SAN MIGUEL BREWERY INC.
A subsidiary of San Miguel Corporation

November 14, 2012

Philippine Stock Exchange Inc.
Disclosure Department
3rd Floor, Philippine Stock Exchange Center
Ayala Triangle, Ayala Avenue
Makati City

ATTENTION: **MS. JANET A. ENCARNACION**
Head-Disclosure Department

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period September 30, 2012.

Very truly yours,

ROSABEL T. BALAN
Corporate Secretary

C O V E R S H E E T

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S. E. C. Registration Number

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(Company's Full Name)

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C	i	t	y																

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

Atty. Rosabel T. Balan

Contact Person

632-3000

Company Telephone Number

17-Q (3rd Qtr. 2012)

Month | Day | FORM TYPE | Month | Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders | Domestic | Foreign

To be accomplished by SEC Personnel concerned

File Number

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **SEPTEMBER 30, 2012**

2. Commission identification number **CS200711828**

3. BIR Tax Identification No. **006-807-251**

4. Exact name of issuer as specified in its charter **SAN MIGUEL BREWERY INC.**

5. **Philippines**
   Province, country or other jurisdiction
   of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

7. **No. 40 San Miguel Avenue,**
   Mandaluyong City **1550**
   Address of issuer's principal office Postal Code

8. **(632) 632-3000**
   Issuer's telephone number, including area code

9. **N/A**
   Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class outstanding (as of September 30, 2012)	
Common Shares	**15,410,478,960**
Peso-denominated fixed-rate bonds	**₱25.21 billion**
Peso-denominated fixed-rate bonds	**₱20.00 billion**

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [x] No [ ]

    If yes, state name of such Stock Exchange and the class/es of securities listed herein.

    Philippine Stock Exchange – Common Shares

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.

    Yes [x] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.

    Yes [x] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Brewery Inc. (the "Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2012 (with comparative figures as of December 31, 2011 and for the period ended September 30, 2011) and Selected Notes to the Consolidated Financial Statements is hereto attached as **Annex "A"**.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information required by Part IV, Paragraph (a)(2)(B) of SRC Rule 12 is attached hereto as **Annex "B"**.

PART II--OTHER INFORMATION

The Company may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

NONE

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **SAN MIGUEL BREWERY INC.**

Signature and Title **MERCY MARIE J. L. AMADOR**
Chief Finance Officer and Treasurer

Date November 14, 2012

Annex "A"

SAN MIGUEL BREWERY INC.
AND SUBSIDIARIES

CONTENTS

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2012 and DECEMBER 31, 2011
(In Millions)

	Note	2012 Unaudited	2011 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	7,8	P 19,925	P 18,279
Trade and other receivables - net	3,7,8	4,349	4,977
Inventories		3,992	3,370
Prepaid expenses and other current assets	7,8	980	996
Total Current Assets		29,246	27,622
Noncurrent Assets			
Investments - net	7,8	80	132
Property, plant and equipment - net	4	19,295	20,214
Investment properties - net		657	664
Intangible assets - net		35,888	36,063
Deferred tax assets		246	341
Other noncurrent assets - net	7,8	6,917	6,387
Total Noncurrent Assets		63,083	63,801
		P 92,329	P 91,423
LIABILITIES AND EQUITY			
Current Liabilities			
Drafts and loans payable	7,8	P -	P 1,857
Accounts payable and accrued expenses	3,7,8	8,487	7,296
Income and other taxes payable		1,798	2,606
Current maturities of long-term debt, net of debt issue costs	7,8	310	13,577
Total Current Liabilities		10,595	25,336
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	7,8	52,000	37,962
Deferred tax liabilities		18	35
Other noncurrent liabilities	7,8	122	216
Total Noncurrent Liabilities		52,140	38,213
EQUITY			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		15,410	15,410
Additional paid-in capital		515	515
Cumulative translation adjustments		(1,327)	(672)
Unappropriated retained earnings		13,367	10,618
		27,965	25,871
Non-controlling Interests		1,629	2,003
Total Equity		29,594	27,874
		P 92,329	P 91,423

Note: See accompanying Management Discussion and Analysis and Selected Notes to Financial Statements.

CERTIFIED CORRECT:

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
For the Period Ended September 30, 2012 and 2011
(In Millions, Except Per Share Data)

	2012	2011	For the Quarter Ended 2012	For the Quarter Ended 2011
SALES (Notes 2 and 3)	P 53,849	P 52,084	P 16,965	P 16,491
COST OF SALES (Note 3)	27,289	26,809	8,537	8,435
GROSS PROFIT	26,560	25,275	8,428	8,056
SELLING AND ADMINISTRATIVE EXPENSES (Note 3)	(11,121)	(10,621)	(3,817)	(3,646)
INTEREST INCOME	554	483	182	169
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(3,093)	(3,047)	(962)	(1,032)
IMPAIRMENT LOSSES ON NONCURRENT ASSETS	(44)	-	-	-
OTHER INCOME - NET (Note 8)	565	400	98	208
INCOME BEFORE TAX	13,421	12,490	3,929	3,755
INCOME TAX EXPENSE	4,026	3,722	1,191	1,024
NET INCOME	P 9,395	P 8,768	P 2,738	P 2,731
Net Income Attributable to:				
Equity Holders of the Parent Company	P 9,221	P 8,567	P 2,724	P 2,542
Non-controlling Interests	174	201	14	189
	P 9,395	P 8,768	P 2,738	P 2,731
Basic/Diluted Earnings Per Share (Note 5)	P 0.60	P 0.56	P 0.18	P 0.16

Note: See accompanying Management Discussion and Analysis and Selected Notes to Financial Statements.

