SAN MIGUEL BREWERY INC.
A subsidiary of San Miguel Corporation

November 14, 2016

PHILIPPINE DEALING & EXCHANGE CORP.
37/F, Tower I, The Enterprise Center
6766 Ayala Ave., cor. Paseo de Roxas
Makati City

Attention: **MS. VINA VANESSA S. SALONGA**
Head, Issuer Compliance and Disclosure Department

Gentlemen:

Attached is the quarterly report (SEC Form 17-Q) of San Miguel Brewery Inc. for the period ended September 30, 2016, which was filed with the Securities and Exchange Commission today.

Very truly yours,

ROSABEL T. BALAN
Vice President and General Counsel

COVER SHEET

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S. E. C. Registration Number

SAN MIGUEL
BREWERY
INC.

(Company's Full Name)

No. 40 San Miguel
Avenue, Mandaluyong
City

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

ROSABEL SOCORRO T. BALAN	632-3000
Contact Person	Company Telephone Number

Month	Day	FORM TYPE	Month	Day
		17-Q (Third Quarter 2016)		
			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, 2016**

2. Commission identification number **CS200711828**

3. BIR Tax Identification No. **006-807-251-000**

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 *(outstanding as of Sept. 30, 2016)*	
Common Shares	**15,359,053,161**[1]
Peso-denominated Series C fixed-rate bonds	**₱ 2.81 billion**
Peso-denominated Series DEF fixed-rate bonds	**₱20.00 billion**
Peso-denominated Series GH fixed-rate bonds	**₱15.00 billion**

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

    Yes [ ] No [x]
    If yes, state name of such Stock Exchange and the class/es of securities listed herein. **N.A.**

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 [ ]

[1] *Excludes the 51,425,799 common shares tendered and accepted by the Company in its tender offer which are now booked as treasury shares. As of September 30, 2016, the Company has secured Certificates Authorizing Registration ("CARs") for 48,480,499 common shares of the 51,425,799 common shares tendered and accepted by the Company in its tender offer.*

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, 2016 (with comparative figures as of December 31, 2015 and for the period ended September 30, 2015) 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
Date	November 14, 2016

Annex "A"

SAN MIGUEL BREWERY INC.
AND SUBSIDIARIES

CONTENTS

Unaudited Consolidated Financial Statements for the period ended September 30, 2016 (with comparative figures for 2015)

Aging of Receivables

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Periods Ended September 30, 2016 and 2015
(In Millions, Except Per Share Data)

	2016 Unaudited	2015 Unaudited	For the Quarters Ended 2016 Unaudited	For the Quarters Ended 2015 Unaudited
SALES (Notes 2 and 3)	₱ 69,298	₱ 58,790	₱ 21,902	₱ 18,988
COST OF SALES	37,604	31,965	11,622	10,325
GROSS PROFIT	31,694	26,825	10,280	8,663
SELLING AND ADMINISTRATIVE EXPENSES	(12,980)	(11,079)	(4,140)	(3,792)
INTEREST INCOME	264	192	94	67
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(1,905)	(1,836)	(696)	(605)
OTHER INCOME (CHARGES) - NET	143	6	60	(31)
INCOME BEFORE INCOME TAX	17,216	14,108	5,598	4,302
INCOME TAX EXPENSE	5,012	4,143	1,646	1,240
NET INCOME	₱ 12,204	₱ 9,965	₱ 3,952	₱ 3,062
Attributable to:				
Equity holders of the Company	₱ 11,933	₱ 9,801	₱ 3,832	₱ 2,981
Non-controlling interests	271	164	120	81
	₱ 12,204	₱ 9,965	₱ 3,952	₱ 3,062
Basic and diluted earnings per share (Note 5)	₱ 0.78	₱ 0.64	₱ 0.25	₱ 0.19

See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND DECEMBER 31, 2015
(In Millions)

	Note	2016 Unaudited	2015 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	7,8	P 19,143	P 15,850
Trade and other receivables - net	3,7,8	4,532	5,124
Inventories		4,974	3,766
Prepaid expenses and other current assets	7,8	1,314	1,195
Total Current Assets		29,963	25,935
Noncurrent Assets			
Investments - net	7,8	40	60
Property, plant and equipment - net	4	18,353	18,759
Investment property - net		1,740	1,540
Intangible assets - net		36,140	35,987
Deferred tax assets		1,754	1,574
Other noncurrent assets - net	7,8	10,001	9,236
Total Noncurrent Assets		68,028	67,156
		P 97,991	P 93,091
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	3,7,8	P 7,671	P 7,389
Income and other taxes payable		2,613	2,874
Current maturities of long-term debt, net of debt issue costs	7,8	2,996	-
Total Current Liabilities		13,280	10,263
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	7,8	34,607	37,566
Deferred tax liabilities		113	114
Other noncurrent liabilities	7,8	2,734	3,157
Total Noncurrent Liabilities		37,454	40,837
EQUITY			
Equity Attributable to Equity Holders of the Company			
Capital stock		15,410	15,410
Additional paid-in capital		515	515
Cumulative translation adjustments		(50)	(708)
Reserve for retirement plan		(2,725)	(2,709)
Unappropriated retained earnings		32,295	27,890
Treasury stock		(1,029)	(1,029)
		44,416	39,369
Non-controlling Interests		2,841	2,622
Total Equity		47,257	41,991
		P 97,991	P 93,091

