56,387.68	10/15/2013
Valenzuela S.O.	Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila	Land & Land Improvement	266,932.05	04/30/2013
Novaliches S.O.	Quirino Highway, Novaliches, Quezon City, Metro Manila	Land & Buildings	619,290.00	12/31/2012
Bottle Segregation Site	Maysilo, Malabon	Open Space	100,000.00	09/30/2013
Bottle Segregation Site	Portrero, Malabon	Open Space	171,000.00	04/30/2012
Greater Manila Area South				
Pasig S.O.	Mercedes Ave., Pasig City, Metro Manila	Land & Warehouse	664,453.10	12/31/2011
Central North Luzon				
Cabanatuan S.O.	No. 140, Bitas, Cabanatuan City	Land & Building	70,153.65	03/31/2012
South Luzon Area				
Legazpi S.O.	Corner Cogon and Patricio Streets, Bgy. Cruzada, Legaspi City, Bicol	Land & Land Improvements	264,000.00	12/31/2013
Dasmarinas S.O.	Brgy. Langkaan II, Governors Drive, Dasmarinas, Cavite	Warehouse	260,115.43	02/29/2012
Bacoor S.O.	Tirona Highway, Habay 1, Bacoor, Cavite	Warehouse	173,992.60	03/31/2013
Bulan S.O.	T. de Castro St., Zone 8, Bulan, Sorsogon	Warehouse	44,642.86	01/31/2014
Masbate S.O.	Magtungao, Tugbo, Masbate City	Warehouse	77,142.86	01/31/2013
Pila S.O.	Brgy. Bulilan Norte, National Highway, Pila, Laguna	Warehouse	267,857.14	09/30/2013
Sta. Rosa Bottling Plant	Sta. Rosa Industrial Complex, Brgy. Pulong, Sta. Cruz, Sta. Rosa City, Laguna	Land	775,200.00	05/31/2017

	Location	Leased Asset Description	Monthly Rental (₱)	Expiration Date
Visayas				
Samar Region Office	San Bartolome St., Catbalogan, Samar	Office Space	25,000.00	09/30/2012
Dumaguete Region Office	Brgy. Pulang Tubig, Dumaguete City	Land Improvement	38,223.43	01/31/2015
Dumaguete S.O.	Brgy. Pulang Tubig, Dumaguete City	Warehouse	77,948.70	01/01/2015
Tagbilaran S.O.	Graham Ave., Tagbilaran City	Warehouse	75,000.00	02/28/2014
Mindanao				
Butuan Region Office	Fort Poyohan, Molave St., Butuan City, Agusan del Norte	Land & Land Improvement	80,408.99	05/31/2015
Ozamis Region Office	Bonifacio St., Lam-an, Ozamis City, Misamis Occidental	Land & Building	42,000.00	07/31/2012
Iligan S.O.	Pandan, Sta. Filomena, Iligan City	Warehouse	70,000.00	09/30/2012
Liloy S.O.	Baybay, Liloy, Zamboanga del Norte	Warehouse	50,000.00	09/30/2012
Dipolog S.O.	Sta. Filomena, Dipolog City	Warehouse	57,000.00	09/30/2012
Parking Space	National Highway, Brgy. Darong, Sta. Cruz, Davao	Parking Space	50,000.00	10/31/2012

International

	Location	Leased Asset Description	Monthly Rental	Expiration Date
San Miguel Guangdong Brewery Company Limited				
SMGFB warehouse	Longjiang Town, Shunde District	Warehouse	RMB 17,800.00	01/20/2012
Guangzhou San Miguel Brewery Co. Ltd.				
Guangzhou Office	4th Floor,100 Liwan Road, Liwan District, Guangzhou, Guangdong Province, China	Office space	RMB 121,098.00	01/31/2013
Pingsha Warehouse	2nd Floor,NO.1,E Building, Junhe Street, Baiyun District, Guangzhou City	Warehouse	RMB 1,875.00	12/31/2012

	Location	Leased Asset Description	Monthly Rental	Expiration Date
San Miguel Baoding Brewery Company Limited				
Shijiazhuang Sales Office	Room 3-502,11 Building,25 Donggang Road, Century Park east District, Shijiazhuang City, Hebei Province, China	Office space	RMB 2,000.00	06/30/2012
Handan Sales Office	Room 2-101,8 Buiding, Xinghuaxiaoqu, Xingtai City, Hebei Province, China	Office space	RMB 1,500.00	12/31/2012
San Miguel China Investment Company Limited	Room 1805 , Zhongyu Building, Jia 6 Gongti Bei Lu , Chaoyang District Beijing 1000027, China	Office space	RMB 30,267.27	10/23/2013
San Miguel Marketing Thailand Limited				
North sales office	403/8 Lumpoon Road, Wadked , Amphor Muang, Lumpoon	Office space	THB 10,530.00	10/31/2012
South sales office (Phuket)	14/4 Moo 4 , Tambon Wichit Amphor Muang, Phuket	Office space	THB 18,948.00	09/30/2013
South sales office (Samui)	44/38 Moo 1 Tambon Maenam, Amphur Koh Samui Suratthani	Office space	THB 15,789.47	03/31/2012
Northeast sales office	44/50 Moo 3 Chataphadung Rd, Amphur Muang Khonkean	Office space	THB 8,422.00	12/31/2012
Warehouse Pattaya	263/91 Moo 12 Tambon Nongprue Banglamung Chonburi	Warehouse	THB 174,628.63	02/28/2012
Pattaya sales office	324 Moo 12 Tambon Nongprue Banglamung Chonburi	Office space	THB 14,705.88	09/30/2012
San Miguel Brewery Vietnam Limited				
San Miguel Brewery Vietnam Ltd.	Quoc Lo 1, Suoi Hiep, Dien Khanh, Khanh Hoa	Land	VND 4,320,000.00	11/01/2024
Ho Chi Minh Sales Office	422-424 Ung Van Khiem, Ward 25, Binh Thanh Dist, HCM City	Office space	US$ 10,719.00	03/01/2013
Da Nang Sales Office	26 Nguyen Van Linh, Da Nang City	Office space	VND 133,000,000.00	07/15/2012
Nha Trang Sales Office	48 B Yersin, Nha Trang City	Office space	VND 70,000,000.00	07/31/2012