CERTIFIED CORRECT:

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
For the Period Ended September 30, 2012 and 2011
(In Millions)

			For the Quarter Ended	
	2012	2011	2012	2011
NET INCOME	P 9,395	P 8,768	P 2,738	P 2,731
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(812)	(67)	(46)	44
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(6)	1	(2)	(1)
OTHER COMPREHENSIVE (LOSS) GAIN - NET OF TAX	(818)	(66)	(48)	43
TOTAL COMPREHENSIVE INCOME - NET OF TAX	P 8,577	P 8,702	P 2,690	P 2,774
Comprehensive Income Attributable to:				
Equity Holders of the Parent Company	P 8,566	P 8,506	P 2,722	2,627
Non-controlling Interests	11	196	(32)	147
	P 8,577	P 8,702	P 2,690	P 2,774

Note: See accompanying Management Discussion and Analysis and Selected Notes to Financial Statements.

CERTIFIED CORRECT:

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended September 30, 2012 and 2011
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company						
	Capital Stock	Additional Paid-in Capital	Cumulative Translation Adjustment	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As of January 1, 2012 (Audited)	P 15,410	P 515	P (672)	P 10,618	P 25,871	P 2,003	P 27,874
Foreign currency translation differences	-	-	(649)	-	(649)	(163)	(812)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	(6)	-	(6)	-	(6)
Net income for the period	-	-	-	9,221	9,221	174	9,395
Total comprehensive income (loss) for the period	-	-	(655)	9,221	8,566	11	8,577
Cash dividends (Note 6)	-	-	-	(6,472)	(6,472)	(385)	(6,857)
As of September 30, 2012 (Unaudited)	P 15,410	P 515	P (1,327)	P 13,367	P 27,965	P 1,629	P 29,594
As of January 1, 2011 (Audited)	P 15,410	P 515	P (542)	P 7,286	P 22,669	P 2,152	P 24,821
Foreign currency translation differences	-	-	(62)	-	(62)	(5)	(67)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	1	-	1	-	1
Net income for the period	-	-	-	8,567	8,567	201	8,768
Total comprehensive income (loss) for the period	-	-	(61)	8,567	8,506	196	8,702
Additions to non-controlling interests	-	-	-	-	-	8	8
Cash dividends (Note 6)	-	-	-	(6,472)	(6,472)	(353)	(6,825)
As of September 30, 2011 (Unaudited)	P 15,410	P 515	P (603)	P 9,381	P 24,703	P 2,003	P 26,706

Note: See accompanying Management Discussion and Analysis and Selected Notes to Financial Statements.

CERTIFIED CORRECT:

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Period Ended September 30, 2012 and 2011
(In Millions)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 13,421	P 12,490
Adjustments for:		
Interest expense and other financing charges	3,093	3,047
Depreciation, amortization and others	1,225	1,806
Retirement costs	392	338
Provision for impairment losses on receivables and inventory	129	175
Impairment loss on noncurrent assets	44	-
Interest income	(554)	(483)
Gain on sale of property and equipment and investment property	(3)	(348)
Operating income before working capital changes	17,747	17,025
Decrease (increase) in:		
Trade and other receivables	616	(228)
Inventories	(554)	(595)
Prepaid expenses and other current assets	62	(75)
Increase (decrease) in:		
Accounts payable and accrued expenses	48	75
Income and other taxes payable	(181)	(224)
Cash generated from operations	17,738	15,978
Income taxes paid	(4,575)	(3,898)
Interest paid	(1,964)	(2,057)
Contributions paid	(252)	(197)
Net cash flows provided by operating activities	10,947	9,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	554	482
Proceeds from sale of property and equipment	6	1,057
Additions to property and equipment and investment property	(371)	(1,273)
Increase in intangible assets and other noncurrent assets	(1,732)	(1,131)
Net cash flows used in investing activities	(1,543)	(865)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Long-term borrowings	21,078	-
Short-term borrowings	-	341
Payments of:		
Long-term borrowings	(19,989)	-
Short-term borrowings	(1,758)	(39)
Cash dividends paid	(6,472)	(6,472)
Dividends paid to non-controlling shareholders	(384)	(361)
(Decrease) increase in other noncurrent liabilities	(7)	19
Net cash flows used in financing activities	(7,532)	(6,512)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(226)	(4)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,646	2,445
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,279	15,076
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 19,925	P 17,521

Note: See accompanying Management Discussion and Analysis and Selected Notes to Financial Statements.

CERTIFIED CORRECT:

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
ACCOUNTS RECEIVABLE - TRADE
AS OF SEPTEMBER 30, 2012

TYPE OF ACCOUNTS RECEIVABLE	TOTAL	CURRENT	PAST DUE		
			1 - 30 DAYS	31 - 60 DAYS	OVER 60 DAYS
DOMESTIC	₱ 2,399,292,318.32	₱ 2,212,671,666.73	₱ 42,401,654.86	₱ 36,617,409.86	₱ 107,601,586.87
INTERNATIONAL	2,083,821,706.98	1,391,147,147.19	179,815,547.12	97,934,136.20	414,924,876.47
TOTAL	4,483,114,025.30	3,603,818,813.92	222,217,201.98	134,551,546.06	522,526,463.34
ALLOWANCE FOR DOUBTFUL ACCOUNTS	(1,089,665,926.54)				
NET	₱ 3,393,448,098.76				

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SAN MIGUEL BREWERY INC. AND SUBSIDIARIES

SELECTED NOTES TO FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data)

1. **Summary of Significant Accounting and Financial Reporting Policies**

The Group prepared its consolidated interim financial statements as of and for the period ended September 30, 2012 and comparative financial statements for the same period in 2011 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest million (₱000,000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent audited annual financial statements.

Adoption of New Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council (FRSC) approved the adoption of new or revised standards, amendments to standards, and interpretations [based on International Financial Reporting Interpretation Committee (IFRIC) Interpretations] as part of PFRS.

Amendments to Standard and Interpretations Adopted in 2012

The Group has adopted the following PFRS starting January 1, 2012 and accordingly, changed its accounting policies in the following areas:

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

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

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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 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 conducted an evaluation on the possible financial impact of the adoption of PFRS 9 and does not plan to adopt these standards early.