See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated 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
For the Periods Ended September 30, 2016 and 2015
(In Millions)

			For the Quarters Ended	
	2016 Unaudited	2015 Unaudited	2016 Unaudited	2015 Unaudited
NET INCOME	₱ 12,204	₱ 9,965	₱ 3,952	₱ 3,062
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Equity reserve for retirement plan - net of tax	(28)	10	(15)	10
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS				
Gain (loss) on exchange differences on translation of foreign operations	771	(112)	605	32
Net gain on available-for-sale financial assets	3	-	2	1
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	746	(102)	592	43
TOTAL COMPREHENSIVE INCOME - NET OF TAX	₱ 12,950	₱ 9,863	₱ 4,544	₱ 3,105
Attributable to:				
Equity holders of the Company	₱ 12,575	₱ 9,688	₱ 4,348	₱ 2,975
Non-controlling interests	375	175	196	130
	₱ 12,950	₱ 9,863	₱ 4,544	₱ 3,105

See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated 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
For the Periods Ended September 30, 2016 and 2015
(In Millions)

	2016 Unaudited	2015 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 17,216	₱ 14,108
Adjustments for:		
Depreciation, amortization and others	2,241	1,808
Interest expense and other financing charges	1,905	1,836
Retirement costs	456	436
Provision for impairment losses on receivables and inventories	1,240	229
Gain on sale of investment	(13)	-
Interest income	(264)	(192)
Gain on sale of property and equipment	(6)	(3)
Operating income before working capital changes	22,775	18,222
Decrease (increase) in:		
Trade and other receivables	241	1,005
Inventories	(1,146)	(771)
Prepaid expenses and other current assets	93	(33)
Decrease in:		
Accounts payable and accrued expenses	(104)	(96)
Income and other taxes payable	(234)	(291)
Cash generated from operations	21,625	18,036
Interest paid	(1,275)	(1,185)
Income taxes paid	(5,221)	(4,547)
Contributions paid	(1,191)	(698)
Net cash flows provided by operating activities	13,938	11,606
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment and investment property	(562)	(484)
Proceeds from sale of property and equipment and investment property	11	5
Proceeds from sale of investment	35	-
Increase in intangible assets and other noncurrent assets	(2,875)	(1,365)
Interest received	264	194
Net cash flows used in investing activities	(3,127)	(1,650)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(7,526)	(7,067)
Dividends paid to non-controlling shareholders	(155)	(181)
Redemption of common shares	-	(6)
Increase in other noncurrent liabilities	16	7
Net cash flows used in financing activities	(7,665)	(7,247)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	147	178
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,293	2,887
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,850	9,886
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱ 19,143	₱ 12,773

See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated 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 Periods Ended September 30, 2016 and 2015
(In Millions)

	Equity Attributable to Equity Holders of the Company									
			Cumulative Translation Adjustments							
	Capital Stock	Additional Paid-in Capital	Translation Reserve	Fair Value Reserve	Reserve for Retirement Plan	Unappropriated Retained Earnings	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of January 1, 2016 (Audited)	P 15,410	P 515	P (699)	P (9)	P (2,709)	P 27,890	P (1,029)	P 39,369	P 2,622	P 41,991
Gain on exchange differences on translation of foreign operations	-	-	655	-	-	-	-	655	116	771
Equity reserve for retirement plan	-	-	-	-	(16)	-	-	(16)	(12)	(28)
Net gain on available-for-sale financial assets	-	-	-	3	-	-	-	3	-	3
Other comprehensive income (loss)	-	-	655	3	(16)	-	-	642	104	746
Net income	-	-	-	-	-	11,933	-	11,933	271	12,204
Total comprehensive income (loss) for the period	-	-	655	3	(16)	11,933	-	12,575	375	12,950
Cash dividends (Note 6)	-	-	-	-	-	(7,528)	-	(7,528)	(156)	(7,684)
As of September 30, 2016 (Unaudited)	P 15,410	P 515	P (44)	P (6)	P (2,725)	P 32,295	P (1,029)	P 44,416	P 2,841	P 47,257
As of January 1, 2015 (Audited)	P 15,410	P 515	P (765)	P (9)	P (2,498)	P 24,164	P (1,029)	P 35,788	P 2,466	P 38,254
Gain (loss) on exchange differences on translation of foreign operations	-	-	(119)	-	-	-	-	(119)	7	(112)
Equity reserve for retirement plan	-	-	-	-	6	-	-	6	4	10
Other comprehensive income (loss)	-	-	(119)	-	6	-	-	(113)	11	(102)
Net income	-	-	-	-	-	9,801	-	9,801	164	9,965
Total comprehensive income (loss) for the period	-	-	(119)	-	6	9,801	-	9,688	175	9,863
Cash dividends (Note 6)	-	-	-	-	-	(7,067)	-	(7,067)	(181)	(7,248)
As of September 30, 2015 (Unaudited)	P 15,410	P 515	P (884)	P (9)	P (2,492)	P 26,898	P (1,029)	P 38,409	P 2,460	P 40,869