	Location	Leased Asset Description	Monthly Rental	Expiration Date
Ho Chi Minh warehouse	111A 13 National Road, Ward 26, Binh Thanh Dist	Warehouse	VND 23,874,000.00	08/12/2012
PT Delta Djakarta/JDI				
Admin Office For Region 1	Ruko Setia Budi Square No.2 Komplek Perumahan Setia Budi Indah Medan-20131	Office space	RP 1,458,333.00	04/30/2012
Admin Office For Region 2	Plaza Pasific Blok A1 No.22 Bolevard Raya Barat Kelapa Gading Streets Jakarta Utara 14240	Office space	RP 8,240,741.00	07/01/2012
Admin Office For Region 3	Perumahan Villa Bukit Mas Mediterian Blok K5 Bukit Pakis Timur III Streets Dukuh Pakis-Surabaya 60255	Office space	RP 5,902,778.00	05/31/2012
Admin Office For Region 5	Srigala No.37 Streets Makasar	Office space	RP 9,259,259.00	07/31/2012
San Miguel Brewery Hong Kong	22 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong	Land	HKD 172,860.00	2047

Investment Properties

- HAD Flora St. Brgy. Estefania, Bacolod City
- No. 31 Rosario St., Brgy. Granada, Bacolod City
- Brgy. Penabatan, Pulilan, Bulacan
- L26 B11, Brgy. Sto.Domingo, Sta.Rosa, Laguna
- Brgy. Estefanía, Bacolod City (TCT 092-2011004583)
- No. 047 Brgy. Estefanía, Bacolod City (TCT 092-2011010662)
- Guangzhou San Miguel Brewery
  Room 302, Haitao Building, Marine Fisheries Pier, North Binhai Avenue, Haikou City
- Guangzhou San Miguel Brewery
  1st-4th Floor, Xianda Building, Shuichan Pier, North Binhai Avenue, Haikou City
- Units 1-7A, 1-11A, 1-12A, 1-9C and 1-7C, Parkview Tower Chaoyang District Beijing 100027, China

CONDITION OF PROPERTIES

The properties owned by the Company and leased by the Company from BPI and BLI are in good condition and are free from liens and encumbrances, other than those permitted under the Trust Agreement. The Company does not intend to acquire any other material assets. All of the Company's existing lease contracts contain a provision that the contract is renewable upon agreement by the parties.

MATERIAL CONTRACTS

The following are summaries of the material terms of the principal contracts related to the Company's primary business and should not be considered to be a full statement of the terms and provisions of such contracts. Accordingly, the following summaries are subject to the full text of each contract.

SUPPLY OF RAW MATERIALS

Malted Barley

The Company sources a portion of its malted barley requirements from Joe White Maltings Pty. Ltd. ("JWM") under a supply agreement with a term of one year from January 1, 2012 to December 31, 2012. Under the agreement, JWM is a preferred supplier, with the Company having the option to increase its purchases up to 20% above the agreed minimum tonnage at the agreed prices and up to 50% above the agreed minimum tonnage at prices and conditions to be negotiated by the parties. JWM commits to provide new malted barley capacity in the event of increased malted barley purchases to support the Company's future requirements and agrees to give priority to the Company for the supply of malted barley in the event of drought, change in barley varieties or barley quality variations.

Petroleum Products

The Company exclusively sources petroleum products requirements from Petron. See "Related Party Transactions" for descriptions of the terms of this agreement.

LEASE AGREEMENT WITH LNPI

LNPI, an indirect wholly-owned subsidiary of SMC, receives lease payments under a contract of lease for the lease by the Company of parcels of land on which its production facilities in Sta. Rosa, Laguna are located. The term of the lease is seven years, renewable for another three years under such terms and conditions as may be agreed upon by the parties. Rentals under the contract of lease in 2011 and 2010 were ₱10.4 million and ₱6 million, respectively.

AGREEMENTS WITH SMC

See "Related Party Transactions" for descriptions of the terms of these agreements.

SUPPLY OF PACKAGING MATERIALS

The Company principally sources its packaging requirements from the San Miguel Packaging Group. See also "Related Party Transactions" for a description of the agreements relating to supply of packaging products to the Company.

RELATED STOCKHOLDER MATTERS

HOLDER OF THE COMPANY'S COMMON SHARES

As of December 31, 2011, the following are the top 20 stockholders of the Company:

	Stockholder Name	Common Shares	% to O/S
1	San Miguel Corporation	7,859,319,270	50.999838
2	Kirin Holdings Company, Limited	7,456,359,880	48.388242
3	PCD Nominee Corporation (Filipino)	62,465,710	0.405346
4	Henry Sy, Sr.	12,500,000	0.081114
5	San Miguel Brewery Inc. Retirement Plan	11,000,000	0.071380
6	San Miguel Corporation Retirement Plan	4,211,800	0.027331
7	PCD Nominee Corporation (Non-Filipino)	1,029,400	0.006680
8	Luzviminda Santos &/or Cynthia Santos	90,000	0.000584
9	Ponciano V. Cruz, Jr	62,500	0.000406
10	Marivic L. Almeda	62,000	0.000402
11	Michael Ryan R. Fernando	62,000	0.000402
12	Mario Ong	62,000	0.000402
13	Cecilio D. Hipolito Sr	62,000	0.000402
14	Jennifer Sarrosa	50,000	0.000324
15	Michelline Ledesma	50,000	0.000324
16	Mervin E. Delatado	40,000	0.000260
17	Domingo C. Guzman.	30,000	0.000195
18	Cesar S. Cruz	25,000	0.000162
19	Elizabeth C. Manalo	21,000	0.000136
20	Diosdado M. Dychoco	20,000	0.000130
	Bernadette Catelo Aton	20,000	0.000130
	Ruben L. Morales	20,000	0.000130
	Benjamin Y. Aton	20,000	0.000130
	Tonne So Vy	20,000	0.000130

Description of Principal Shareholders

San Miguel Corporation

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

Through strategic partnerships it has forged with major international companies, SMC has gained access to managerial expertise, international practices and advanced technology, thereby enhancing its performance and establishing itself as a world-class company.