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

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements).* The amendments: (a) require that an entity 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, *Consolidated and Separate Financial Statements* (2008). The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements.* 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, *Disclosures 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 27, *Separate Financial Statements* (2011), supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The adoption of the 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, *Noncurrent Assets Held for Sale and Discontinued Operations,* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.

- PFRS 9, *Financial Instruments.* 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 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.

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2. **Segment Information**

<u>Operating Segments</u>

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 geographic location, with each segment representing a strategic business unit that offers different products and serves different markets.

With the acquisition of San Miguel Brewing International Limited (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. It also imports beer products for distribution in the Hong Kong market.

Inter-segment Transactions

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

Financial information about business segments follow:

	For the Period Ended September 30, 2012			
	Domestic	**International**	**Eliminations**	**Consolidated**
Sales				
External sales	**₱43,274**	**₱10,575**	**₱ -**	**₱53,849**
Inter-segment sales	**33**	-	**(33)**	-
Total Sales	**₱43,307**	**₱10,575**	**(₱ 33)**	**₱53,849**
Results				
Segment Results	**₱ 14,852**	**₱ 521**	**₱ 66**	**₱ 15,439**

	For the Period Ended September 30, 2011			
	Domestic	International	Eliminations	Consolidated
Sales				
External sales	₱42,263	₱9,821	₱ -	₱52,084
Inter-segment sales	38	-	(38)	-
Total Sales	**₱42,301**	**₱9,821**	**(₱ 38)**	**₱52,084**
Results				
Segment Results	₱14,387	₱ 267	₱ -	₱ 14,654

3. **Related Party Transactions**

The following transactions and related account balances with San Miguel Corporation (SMC) and its subsidiaries were entered into at normal market prices and terms.

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by (to) Related Parties
SMC	**September 2012**	**₱ 7**	**₱ 682**	**(₱ 352)**
	December 2011	17	1,379	(363)
Kirin Holdings Company, Limited and subsidiaries	**September 2012**	**6**	**2**	**6**
	December 2011	19	18	**4**
San Miguel Yamamura Packaging Corporation	**September 2012**	**55**	**2,918**	**(904)**
	December 2011	87	2,858	(713)
SMC Shipping and Lighterage Corporation	**September 2012**	**8**	**314**	**(71)**
	December 2011	12	459	(67)
SMITS, Inc. and a subsidiary	**September 2012**	-	**149**	**(42)**
	December 2011	-	150	(41)
San Miguel Yamamura Asia Corporation	**September 2012**	**4**	**333**	**(217)**
	December 2011	15	890	(406)
Ginebra San Miguel, Inc. and subsidiaries	**September 2012**	**9**	**2**	**1**
	December 2011	17	1	(4)
San Miguel International Limited and subsidiaries	**September 2012**	**-**	**19**	**(10)**
	December 2011	2	63	(6)
San Miguel Purefoods Company, Inc. and subsidiaries	**September 2012**	**46**	**4**	**11**
	December 2011	68	11	1
Petron Corporation and subsidiaries	**September 2012**	**137**	**710**	**(22)**
	December 2011	140	936	(90)
San Miguel Properties, Inc.	**September 2012**	**-**	**32**	**10**
	December 2011	-	46	11
Others	**September 2012**	**-**	**59**	**(6)**
	December 2011	3	50	30

4. **Property, Plant and Equipment**

Property, plant and equipment consist of:

September 30, 2012	**Balance, December 31, 2011**	**Additions**	**Disposals and Reclassifications**	**Currency Translation Adjustments**	**Balance, September 30, 2012**
Cost:					
Land	₱ 8,070	₱ -	₱ -	₱ (24)	₱ 8,046
Buildings and improvements	11,463	33	(2)	(398)	11,096
Machinery and equipment	36,535	210	(39)	(934)	35,772
Transportation equipment	965	18	(32)	(18)	933
Tools and small equipment	114	2	(1)	(5)	110
Office equipment, furniture and fixtures	713	11	(150)	(17)	557
Leasehold improvements	272	18	(2)	(1)	287
Construction in progress	167	53	(1)	(2)	217
	58,299	345	(227)	(1,399)	57,018
Accumulated depreciation:					
Buildings and improvements	3,879	137	(2)	(106)	3,908
Machinery and equipment	22,037	718	(30)	(373)	22,352
Transportation equipment	553	63	(29)	(15)	572
Tools and small equipment	79	3	-	(3)	79
Office equipment, furniture and fixtures	590	26	(158)	(13)	445
Leasehold improvements	77	16	(2)	(1)	90
	27,215	963	(221)	(511)	27,446
Accumulated impairment losses:					
Buildings and improvements	3,802	-	-	(203)	3,599
Machinery and equipment	6,993	-	-	(384)	6,609
Transportation equipment	13	-	-	(2)	11
Tools and small equipment	21	-	-	(2)	19
Office equipment, furniture and fixtures	41	-	-	(2)	39
	10,870	-	-	(593)	10,277
Net book value	**₱ 20,214**	**(₱ 618)**	**(₱ 6)**	**(₱ 295)**	**₱19,295**

September 30, 2011	Balance, December 31, 2010	Additions	Disposals and Reclassifications	Currency Translation Adjustments	Balance, September 30, 2011
Cost:					
Land	₱ 8,120	₱ -	₱ -	₱ (35)	₱ 8,085
Buildings and improvements	11,398	30	(8)	119	11,539
Machinery and equipment	35,588	806	(23)	348	36,719
Transportation equipment	800	133	(36)	4	901
Tools and small equipment	139	5	(31)	1	114
Office equipment, furniture and fixtures	708	22	(16)	2	716
Leasehold improvements	94	164	-	1	259
Construction in progress	368	85	(4)	(1)	448
	57,215	1,245	(118)	439	58,781
Accumulated depreciation and amortization:					
Buildings and improvements	3,691	139	(4)	21	3,847
Machinery and equipment	21,368	701	(18)	69	22,120
Transportation equipment	520	51	(33)	2	540
Tools and small equipment	107	4	(30)	-	81
Office equipment, furniture and fixtures	590	23	(16)	1	598
Leasehold improvements	65	6	-	1	72
	26,341	924	(101)	94	27,258
Accumulated impairment losses:					
Buildings and improvements	3,822	-	(4)	91	3,909
Machinery and equipment	7,344	-	(4)	213	7,553
Transportation equipment	12	-	-	-	12
Tools and small equipment	20	-	(1)	-	19
Office equipment, furniture and fixtures	41	-	-	1	42
	11,239	-	(9)	305	11,535
Net book value	₱ 19,635	₱ 321	(₱ 8)	₱ 40	₱19,988

Depreciation charged to operations amounted to ₱963 and ₱924 in September 2012 and 2011, respectively.