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

Kirin Holdings Company Limited

Established in 1907, Kirin Holdings Company Limited ("Kirin") is one of the leading food and beverage manufacturers in Asia and Oceania. Kirin's core businesses cover an extensive range of products from alcohol and soft drinks to dairy foods, health foods and pharmaceuticals.

Kirin is looking to expand on a global scale, and aims to achieve a quantum leap in growth to become a leading food and health company in Asia and Oceania. To this end, Kirin views the ongoing advance into international markets as strategically important. Efforts are being made to accelerate business development in Southeast Asia and China

DIVIDENDS AND DIVIDEND POLICY

The table below sets forth the cash dividends declared by the Company's Board of Directors for the years ended December 31, 2010 and December 31, 2011.

Declaration Date	Payment Date	Amount of Cash Dividends	
		Per share	Total (in ₱ millions)
February 25, 2010	March 22, 2010	₱ 0.13	2,003
May 14, 2010	June 14, 2010	₱ 0.14	2,157
August 10, 2010	September 13, 2010	₱ 0.14	2,157
November 10, 2010	December 13, 2010	₱ 0.14	2,157
March 11, 2011	April 11, 2011	₱ 0.14	2,157
May 10, 2011	June 13, 2011	₱ 0.14	2,157
August 11, 2011	September 12, 2011	₱ 0.14	2,157
November 10, 2011	December 12, 2011	₱ 0.14	2,157

The Company is allowed under Philippine laws to declare dividends, subject to certain requirements. These requirements include, for example, that the Company's Board of Directors is authorized to declare dividends only from its unrestricted retained earnings. Dividends may be payable in cash, shares or property, or a combination of the three, as the Board of Directors shall determine. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of the Company's outstanding capital stock. The Company's Board of Directors may not declare dividends which will impair its capital.

The cash dividend policy of the Company entitles the holders of its Common Shares to receive quarterly cash dividends equivalent to 100% of the prior quarter's recurring net income, which is net income calculated without respect to extraordinary events that are not expected to recur, based on the recommendation of the Board of Directors. Such recommendation will take into consideration factors such as the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments and acquisitions, appropriate reserves and working capital, among others. The cash dividend policy is subject to review and may be changed by the Company's Board of Directors at any time.

MARKET PRICE OF COMPANY'S COMMON EQUITY

The Company's Common Shares are traded in the PSE. Such shares were listed on the Main Board of the PSE on May 12, 2008.

The Company's high and low closing prices for the following quarters are as follows:

	2011		2010	
	High	Low	High	Low
1st	33.00	26.10	9.60	8.20
2nd	32.00	28.50	10.50	9.00
3rd	31.50	28.00	10.25	9.00
4th	33.00	28.00	31.95	9.50

RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES

There were no securities sold by the Company in the past three years which were not registered with the SEC or which constitute exempt securities or transactions under the SRC.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Record and Beneficial Owners

Owners of more than 5% of the Company's voting securities as of the date of this prospectus are as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares Held	Percent
Common	San Miguel Corporation, 40 San Miguel Avenue, Mandaluyong City 1550 Philippines, parent company	San Miguel Corporation	Filipino	7,859,344,270	51.00%
Common	Kirin Holdings Company, Limited 10-1 Shinkawa, 2-Chome, Chuo-Ku, Tokyo, Japan	Kirin Holdings Company, Limited	Japanese	7,456,879,880	48.39%

Security Ownership of Management

The following are the number of Common Shares comprising the Company's capital stock (all of which are voting shares) owned of record by the directors and key executive officers of the Company, as of the date of this prospectus:

Title of Class	Name of Owner	Name of Beneficial Owner and Relationship of Record Owner	Amount and Nature of Ownership	Citizenship	%
Common	Ramon S. Ang	SMC, nominee	5,000 (Indirect)	Filipino	—(1)
Common	Roberto N. Huang	SMC, nominee	5,000 (Indirect)	Filipino	—(1)
Common	Ferdinand K. Constantino	SMC, nominee	5,000 (Indirect)	Filipino	—(1)
Common	Keisuke Nishimura	Kirin, nominee	5,000 (Indirect)	Japanese	—(1)
Common	Yoshinori Isozaki	Kirin, nominee	5,000 (Indirect)	Japanese	—(1)
Common	Carmelo L. Santiago	Carmelo L. Santiago	5,000 (Direct)	Filipino	—(1)
Common	Alonzo Q. Ancheta	Alonzo Q. Ancheta	10,000 (Direct)	Filipino	—(1)
Common	Carlos Antonio M. Berba	SMC, nominee	5,000 (Indirect)	Filipino	—(1)
Common	Virgilio S. Jacinto	SMC, nominee	5,000 (Indirect)	Filipino	—(1)
Common	Teruyuki Daino	Kirin, nominee	5,000 (Indirect)	Japanese	—(1)
Common	Shobu Nishitani	Kirin, nominee	5,000 (Indirect)	Japanese	—(1)

(1) Shareholding represents less than 0.01% of the Company's capital stock.

Except for the two independent directors, all directors are nominees of SMC or Kirin and hold nominee shares in their names. The beneficial ownership of the nominee shares held by such nominee directors remain with SMC or Kirin, as the case may be.

VOTING TRUST HOLDERS OF 5% OR MORE

As of the date of this prospectus, there were no persons holding more than 5% of the Common Shares under a voting trust or similar agreement.

REGULATORY FRAMEWORK

REGULATORY MATTERS

Various government agencies in the Philippines regulate the different aspects of the Company's beer manufacturing, sales and distribution business.

Philippine national and local government legislation require a license to sell alcoholic beverages and prohibit the sale of alcoholic beverages to persons below 18 years of age or within a certain distance from schools and churches.

The Bureau of Food and Drugs (under the Department of Health) administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people.

Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The Department of Health also prescribed the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers.

The Consumer Act of the Philippines, the provisions of which are principally enforced by the Department of Trade and Industry, seeks to protect consumers against hazards to health and safety and against deceptive, unfair and unconscionable sales acts and practices; and provide information and education to facilitate sound choice and the proper exercise of rights by the consumer.

This law imposes rules to regulate such matters as (i) consumer product and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labeling, and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Standards of Trade Practices and Conduct in the Advertising Industry as formulated by the Philippine Advertising Board, a voluntary association of various companies and groups engaged in the fields of advertising, marketing and media in the Philippines, prescribe rules on the advertising activities of its members.

Under the SRC, the SEC has jurisdiction and supervision over all corporations, partnerships or associations that are grantees of primary franchises, license to do business or other secondary licenses. As the government agency regulating the Philippine securities market, the SEC issues regulations on the registration and regulation of securities exchanges, the securities market, securities trading, the licensing of securities brokers and dealers and reportorial requirements for publicly listed companies and the proper application of SRC provisions, as well as the Corporation Code, and certain other statutes.

ENVIRONMENTAL MATTERS

The operations of the Company are subject to various Philippines legislation, which are promulgated for the protection of the environment.

The Company is required to comply with the provisions of the Philippine Environmental Impact Statement System ("EIS System"). The EIS System is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical; or (ii) is situated in an environmentally critical area. The law is implemented by the DENR.

Under the EIS System, an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area is required to submit an Environmental Impact Statement and secure an Environmental Compliance Certificate ("ECC"). This ECC requirement is applicable to each of the five breweries that the Company operates throughout the Philippines.

The Company is also subject to the provisions of the Philippine Clean Water Act of 2004 ("Clean Water Act") and its implementing rules and regulations. The Clean Water Act requires the Company to secure a wastewater discharge permit, which authorizes it to discharge liquid waste and/or pollutants of specified concentration and volume from its breweries into any water or land resource for a specified period of time. The Environmental Management Bureau of the DENR is responsible for issuing discharge permits and monitoring and inspection of the facilities of the grantee of the permit.

The provisions of the Philippine Clean Air Act and its implementing rules and regulations are likewise applicable to the Company. The Clean Air Act provides that before any business may be allowed to operate facilities and equipment, which emit regulated air pollutants, the establishment must first obtain a Permit to Operate Air Pollution Source and Control Installations. The Environmental Management Bureau is responsible for issuing permits to operate air pollution source and control installations as well as monitoring and inspection of the facilities of the grantee of the permit.

Other regulatory environmental laws and regulations applicable to the Company are as follows:

- The Water Code, which governs the appropriation and use by any entity of water within the Philippines. Water permits are issued by the National Water Resources Board.

- Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 and its implementing rules and regulations, which requires waste generators to register with the Environmental Management Bureau. The law aims to regulate the management of hazardous wastes generated by various establishments such as the Company.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this prospectus. The tax treatment of a holder of Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.

PROSPECTIVE PURCHASERS OF THE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

Bondholders who are exempt from or are not subject to final withholding tax on interest income or entitled to be taxed at a preferential rate may claim such exemption or avail of such preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR, confirming the exemption or preferential rate; (ii) with respect to tax treaty relief, a certified true copy of the ruling issued by the International Tax Affairs Division of the BIR, confirming that the preferential tax treatment sought by the Bondholder is applicable; (iii) a duly notarized undertaking to immediately notify the Issuer, the Registrar

and the Paying Agent of any suspension or revocation of the tax exemption certificate, certificate, ruling or opinion issued by the BIR, executed using the prescribed form, with a declaration and warranty of its tax-exempt status or entitlement to a preferential tax rate, and an agreement to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided, that the Issuer, the Registrar and the Paying Agent shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Bonds, to the underwriters or selling agents who shall then forward the same with the Application to Purchase to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar within three days from settlement date.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and non-bank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.00 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 32%, 25%, or 30%, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A Bondholder shall be subject to donor's tax based on the net gift on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is not a stranger. For this purpose, a "stranger" is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor or lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or though an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

LEGAL MATTERS

Certain Philippine legal matters in connection with the Offer have been passed upon for the Company by Picazo Buyco Tan Fider & Santos, Makati, Philippines, and for the Issue Manager and the Joint Lead Managers by SyCip Salazar Hernandez & Gatmaitan, Makati, Philippines.

Neither Picazo Buyco Tan Fider & Santos nor SyCip Salazar Hernandez & Gatmaitan, has or will receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants, or rights thereto) pursuant to, or in connection with, the Offer. Neither Picazo Buyco Tan Fider & Santos nor SyCip Salazar Hernandez & Gatmaitan has acted or will act as promoter, underwriter, voting trustee, officer or employee of the Company.

EXPERTS

Canadean, a leading global beverage research company, provided certain information and statistics set forth in this prospectus. Canadean does not own any interests in the Company.

INDEPENDENT PUBLIC ACCOUNTANTS

The audited consolidated financial statements of the Company as of and for the year ended December 31, 2011 and the historical financial statements which comprise the consolidated statements of financial position as at December 31, 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 the years ended December 31, 2010 and 2009, including the notes thereto which are incorporated by reference included in this prospectus, have been examined and audited, as the case may be, without qualification by Manabat Sanagustin & Co., CPAs, auditors as stated in their reports appearing herein.

The Company has not had any disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim periods. Manabat Sanagustin & Co., CPAs, one of the top four auditing firms in the Philippines, has acted as the auditors of San Miguel Corporation (SMC), the parent company. The shareholders approved the appointment of Manabat Sanagustin & Co., CPAs as the Company's external auditors upon the recommendation of the management. The Company's management recommended and engaged Manabat Sanagustin & Co., CPAs' services based on their professionalism, efficient services and cost competitiveness. Jose P. Javier, Jr. is the Engagement Partner. Manabat Sanagustin & Co., CPAs has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. Manabat Sanagustin & Co., CPAs will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

AUDIT AND AUDIT-RELATED FEES

The Company's audit and audit-related fees are as indicated in the table below:

	(in ₱)
Audit and Audit Related Fees	
Professional fees related to the statutory reports as of December 31, 2011	6,350,000.00
All Other Fees	
Professional fees related to the bond issuance	3,000,000.00
Total	9,350,000.00

Apart from the foregoing, no other services were rendered or fees billed by the Company's auditors as of and for the year ended December 31, 2011. Manabat Sanagustin and Co., CPAs does not have any direct or indirect interest in the Company.

INDEX TO FINANCIAL STATEMENTS

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011, 2010 and 2009

SAN MIGUEL BREWERY INC.