5. **Basic and Diluted Earnings Per Share (EPS)**

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

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

Basic/Diluted EPS is computed as follows:

	September	
	2012	2011
Net Income attributable to equity holders of the Parent Company (a)	**₱ 9,221**	₱ 8,567
Weighted average number of shares outstanding (b)	**15,410**	15,410
Basic / Diluted EPS (a/b)	**₱ 0.60**	₱ 0.56

As of September 30, 2012 and 2011, the Group has no dilutive debt or equity instruments.

6. **Dividends**

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to ₱0.42 and ₱0.42 per share as of September 2012 and 2011, respectively.

7. **Financial Risk Management Objectives and Policies**

Objectives and Policies

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

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

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

The Group's principal non-trade related financial instruments include cash and cash equivalents, available-for-sale (AFS) financial assets, 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, 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 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 Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's accounting policies in relation to derivatives are set out in Note 8 to the consolidated financial statements.

<u>Interest Rate Risk</u>

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 ₱75 and ₱132 in September 30, 2012 and December 31, 2011, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at September 30, 2012 and December 31, 2011, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

September 30, 2012	**<1 year**	**1-<2 years**	**>2-<3 years**	**>3-<4 years**	**>4-<5 years**	**>5 years**	**Total**
Fixed rate							
Philippine peso-denominated	**₱ -**	**₱22,400**	**₱ -**	**₱ -**	**₱3,000**	**₱19,810**	**₱45,210**
Interest rate		**8.875%**			**6.05%**	**5.93%-10.50%**	
Floating rate							
Foreign currency-denominated							
(expressed in Philippine peso)	**313**	**625**	**6,568**		**-**	**-**	**7,506**
Interest rate	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**				
	₱ 313	**₱23,025**	**₱ 6,568**	**₱ -**	**₱ 3,000**	**₱19,810**	**₱ 52,716**

December 31, 2011	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated	₱13,590	₱ -	₱ 22,400	₱ -	₱ -	₱ 2,810	₱ 38,800
Interest rate	8.25%		8.875%			10.50%	
Floating rate							
Foreign currency-denominated							
(expressed in Philippine peso)	-	-	-	13,152		-	13,152
Interest rate				LIBOR + margin			
	₱ 13,590	₱ -	₱ 22,400	₱13,152	₱ -	₱ 2,810	₱ 51,952

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.

The Group uses a combination of natural hedges and buying foreign currencies at spot rates where necessary to address short-term imbalances 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:

	September 30, 2012		December 31, 2011	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$98.9**	**₱4,123**	US$110.1	₱4,825
Trade and other receivables	**57.0**	**2,376**	56.4	2,474
Noncurrent receivable	**0.2**	**11**	0.2	11
	156.1	**6,510**	166.7	7,310
Liabilities				
Drafts and loans payable	**-**	**-**	42.3	1,857
Accounts payable and accrued expenses	**54.6**	**2,279**	55.8	2,444
Long-term debt (including current maturities)	**180.0**	**7,506**	300.0	13,152
	234.6	**9,785**	398.1	17,453
Net foreign currency-denominated monetary liabilities	**(US$78.5)**	**(₱3,275)**	(US$231.4)	(₱10,143)

The Group reported net foreign exchange gains amounting to ₱472 and ₱36 in September 30, 2012 and 2011, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2010	43.84
September 30, 2011	43.72
December 31, 2011	43.84
September 30, 2012	41.70

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of September 30, 2012 and December 31, 2011:

September 30, 2012	**P1 decrease in the US dollar exchange rate**		**P1 increase in the US dollar exchange rate**	
	Effect on Income before Income Tax	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P7)**	**(P97)**	**P7**	**P97**
Trade and other receivables	**(2)**	**(57)**	**2**	**57**
	(9)	**(154)**	**9**	**154**
Drafts and loans payable	**-**	**-**	**-**	**-**
Accounts payable and accrued expenses	**1**	**54**	**(1)**	**(54)**
Long-term debt (including current maturities)	**150**	**135**	**(150)**	**(135)**
	151	**189**	**(151)**	**(189)**
	P142	**P35**	**(P142)**	**(P35)**

December 31, 2011	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P6)	(P108)	P6	P108
Trade and other receivables	(1)	(56)	1	56
	(7)	(164)	7	164
Drafts and loans payable	-	42	-	(42)
Accounts payable and accrued expenses	5	54	(5)	(54)
Long-term debt (including current maturities)	300	210	(300)	(210)
	305	306	(305)	(306)
	P298	P142	(P298)	(P142)

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

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 September 30, 2012 and December 31, 2011:

September 30, 2012

	Carrying Amount	**Contractual Cash Flow**	**1 year or less**	**>1 year - 2 years**	**>2 years - 5 years**	**Over 5 years**
Financial Assets						
Cash and cash equivalents	**P19,925**	**P19,925**	**P19,925**	**P -**	**P -**	**P -**
Trade and other receivables - net	**4,349**	**4,349**	**4,349**	**-**	**-**	**-**
Derivative assets (included under “Prepaid expenses and other current assets” account in the consolidated statements of financial position)	**71**	**71**	**71**	**-**	**-**	**-**
AFS financial assets (included under “Investments” account in the consolidated statements of financial position)	**80**	**80**	**-**	**-**	**-**	**80**
Noncurrent receivables (included under “Other noncurrent assets” account in the consolidated statements of financial position)	**39**	**39**	**-**	**-**	**39**	**-**
Financial Liabilities						
Drafts and loans payable	**-**	**-**	**-**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding dividends payable)	**8,478**	**8,478**	**8,478**	**-**	**-**	**-**
Derivative liabilities (included under “Accounts payable and accrued expenses” account in the consolidated statements of financial position)	**1**	**1**	**1**	**-**	**-**	**-**
Long-term debt (including current maturities)	**52,310**	**67,092**	**4,014**	**25,729**	**14,123**	**23,226**

December 31, 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

	Carrying Amount	Contractual Cash Flow	1year or less	>1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Liabilities						
Drafts and loans payable	1,857	1,890	1,890	-	-	-
Accounts payable and accrued expenses (excluding dividends payable)	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 (including current maturities)	51,539	59,846	16,480	2,602	37,289	3,475

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 September 30, 2012 and December 31, 2011, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	September 30, 2012	December 31, 2011
Cash and cash equivalents	**₱19,925**	₱18,279
Trade and other receivables - net	**4,349**	4,977
Derivative assets	**71**	41
AFS financial assets	**80**	132
Noncurrent receivables	**39**	45
	₱24,464	₱23,474

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 business 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 period.

8. **Financial Assets and Financial Liabilities**

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

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

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

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

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

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

<u>*Financial Assets*</u>

Financial Assets at FVPL. A financial asset is classified at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains and losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Cumulative translation adjustments" 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.

The carrying amounts of financial assets under this category amounted to ₱71, ₱66 and ₱41 as of September and June 30, 2012 and December 31, 2011, respectively.

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

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

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

The Group's cash and cash equivalents, trade and other receivables and other noncurrent receivables are included in this category.

The combined carrying amounts of financial assets under this category amounted to ₱24,313, ₱23,116 and ₱23,301 as of September and June 30, 2012 and December 31, 2011, respectively.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified 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 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 and losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has no investments accounted for under this category as of September and June 30, 2012 and December 31, 2011.

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

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

The Group's investments in equity securities included under "Investments" account are classified under this category.

The carrying amounts of financial assets under this category amounted to ₱80, ₱82 and ₱132 as of September and June 30, 2012 and December 31, 2011, respectively.

<u>*Financial Liabilities*</u>

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "Cumulative translation adjustments" 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.

The carrying amounts of financial liabilities under this category amounted to ₱1, ₱3 and ₱11 as of September and June 30, 2012 and December 31, 2011, respectively.

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

The combined carrying amounts of financial liabilities under this category amounted to ₱60,788, ₱59,155 and ₱60,674 as of September and June 30, 2012 and December 31, 2011, respectively.

<u>Debt Issue Costs</u>

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset 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 pay.

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 the 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 profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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

Classification of Financial Instruments Between Debt and Equity
From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial assets to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱19,925**	**₱19,925**	₱18,279	₱18,279
Trade and other receivables - net	**4,349**	**4,349**	4,977	4,977
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**71**	**71**	41	41
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	**80**	**80**	132	132
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**39**	**39**	45	45
Financial Liabilities				
Drafts and loans payable	**-**	**-**	1,857	1,857
Accounts payable and accrued expenses	**8,478**	**8,478**	7,278	7,278
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**1**	**1**	11	11
Long-term debt (including current maturities)	**52,310**	**57,366**	51,539	56,549

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 instruments as of reporting date. As of September 30, 2012 and December 31, 2011, discount rates used range from 1.36% to 4.89% and 1.66% to 5.28%, respectively. The carrying amount of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of embedded derivative financial instruments not designated as hedges are discussed below.

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 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.

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

As of September and June 30, 2012 and December 31, 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$25, US$32 and US$34, 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 September and June 30, 2012 and December 31, 2011, the net positive fair value of these embedded currency forwards amounted to ₱ 70, ₱63 and ₱30, respectively.

For the periods ended September 30, 2012 and 2011 and June 30, 2012 and 2011, the Group recognized marked-to-market gains from embedded derivatives amounting to ₱46, ₱5, ₱52 and ₱13, respectively.

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

The table below analyzes financial instruments carried at fair value, by valuation method as of September 30, 2012 and December 31, 2011. The different levels have been defined as follows:

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

September 30, 2012

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative Assets	**₱ -**	**₱ 71**	**₱ 71**
AFS financial assets	**80**	**-**	**80**
Financial Liabilities			
Derivative Liabilities	**-**	**1**	**1**

December 31, 2011

	Level 1	Level 2	Total
Financial Assets			
Derivative Assets	₱ -	₱ 41	₱ 41
AFS financial assets	132	-	132
Financial Liabilities			
Derivative Liabilities	-	11	11

As of September 30, 2012 and December 31, 2011, the Group has no financial instruments valued based on Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

9. **Other Matters**

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

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

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

d. 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.

e. 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. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. There were no material off-statement of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered into by the Group as of and for the period ended September 30, 2012.

g. The effects of seasonality or cyclicality on the interim operations of the Group's business are not material.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of September 30, 2012. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash.

i. On November 13, 2012, the BOD of the Parent Company declared cash dividends amounting to ₱0.14 per share payable to stockholders of record as of November 27, 2012 to be paid on December 5, 2012.

Annex "B"

SAN MIGUEL BREWERY INC.
A subsidiary of San Miguel Corporation

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Brewery Inc. (the "Company" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended September 30, 2012 (with comparative figures as of December 31, 2011 and for the period ended September 30, 2011). All necessary adjustments to present fairly the Group's financial position, financial performance and cash flows as of September 30, 2012 and for all the periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. KEY TRANSACTIONS

Third Quarter

- In a letter dated September 25, 2012, the Philippine Dealing & Exchange Corp. ("PDEx") approved the Company's application to list its fixed rate Series D bonds with an aggregate principal amount of ₱3,000 million due in 2017 ("Series D Bonds") for trading on the PDEx. The Series D Bonds, which form part of the ₱20,000 million Philippine peso-denominated fixed rate bonds issued by the Company in April 2012 ("₱20 billion Bonds"), have been approved for listing on the PDEx effective October 3, 2012.