A subsidiary of San Miguel Corporation

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **San Miguel Brewery Inc**. 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.

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.

Ramon S. Ang
Chairman of the Board

Roberto N. Huang
President

Mercy Marie J. L. Amador
Chief Finance Officer and Treasurer

SUBSCRIBED AND SWORN to before me this 7th day of February, 2012, affiant exhibiting to me their passports as follows:

Name	Passport No.	Expiry Date/Place of Issue
Ramon S. Ang	XX0748364	July 10, 2016/Manila
Roberto N. Huang	XX0632204	February 27, 2013/Manila
Mercy Marie J. L. Amador	EA0031708	February 14, 2015/Manila

Doc. No. 473
Page No. 96
Book No. II;
Series of 2012.

NOTARY PUBLIC
JESSICA L. ABRENICA
Commission No. 0238-11
Notary Public for Mandaluyong City
Until Dec. 31, 2012
SMB, 40 San Miguel Avenue, Mandaluyong City
Roll No. 47590
PTR No. 1954392; 01/18/2012; Mandaluyong City
Lifetime Member No. 09484; 01/05/11; Makati City

Manabat Sanagustin & Co., CPAs
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REPORT OF INDEPENDENT AUDITORS

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

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

MANABAT SANAGUSTIN & CO., CPAs

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

February 7, 2012
Makati City, Metro Manila

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Millions)

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

Forward

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

See Notes to the Consolidated Financial Statements.

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

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

	Note	**2011**	2010	2009
SALES	*27*	**P71,910**	P67,575	P51,009
COST OF SALES	*20, 27*	**36,819**	34,505	26,261
GROSS PROFIT		**35,091**	33,070	24,748
SELLING AND ADMINISTRATIVE EXPENSES	*21*	**(14,620)**	(14,519)	(8,737)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*15, 17, 24*	**(4,132)**	(3,983)	(2,600)
INTEREST INCOME		**658**	696	538
INCOME FROM ACQUISITION OF ASSETS AT FAIR VALUE	*10*	**-**	2,418	-
IMPAIRMENT LOSSES ON NONCURRENT ASSETS	*26*	**(30)**	(3,694)	-
OTHER INCOME (CHARGES) - Net	*25*	**402**	1,247	(19)
INCOME BEFORE INCOME TAX		**17,369**	15,235	13,930
INCOME TAX EXPENSE	*18*	**5,187**	4,862	3,897
NET INCOME		**P12,182**	P10,373	P10,033
Attributable to:				
Equity holders of the Parent Company		**P11,962**	P11,768	P10,033
Non-controlling interests		**220**	(1,395)	-
		P12,182	P10,373	P10,033
Basic and Diluted Earnings Per Share	*30*	**P0.78**	P0.76	P0.65

See Notes to the Consolidated Financial Statements.

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

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

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

See Notes to the Consolidated Financial Statements.

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

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

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

Forward

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

See Notes to the Consolidated Financial Statements.

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

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

	Note	**2011**	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P17,369**	P15,235	P13,930
Adjustments for:				
Interest expense and other financing charges	*24*	**4,132**	3,983	2,600
Depreciation, amortization and others	*22*	**2,619**	2,064	1,694
Retirement costs	*29*	**493**	434	168
Provision (reversal) of allowance for impairment losses on receivables, inventory and others	*7, 8*	**270**	294	(236)
Impairment losses on noncurrent assets	*26*	**30**	3,694	-
Income from acquisition of assets at fair value	*10*	**-**	(2,418)	-
Interest income		**(658)**	(696)	(538)
Loss (gain) on sale of property and equipment, investment property and intangible assets	*25*	**(392)**	7	4
Operating income before working capital changes		**23,863**	22,597	17,622
Decrease (increase) in:				
Trade and other receivables		**(808)**	476	368
Inventories		**227**	202	266
Prepaid expenses and other current assets		**(72)**	(203)	165
Increase (decrease) in:				
Accounts payable and accrued expenses		**411**	465	309
Other taxes payables		**(12)**	(29)	(439)
Cash generated from operations		**23,609**	23,508	18,291
Interest paid		**(3,906)**	(3,753)	(1,708)
Income taxes paid		**(5,157)**	(4,467)	(4,187)
Contributions paid		**(202)**	(376)	(372)
Net cash flows provided by operating activities		**14,344**	14,912	12,024

Forward

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

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

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

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

2. Basis of Preparation

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

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

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

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

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

Basis of Consolidation

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

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

Forward

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

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

Adopted Effective 2011

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Assets and Financial Liabilities

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

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

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

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

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

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

Financial Assets

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

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

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

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

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

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

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

The Group's derivative assets are classified under this category (Note 9).

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

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

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

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

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables are included in this category (Notes 6, 7, 14 and 27).

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

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

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

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

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

The Group's investments in equity securities included under "Investments" account are classified under this category (Note 10).

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

Financial Liabilities

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

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

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

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

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

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

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

Debt Issue Costs

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

Embedded Derivatives

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

<u>Classification of Financial Instruments Between Debt and Equity</u>
From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

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

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

Offsetting Financial Instruments

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

Inventories

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

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

Finished goods and goods in process	-	at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; costs are determined using the moving-average method;
Materials and supplies	-	at cost, using the moving-average method.

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

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

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

Containers (i.e., returnable bottles and shells) are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented under deferred containers included under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful lives of ten (10) years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

Business Combination

Acquisitions on or after January 1, 2010

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-controlling Interests

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Machinery and equipment	5 - 50
Buildings and improvements	5 - 50
Transportation equipment	3 - 7
Leasehold improvements	5 - 50 or term of the lease, whichever is shorter
Office equipment, furniture and fixtures	2 - 10
Tools and small equipment	2 - 10

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

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

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

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

Investment Property

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

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

	Number of Years
Land improvements	5 - 50
Buildings and improvements	5 - 50

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

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

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

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

Intangible Assets

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

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

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Computer software	2 - 8
Land use rights	25 - 50 or term of the lease, whichever is shorter

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

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

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

Impairment of Non-financial Assets

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

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

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

Provisions

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

Share Capital

Common Shares

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

Revenue Recognition

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

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

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

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

Others. Revenue is recognized when earned.