First Semester

- On April 2, 2012, the Company completed the offering of its ₱20 billion Bonds with its issuance of the ₱20 billion Bonds and receipt of the proceeds amounting to ₱20,000 million. The ₱20 billion Bonds consisted of the following: Series D Bonds with an aggregate principal amount of ₱3,000 million having a term of 5 years and 1 day beginning on April 2, 2012 ("Issue Date") and ending on April 3, 2017, with a fixed interest rate of 6.05% per annum; Series E Bonds with an aggregate principal amount of ₱10,000 million having a term of 7 years beginning on Issue Date and ending on April 2, 2019, with a fixed interest rate of 5.93% per annum; and Series F Bonds with an aggregate principal amount of ₱7,000 million having a term of 10 years beginning on Issue Date and ending on April 2, 2022, with a fixed interest rate of 6.60% per annum. The Series E Bonds and Series F Bonds of the ₱20 billion Bonds were listed on the PDEx on the same day.

- On April 3, 2012, the Company completed the payment of the aggregate principal amount of the Series A fixed rate bonds ("Series A Bonds") of ₱13,590 million, which matured on the same day. The Series A Bonds form part of the ₱38.8 billion fixed rate bonds that were issued by the Company in 2009 ("₱38.8 billion Bonds"). Part of the proceeds of the Company's ₱20 billion Bonds offering was used for the said payments. The net proceeds of the ₱20 billion Bonds have been fully utilized in April.

- On April 13, 2012, the Company made a partial prepayment of its US$300 million term facility in the amount of US$100 million. A subsequent partial prepayment was made on April 27, 2012 in the amount of US$50 million. Part of the proceeds of the Company's ₱20 billion Bonds offering was used for the said prepayments.

- On March 13, 2012, the Board of Directors approved the interest rates for the Company's ₱20 billion Bonds offering. The ₱20 billion Bonds were offered for sale and distribution on March 19 to 23 pursuant to the permit to sell and order of registration issued by the Securities and Exchange Commission on March 16, 2012.

- In February 2012, the Company obtained the consents of record bondholders holding and/or representing 76.92% of the outstanding principal amount of the ₱38.8 billion Bonds to replace the financial covenant from a minimum current ratio of 1:1 to a minimum interest coverage ratio of 4.75:1, in the terms and conditions of the ₱38.8 billion Bonds under the trust agreement dated March 16, 2009 ("Trust Agreement") between the Company and the trustee for the said bonds ("Trustee"). Accordingly, the Company and the Trustee executed a Supplemental Agreement to the Trust Agreement on February 7, 2012 to effect the said amendment to the Trust Agreement.

- On February 7, 2012, the Board of Directors approved the use of the proceeds for the Company's ₱20 billion Bonds offering for the prepayment of the Company's US$300 million term facility in addition to the use of the said proceeds to support the redemption of the Series A Bonds maturing in April 2012.

II. FINANCIAL PERFORMANCE

<u>2012 vs. 2011</u>

The Group's consolidated sales revenue as of September 30, 2012 reached ₱53,849 million, 3.4% higher versus the same period last year as higher selling prices offset the 1.1% drop in sales volume. Domestic operations contributed ₱43,274 million while international operations contributed ₱10,575 million (US$248.48 million).

Cost of sales amounted to ₱27,289 million in 2012, with domestic operations accounting for ₱20,529 million and ₱6,760 million (US$158.81 million) for international operations.

Operating expenses amounted to ₱11,121 million, an increase of 4.7% from the same period in 2011 due to higher personnel expenses, increased advertising and promotional activities and freight charges. Domestic operations accounted for ₱7,827 million, higher by 5.8% from the same period last year while international operations accounted for ₱3,294 million (US$77.50 million).

Despite the increase in operating expenses, income from operations increased by 5.4% to ₱15,439 million for the first nine months of 2012 with domestic operations contributing ₱14,918 million and ₱521 million (US$12.17 million) from international operations.

Interest income is higher by 14.7% compared to the same period last year owing largely to the higher cash balance of domestic operations.

The impairment loss of ₱44 million pertains to PT Delta Jakarta, Tbk's ("PTD") investment in PT San Miguel Indonesia Foods and Beverages ("PTSMI") which ceased operation early this year.

Other income amounted to ₱565 million, a ₱165 million increase from the same period last year mainly due to the realized foreign exchange gains on the partial payment of the US$300 million term facility amounting to US$150 million and the revaluation of the balance of such US dollar loan.

Income tax expense increased by 8.2% owing to the higher income of domestic operations.

Consolidated net income amounted to ₱9,395 million, an increase of 7.1% compared to the same period last year, ₱9,095 million of which came from domestic operations while international operations posted ₱300 million (US$6.99 million) net income.

The 13.4% decrease in net income attributable to non-controlling interest is primarily due to San Miguel Beer (Thailand) Limited's ("SMBTL") loss this year as compared to the net income it posted in 2011 due to SMBTL's sale of its Bangpho property.

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

Domestic Beer Operations

Revenue slightly grew by ₱1,006 million despite lower sales volume for the first nine months of 2012 due to the full impact of the price increase implemented in May 2011. Operating costs grew by 6.7% largely due to higher personnel expenses and increased advertising and promotional activities.

As a result of the foregoing, operating income slightly increased by 3.7% from ₱14,387 million last year to ₱14,918 million this year. With the strengthening of the peso over the US dollar and the significant increase in interest income from money market placements, net income increased by 7.6% as compared to 2011, ending the quarter with ₱9,095 million net income.

International Beer Operations

The strong domestic volume performance of operations in Indonesia, Thailand and Hong Kong as well as the improvement in San Miguel Brewing International Limited's (SMBIL) Exports operations mitigated the decline in South China's domestic volume resulting in a slight decrease of 1% in total sales volume. International operations' sales revenue increased by 9.3%, resulting to a first nine months operating income of US$12.17 million, a strong growth over last year's operating income of US$6.21 million.

Net income for the first nine months of 2012 is US$6.99 million, 6.7% lower than last year. The sale of Bangpho property in 2011 resulting to a US$8.04 million gain on sale for that year contributed to the decrease in net income compared to this year.

<u>2011 vs. 2010</u>

The consolidated statement of income as of September 30, 2011 already reflects the financial performance of the Group's domestic and international businesses including Iconic Beverages, Inc. ("IBI"), Brewery Properties Inc. ("BPI"), SMBIL and the subsidiaries of BPI and SMBIL while the statement of income as of September 30, 2010 also reflects the consolidated results of both domestic and international operations excluding BPI and its subsidiary.

The Group delivered volume and revenue growth for the first nine months of 2011 for both domestic and international operations. Total revenue amounted to ₱52,084 million, 6.6% higher than the same period in 2010 while total volume grew by 3%. Domestic and international operations contributed ₱42,301 million and ₱9,783 million in revenue, respectively.

Cost of sales amounted to ₱26,809 million in 2011, 7.1% higher than 2010 due to the higher volumes and the excise tax increase implemented in the domestic operations and in Indonesia. Domestic operations accounted for ₱20,520 million while international operations accounted for ₱6,289 million.

Despite higher costs of sales, the implementation of cost reduction initiatives and the strong volume performance of both domestic and international operations resulted to an 8.6% increase in income from operations for the first nine months of 2011.

Interest income declined by 15.1% in 2011 compared to 2010 owing to lower short-term money market placements for 2011 on account of the partial payment made by the Company in November 2010 for the purchase of San Miguel Corporation's ("SMC") 40% stake in BPI.

Other income amounted to ₱400 million in 2011, a ₱1,041 million decrease from the same period in 2010 due to foreign currency translation adjustments of foreign currency-denominated transactions.

Without the non-recurring income from acquisition of assets at fair value amounting to ₱2,418 million in 2010, net income remained flat, ending the period with ₱8,768 million.

Net income attributable to non-controlling interests increased by 95% due to the gain on sale of SMBTL's Bangpho property.

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

Domestic Beer Operations

Driven by higher sales volume owing to the favorable market conditions as well as the conduct of programs to boost consumption and the price increase implemented effective May 1, 2011, domestic operations posted a 5.4% increase in revenues for the first nine months of 2011. Cost of sales increased by only 4.3% despite the 8% excise tax increase implemented on January 1, 2011 and the 2.2% increase in volume.

Operating income grew by 7.7% or ₱1,034 million attributable to the improvement in volume and revenue, lower cost of materials and cost management initiatives implemented by the Company. Net income rose to ₱8,449 million, 2.3% higher than 2010 despite the lower unrealized foreign exchange gain as of the third quarter of 2011.

International Beer Operations

International operations' sales volume increased by 5% for the first three quarters of 2011 as compared with the same period in 2010 driven by the strong volume performance of the Group's operations in Indonesia, Exports, Hong Kong, North China, and Thailand. Cost of sales likewise increased by 23.5% due to higher volumes and the increase in excise taxes in Indonesia. Meanwhile, operating expenses increased by 5.9% mainly due to personnel-related expenses.

Improved volumes provided a robust 104.3% increase in operating income from the same period in 2010. However, net income decreased by 42% as compared to same period in 2010 due to higher financing costs and lower foreign exchange gain.

III. FINANCIAL POSITION

2012 vs. 2011

The Group's total assets slightly increased from December 2011 balances of ₱91,423 million to ₱92,329 million as of September 2012.

Cash and cash equivalents increased by 9% from ₱18,279 million last year to ₱19,925 million in September 2012. Domestic operations' balance increased by ₱2,379 million to ₱16,093 million primarily due to higher cash generated from operations during the period. International operations' cash and cash equivalents decreased by US$12.24 million primarily due to payments of short-term loans and cash dividends amounting to US$42.13 million and

US$18.37 million, respectively, which decrease was partially offset by the newly-availed long-term loan of San Miguel Brewery Hong Kong Limited ("SMBHK") amounting to US$30 million.

Trade and other receivables decreased by 12.6% from ₱4,977 million last year to ₱4,349 million this year. The decrease is largely due to effective collection efforts of domestic operations with 23.4% decrease in trade and other receivables account from ₱2,734 million in 2011 to ₱2,093 million this year.

Inventories rose by 18.5% to ₱3,992 million primarily due to domestic operations' higher inventory levels of finished products and containers in preparation for the fourth quarter volume requirement.

Investments decreased from ₱132 million to ₱80 million this year due to the impairment of PTD's investment in PTSMI amounting to US$0.96 million.

Deferred tax assets is lower by ₱95 million from ₱341 million in 2011 to ₱246 million in 2012 primarily due to the reversal of tax reconciling items pertaining to 2011 accruals.

Other noncurrent assets increased by 8.3% due to purchase of new bottles and shells of domestic operations.

On the liabilities side, the decrease in drafts and loans payable, which is solely the account of international operations, is due to the full payment thereof amounting to ₱1,758 million or US$42.13 million.

Accounts payable and accrued expenses increased to ₱8,487 million from ₱7,296 million in December 2011 due to the accrual of interest expense on long-term debt and retirement liability of domestic operations.

Income and other taxes payable amounted to ₱1,798 million this year, a 31% decrease over last year's balance of ₱2,606 million. The reason for the decrease is mainly due to higher net income for the fourth quarter of 2011 as compared to income for the third quarter of 2012 for both domestic and international operations.

Current maturities of long term debt decreased by ₱13,267 million due to the redemption of the Series A Bonds last April 3, 2012. On the other hand, long-term debt increased by ₱14,038 million due to the issuance of the ₱20 billion Bonds on April 2, 2012, the proceeds of which were used to support the payment of the Series A Bonds which matured and the partial prepayment of half of the US$300 million term facility in April 2012, and the availment by SMBHK of a US$30 million loan.