Cost and Expense Recognition

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

Share-based Payment Transactions

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

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

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

Leases

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

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

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

Operating Lease

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Retirement Costs

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

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

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

Foreign Currency

Foreign Currency Translations

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

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

Foreign Operations

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

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

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

Taxes

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

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

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

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

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and losses can be utilized, except:

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

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

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

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

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

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

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

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

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

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

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

Related Parties

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

Basic and Diluted Earnings Per Share (EPS)

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

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

Operating Segments

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

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

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

Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Estimated fair values of investment property amounted to P1,046 and P1,993 as of December 31, 2011 and 2010, respectively (Note 12).

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

Intangible assets with finite useful lives amounted to P846 and P827 as of December 31, 2011 and 2010, respectively (Note 13).

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

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

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

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair value of acquired land as well as liabilities assumed at the date of the acquisition. The judgments made in the context of the purchase price allocation can materially impact the Group's future profit or loss. The Group's acquisitions have resulted in land.

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

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

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

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

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

Present Value of Defined Benefit Obligation. The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 29 to the consolidated financial statements and include discount rate, expected return on plan assets and future salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

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

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

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

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

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

5. Segment Information

Operating Segments

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

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

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

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

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

Financial information about the operating segments follow:

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

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

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

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

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

6. Cash and Cash Equivalents

This account consists of:

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

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

7. Trade and Other Receivables

This account consists of:

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

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

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

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

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

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

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

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

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

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

8. Inventories

This account at net realizable value consists of:

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

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

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

9. Prepaid Expenses and Other Current Assets

This account consists of:

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

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

10. Investments and Acquisitions of Subsidiaries

Acquisitions of Subsidiaries

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

a. SMBIL

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

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

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

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

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

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

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

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

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

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

b. BPI

On November 10, 2010, the Company and SMC executed a Deed of Absolute Sale of Shares (Deed) for the purchase by the Company of all the shares of SMC in BPI (BPI Shares), at the aggregate purchase price of P6,829 (Purchase Price). Of the Purchase Price, P6,629 [which correspond to the appraised value of the 128 titles of certain parcels of land used in the domestic beer operations of the Company (Land) that were transferred in the name of BPI], has been paid by the Company to SMC upon execution of the Deed. The balance shall be paid by the Company to SMC upon transfer of the remaining eight (8) Land titles in the name of BPI. The BPI Shares comprise 40% of the issued and outstanding capital stock of BPI.

The purchase of the BPI Shares will allow the Company to increase its asset base while at the same time efficiently expand its facilities, increase plant capacities and improve distribution capabilities given that BPI owns the lands where a substantial portion of the Company's major operating investments are located.

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

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

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

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

c. IBI

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

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

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

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

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

Investments

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

11. Property, Plant and Equipment

The movements in this account are as follows:

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

Forward

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

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

12. Investment Property

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

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

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

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

13. Intangible Assets

The movements in this account are as follows:

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

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

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

Trademarks and Brand Names

a. Domestic Operations

The value of the domestic trademarks and brand names represents the purchase price of P32,000 (Note 10), which was agreed to by the Company after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by UBS Investments Philippines, Inc. The Company, after considering said valuation methodologies, viewed the royalty relief (based on commercial rates) and advertising spent methodologies to be generally more relevant, compared to other methodologies that may be used to value the SMB's domestic trademarks and brand names, on the basis that such methodologies require fewer assumptions and less reliance on subjective reasoning since key assumptions come from primary sources based on the Company's filings and projections, actual industry precedents and industry common practice. The purchase price agreed upon is within the value range yielded by said methodologies, which value range is P25,000 to P32,000.

The recoverable amount of the trademarks and brand names has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The 3.5% growth rate used is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections is 8% and 10% on December 31, 2011 and 2010, respectively.

b. International Operations

SMBIL acquired the international trademarks, trade dress, know-how, copyrights, patents and other intellectual property rights used in connection with the international beer business of SMC (International IP Rights), through the assignment by SMHL of the International IP Rights to SMBIL in exchange for common shares in SMBIL totaling 2,863,636 valued at US$31.5 (peso equivalent: P1,470). The value of the International IP Rights is the same value used when the International IP Rights were assigned by SMC to San Miguel International Limited (SMIL) and was derived from the independent valuation study done by Fortman Cline Capital Markets (FCCM), in which FCCM applied one valuation methodology, the royalty relief method. This was also the value used for the International IP Rights when they were assigned by SMIL to SMHL in exchange for SMHL shares.

The recoverable amount of the trademarks and brand names has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The 2% growth rate used is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections range from 8.9% to 14.5% and from 8.9% to 18% on December 31, 2011 and 2010, respectively.

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

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

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

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

14. Other Noncurrent Assets

This account consists of:

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

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

The movements in the deferred containers are as follows:

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

15. Drafts and Loans Payable

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

16. Accounts Payable and Accrued Expenses

This account consists of:

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

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

17. Long-term Debt

This account consists of:

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

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

   The Company's peso-denominated fixed rate bonds (Bonds) worth P38,800 were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 17, 2009 and are listed on the Philippine Dealing & Exchange Corp. for trading.

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

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

In 2011, the Company obtained the approval of all its lenders for its US$300 Term Facility to maintain a minimum interest coverage ratio of 4.75:1 in lieu of a current ratio of 1:1. In 2012, the Company also obtained the consent of bondholders representing 76.92% of the aggregate principal amount of the Bonds to effect the same change in the terms and conditions of the Bonds.

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

The movements in debt issue costs are as follows:

	Note	**2011**	2010
Balance at beginning of year		**P588**	P384
Addition		**-**	371
Amortization	*24*	**(175)**	(167)
Balance at end of year		**P413**	P588

Repayment Schedule

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

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

18. Income Taxes

Deferred tax assets and liabilities arise from the following:

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

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

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

The components of income tax expense are shown below:

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

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

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

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

19. Capital Stock

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

20. Cost of Sales

This account consists of:

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

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

21. Selling and Administrative Expenses

This account consists of:

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

Selling expenses consist of:

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

Administrative expenses consist of:

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

22. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

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

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

23. Personnel Expenses

This account consists of:

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

Personnel expenses are distributed as follows:

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

24. Interest Expense and Other Financing Charges

This account consists of:

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

25. Other Income (Charges)

This account consists of:

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

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

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

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

a. South China Operations (SMGB and GSMB)

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

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

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

The estimates of recoverable amount were based on the assets' fair values less costs to sell, determined by reference to the observable market prices for similar assets. In estimating this amount, the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, who have among their staff members of the Hong Kong Institute of Surveyors.

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

b. Hong Kong Operations (SMBHK)

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

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

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

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

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

Key assumptions used for value in use calculation are as follows:

	2011	2010
Sales volume growth rate	**1.1 - 12.4%**	1.7 - 12.6%
Gross contribution rate	**38 - 41%**	40 - 43%
Pre-tax discount rate	**9.75%**	9.85%

Management determined the growth rate and gross contribution rate based on past experiences, future expected market trends and an intermediate holding company's import plan of beer brewed by the Group.

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

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

27. Related Party Transactions

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

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

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

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

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

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

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

28. Leasing Agreements

Operating Leases

Group as Lessor

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

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

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

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

Group as Lessee

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

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

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

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

29. Retirement Plan

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

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

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

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

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

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

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

	Note	**2011**	2010
Present value of defined benefit obligation		**P7,955**	P7,425
Fair value of plan assets		**5,140**	5,216
		2,815	2,209
Unrecognized actuarial losses	*4*	**(2,710)**	(2,395)
Net retirement liability (asset)		**P105**	(P186)

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

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

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

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

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

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

Plan assets consist of the following:

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

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

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

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

	In Percentages	
	2011	2010
Discount rate	**1.5 - 6.3**	2.9 - 8.5
Salary increase rate	**2.5 - 7.0**	2.5 - 9.0
Expected return on plan assets	**5.0 - 9.0**	5.0 - 10.0

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

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

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

30. Basic Earnings Per Share

Basic EPS is computed as follows:

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

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

31. Employee Stock Purchase Plan

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

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

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

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

32. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P132 in 2011 and 2010. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

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

December 31, 2011	**1 - 3 Years**	**> 3 - 5 Years**	**> 5 Years**	**Total**
Fixed rate				
Philippine peso-denominated	**P35,990**	**P -**	**P2,810**	**P38,800**
Interest rate	**8.25%-8.875%**	**-**	**10.5%**	**-**
Floating rate				
Foreign currency-denominated (expressed in Philippine peso)	**-**	**13,152**	**-**	**13,152**
Interest rate		**LIBOR + margin**		
	P35,990	**P13,152**	**P2,810**	**P51,952**

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

Foreign Currency Risk

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

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

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

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

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

The Group reported net foreign exchange gains (loss) amounting to (P9), P1,078 and P13 in 2011, 2010 and 2009, respectively, with the translation of these foreign currency-denominated assets and liabilities (Note 25). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

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

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

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

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

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

Liquidity Risk

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

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

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

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

2011

	Carrying Amount	**Contractual Cash Flow**	**1Year or Less**	**> 1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P18,279**	**P18,279**	**P18,279**	**P -**	**P -**	**P -**
Trade and other receivables - net	**4,977**	**4,977**	**4,977**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**41**	**41**	**41**	**-**	**-**	**-**
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	**132**	**132**	**-**	**-**	**-**	**132**
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**45**	**45**	**-**	**11**	**-**	**34**
Financial Liabilities						
Drafts and loans payable	**1,857**	**1,890**	**1,890**	**-**	**-**	**-**
Accounts payable and accrued expenses	**7,278**	**7,278**	**7,278**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**11**	**11**	**11**	**-**	**-**	**-**
Long-term debt	**51,539**	**59,846**	**16,480**	**2,602**	**37,289**	**3,475**

2010

	Carrying Amount	Contractual Cash Flow	1Year or Less	> 1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P15,076	P15,076	P15,076	P -	P -	P -
Trade and other receivables - net	4,366	4,366	4,366	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	54	54	54	-	-	-
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	135	135	-	-	-	135
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	11	11	-	11	-	-
Financial Liabilities						
Drafts and loans payable	1,644	1,663	1,663	-	-	-
Accounts payable and accrued expenses	6,811	6,811	6,811	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	8	8	8	-	-	-
Long-term debt	51,364	63,	3,722	16,479	39,407	3,771

Credit Risk

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

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures. Where appropriate, the Group obtains collateral or arranges master netting agreements.

Trade and Other Receivables

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

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

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on cash basis.

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

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

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

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

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

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

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

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

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

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

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

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

33. Financial Assets and Financial Liabilities

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

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

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

Cash and Cash Equivalents, Trade and Other Receivables and Noncurrent Receivables. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. Fair values for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

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

Drafts and Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of drafts and loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt. The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instrument as of reporting date. As of December 31, 2011 and 2010, discount rates used ranged from 1.66% to 5.28% and from 1.34% to 5.71%, respectively. The carrying amount of floating rate loans with quarterly interest rate repricing approximates their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges are discussed below.

Derivative Instruments Accounted for as Hedges

Cash Flow Hedges

As of December 31, 2011, 2010 and 2009, the Group has no outstanding options designated as hedge on the purchase of commodity.

Other Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

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

  As of December 31, 2011 and 2010, the total outstanding notional amount of these embedded currency forwards amounted to US$34 and US$24, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2011 and 2010, the net positive fair value of these embedded currency forwards amounted to P30 and P46, respectively.