Deferred tax liabilities decreased by ₱17 million from ₱35 million balance as at December 2011 due to the reclassification of deferred tax liability to deferred tax asset of PTD.

Other noncurrent liabilities decreased by 43.5% from ₱216 million last year to ₱122 million this year due to the settlement of certain retirement liability of domestic operations.

Cumulative translation adjustments of ₱1,327 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 PTD, San Miguel Holdings Thailand Limited ("SMHTL"), SMBTL, SMBHK group and BPI decreased by 18.7% due to dividend payment to minority shareholders of PTD and the loss incurred by the Thailand operations.

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 September 30, 2011, the Group's total assets improved by 3.3% to ₱90,029 million compared to December 31, 2010 balance of ₱87,121 million. The improvement was primarily from the current assets segment which increased by 12.7% or ₱3,062 million higher compared to December 31, 2010.

The Group's cash balance increased by ₱2,445 million from ₱15,076 million to ₱17,521 million as of September 30, 2011. Domestic cash and cash equivalents of ₱12,745 million is 13.6% higher than December 2010 balances due to higher cash generated from operations. International operations' cash and cash equivalents increased by 23.9% compared to December 2010 balance of ₱3,855 million mainly due to the proceeds from the sale of Bangpho property of SMBTL.

Inventories rose by 16.7% to ₱4,152 million primarily due to domestic operations' higher inventory levels of malt and international operations' build-up of inventories in anticipation of higher production and sales requirements for the last quarter of 2011.

Prepaid expenses and other current assets of ₱1,087 million as of end September 2011 decreased by 5.4% compared to December 2010 balance due to the domestic operations' reclassification of pension asset to expense and international operations' higher prepayments of income tax due to improved performance.

Investment properties decreased by 51.3% primarily due to the sale of SMBTL's Bangpho property.

Other noncurrent assets increased by 4.6% to P5,879 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 ₱1,992 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.

Accounts payable and accrued expenses increased to ₱7,803 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 ₱1,877 million in 2011 as against ₱2,263 million in 2010. Taxes payable from domestic operations decreased by ₱552 million due to lower net income and lower trade sales for the third quarter of 2011 as compared to net income of fourth quarter of 2010. International operations' taxes payable increased to ₱303 million (US$7 million) from ₱137 million due to higher net income as compared to same period of 2010.

The current maturities of long-term debt pertains to the Series A Bonds of the ₱38.8 billion 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 ₱74 million from ₱89 million in December 2010. The decrease was mainly due to lower taxable temporary differences of domestic operations arising from the revaluation of long-term debt and the marked-to-market gains on embedded derivatives.

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

Cumulative translation adjustments of ₱603 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 PTD, SMHTL, SMBTL, SMBHK group and BPI, decreased by 6.9% due to dividend payment to minority shareholders.

The increase in equity is due to:

	September 30	
(in Millions)	**2012**	2011
Income during the period	**₱9,395**	₱8,768
Additions to non-controlling interests	**-**	8
Effect of translation adjustments and others	**(818)**	(66)
Cash dividends declared	**(6,857)**	(6,825)
	₱ 1,720	₱ 1,885

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	September 30	
(in Millions)	**2012**	2011
Net cash flows provided by operating activities	**₱ 10,947**	₱ 9,826
Net cash flows used in investing activities	**(1,543)**	(865)
Net cash flows used in financing activities	**(7,532)**	(6,512)

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:

	September 30	
(in Millions)	**2012**	**2011**
Interest received	**₱ 554**	₱ 482
Proceeds from sale of property and equipment	**6**	1,057
Additions to property and equipment and investment property	**(371)**	(1,273)
Increase in intangible assets and other noncurrent assets	**(1,732)**	(1,131)

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

	September 30	
(in Millions)	**2012**	**2011**
Proceeds from long-term debt	**₱ 21,078**	₱ -
Proceeds from short-term borrowings	**-**	341
Payment of long-term debt	**(19,989)**	-
Payment of short-term borrowings	**(1,758)**	(39)
Increase (decrease) in other noncurrent liabilities	**(7)**	19
Cash dividends paid	**(6,856)**	(6,833)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱226 million) and (₱4 million) in September 30, 2012 and 2011, respectively.

V. KEY PERFORMANCE INDICATORS

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

	September 2012	**December 2011**
Liquidity:		
Current Ratio	2.76	1.09
Solvency:		
Interest Coverage Ratio*	5.81	5.70
Debt to Equity Ratio	2.12	2.28
Interest-bearing Debt to Equity Ratio	1.78	1.93
Asset to Equity Ratio	3.12	3.28
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	45.67%	49.29%

	Period Ended September 30	
	2012	**2011**
Operating Efficiency:		
Volume (Decline) Growth	(1.1%)	2.7%
Revenue Growth	3.4%	6.6%
Operating Margin	28.7%	28.1%

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

KPI	Formula
Current Ratio	$\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$
Interest Coverage Ratio	$\dfrac{\text{Earnings before interest, taxes, depreciation and amortization (EBITDA)*}}{\text{Interest expense and other financing charges}}$
Debt to Equity Ratio	$\dfrac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Total Equity}}$
Interest-bearing Debt to Equity Ratio	$\dfrac{\text{Total Interest-bearing Debt}}{\text{Total Equity}}$
Asset to Equity Ratio	$\dfrac{\text{Total Assets (Current + Noncurrent)}}{\text{Total Equity}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\dfrac{\text{Net Income Attributable to Equity Holders of the Parent Company**}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Volume Growth (Decline)	$\left(\dfrac{\text{Current Period Sales Volume}}{\text{Prior period Sales Volume}}\right)-1$
Revenue Growth	$\left(\dfrac{\text{Current period Net Sales}}{\text{Prior Period Net Sales}}\right)-1$
Operating Margin	$\dfrac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Based on 12-month rolling EBITDA.
** Annualized for quarterly reporting