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

Fair Value Changes on Derivatives

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

	2011	2010
Balance at beginning of year	**P46**	P20
Net changes in fair value of derivatives:		
Not designated as accounting hedges	**(5)**	121
	41	141
Less fair value of settled instruments	**11**	95
Balance at end of year	**P30**	P46

Fair Value Hierarchy

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

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

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

2011	**Level 1**	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P -**	**P41**	**P41**
AFS financial assets	**132**	**-**	**132**
Financial Liabilities			
Derivative liabilities	**-**	**11**	**11**

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

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

34. Cash Dividends

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

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

35. Other Matters

a. *Commitments*

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

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

b. *Foreign Exchange Rates*

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

KPMG

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REPORT OF INDEPENDENT AUDITORS

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Brewery Inc. (the "Company") and Subsidiaries and have issued our report thereon dated February 7, 2012.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The map of the conglomerate within which the Company belongs is the responsibility of the Company's management. Such map is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended and is not part of the basic consolidated financial statements. The map has been subjected to auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the consolidated financial statements data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

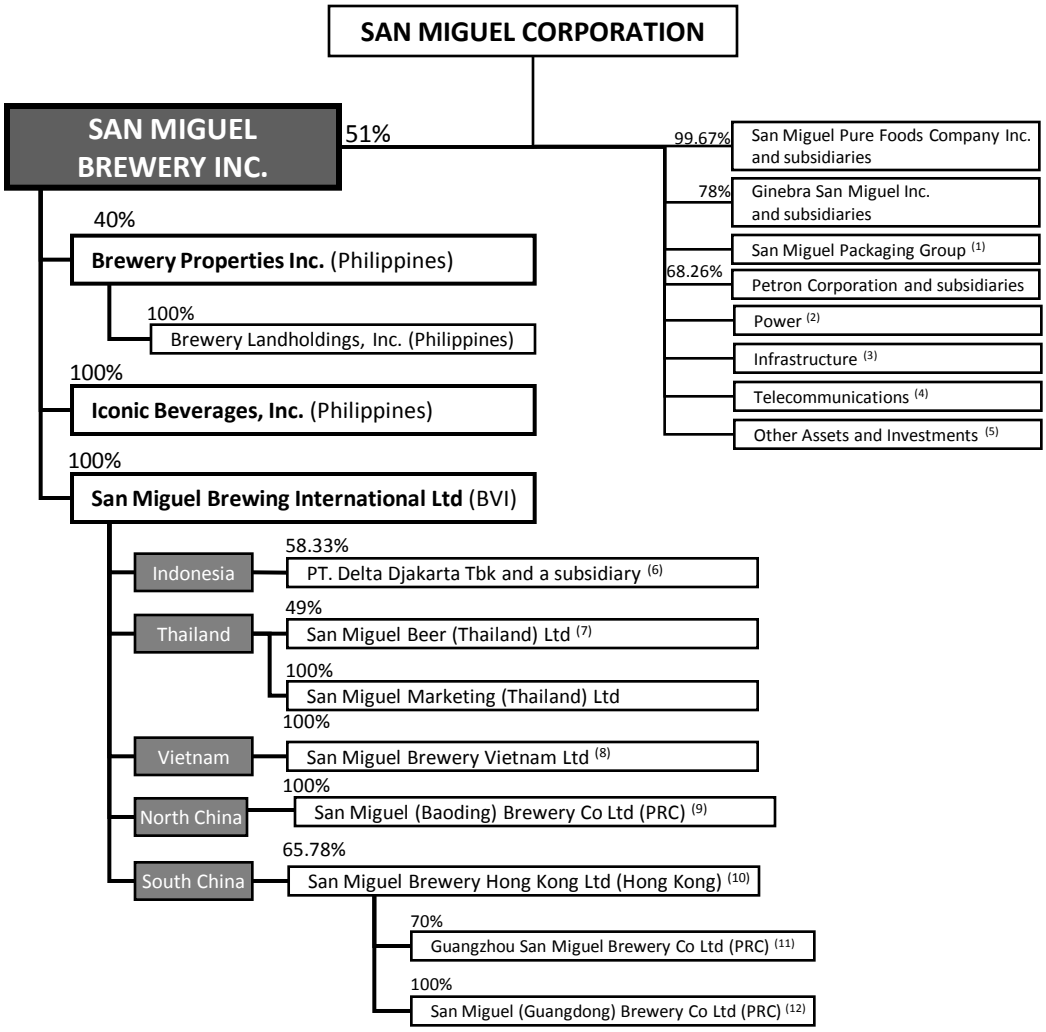
MANABAT SANAGUSTIN & CO., CPAs

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

February 7, 2012
Makati City, Metro Manila

San Miguel Brewery Inc. ("SMB") and Subsidiaries

Map of the Conglomerate to which SMB belongs
As of December 31, 2011



(1) Group comprised of San Miguel Yamamura Packaging Corporation (65%), San Miguel Yamamura Packaging International Limited (65%), San Miguel Yamamura Asia Corporation (60%) and Mindanao Corrugated Fibreboard, Inc. (100%)
(2) Power business comprised of SMC Global Power Holdings Corp. and subsidiaries (100%) and Manila Electric Company (33.19%)
(3) Infrastructure business comprised of Trans Aire Development Holdings Corp. (93%), Private Infra Development Corporation (35%), and Universal LRT Corporation (BVI) Limited (51%)
(4) Telecommunications business comprised of Liberty Telecommunications Holdings Inc. (41.48%), Bell Telecommunication Philippines, Inc. (100%), and Eastern Telecommunications Philippines, Inc. (77.70%)
(5) Other Assets and Investments comprised of San Miguel Properties Inc. (99.68%) and its affiliate Bank of Commerce (39.93%), Indophil Resources (3.99%), Coal assets (Daguma, Bonanza, Sultan) (100%)
(6) Owned thru San Miguel Malaysia Pte Ltd
(7) Owned thru San Miguel Holdings (Thailand) Ltd
(8) Owned thru Dragon Island Investments Ltd and San Miguel (Vietnam) Ltd
(9) Owned thru SMBIL and San Miguel (China) Investment Co Ltd ("SMCIC"). SMCIC's non-operating subsidiary is San Miguel Baoding Utility Co., Ltd
(10) Owned thru Neptunia Corporation Ltd ("Neptunia"). Neptunia's has a non-operating subsidiary, San Miguel Company Ltd. ("SMCL"). SMCL's non-operating subsidiary is San Miguel Company Ltd (Taiwan branch). San Miguel Brewery Hong Kong Ltd has non-operating subsidiaries: Ravelin Ltd., Best Investments International, Inc. and Hong Kong Brewery Limited.
(11) Owned thru San Miguel (Guangdong) Ltd
(12) Owned thru San Miguel Shunde Holdings Ltd

ISSUER

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Mandaluyong City
Philippines

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JOINT LEAD MANAGERS

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Bonifacio Global City, Taguig City

ING Bank N.V., Manila Branch

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Ayala Avenue, Makati City

SB Capital Investment Corporation

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