See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
ACCOUNTS RECEIVABLE - TRADE
SEPTEMBER 30, 2016
(IN MILLIONS)

TYPE OF ACCOUNTS RECEIVABLE	TOTAL	CURRENT	PAST DUE 1 - 30 DAYS	PAST DUE 31 - 60 DAYS	PAST DUE OVER 60 DAYS
DOMESTIC	₱ 2,266	₱ 2,180	₱ 42	₱ 20	₱ 24
INTERNATIONAL	2,180	1,635	183	161	201
TOTAL	4,446	3,815	225	181	225
ALLOWANCE FOR DOUBTFUL ACCOUNTS	(547)				
NET	₱ 3,899				

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SAN MIGUEL BREWERY INC. AND SUBSIDIARIES

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

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

The Group prepared its interim consolidated financial statements as of and for the period ended September 30, 2016 and comparative financial statements for the same period in 2015 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 financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

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

Adoption of New and Amended Standards
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards Adopted in 2016

The Group has adopted the following PFRS starting January 1, 2016 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the statements of income, statements of comprehensive income and the statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statements of financial position, the statements of income and statements of comprehensive income.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments to PAS 16 and PAS 38 are applied prospectively in accordance with PAS 8, *Accounting Policies, Change in Accounting Estimates and Errors.*

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:

  - Changes in Method for Disposal *(Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations).* PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed. The amendments to PFRS 5 are applied prospectively in accordance with PAS 8 to changes in methods of disposal that occur on or after January 1, 2016.

  - Offsetting disclosures in condensed interim financial statements *(Amendment to PFRS 7, Financial Instruments: Disclosures).* PFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of PAS 34, *Interim Financial Reporting* require their inclusion. The amendment to PFRS 7 is applied retrospectively, in accordance with PAS 8.

  - Disclosure of information "elsewhere in the interim financial report" *(Amendment to PAS 34).* PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" – i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross-reference are not made available to users of the interim financial statements on the same terms and at the same time. The amendment to PAS 34 is applied retrospectively, in accordance with PAS 8.

Except as otherwise indicated, the adoption of these foregoing amended standards did not have a material effect on the interim consolidated financial statements.

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

The Group will adopt the following new and amended standards on the respective effective dates:

- PFRS 9, *Financial Instruments* (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15, *Revenue from Contracts with Customers.* The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- PFRS 15 replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- Disclosure initiative *(Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes – e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. If the required disclosure is provided in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities. On February 17, 2016 the FRSC has adopted the amendments to PAS 7, which apply prospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods.

- Recognition of Deferred Tax Assets for Unrealized Losses *(Amendments to PAS 12, Income Taxes)*. The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

  On February 17, 2016, the FRSC has adopted the Amendments to PAS 12, which will become effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The amendments to PAS 12 are applied prospectively in accordance with PAS 8. On initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates*). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  The FRSC decided to postpone the effectivity date until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted.

2. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on 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.

The Group's reportable segments are domestic and international operations.

Domestic operations produce and market fermented, malt-based and non-alcoholic beverages within the Philippines and distribute beer products to some export markets.

International operations produce and market fermented and malt-based beverages in several foreign markets. It also distributes non-alcoholic beverages in several foreign markets.

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 transactions are eliminated in consolidation.

Financial information about reportable segments follows:

	For the Period Ended September 30, 2016			
	Domestic	**International**	**Eliminations**	**Consolidated**
Sales				
External sales	**₱60,535**	**₱8,763**	**₱ -**	**₱69,298**
Inter-segment sales	33	-	(33)	-
Total Sales	**₱60,568**	**₱8,763**	**(₱33)**	**₱69,298**
Results				
Segment Results	**₱18,052**	**₱662**	**₱ -**	**₱18,714**

	For the Period Ended September 30, 2015			
	Domestic	International	Eliminations	Consolidated
Sales				
External sales	₱50,527	₱8,263	₱ -	₱58,790
Inter-segment sales	39	-	(39)	-
Total Sales	₱50,566	₱8,263	(₱39)	₱58,790
Results				
Segment Results	₱15,472	₱274	₱ -	₱15,746

3. **Related Party Disclosures**

The Group, in the normal course of business, purchases products and services from and sells products to related parties. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of September 30, 2016 and December 31, 2015:

	Year	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	**September 30, 2016**	**₱-**	**₱-**	**₱-**	**₱9**	On demand;	Unsecured;
	December 31, 2015	-	-	-	9	Non-interest bearing	No impairment
Parent Company	**September 30, 2016**	**18**	**903**	**2**	**217**	On demand;	Unsecured;
	December 31, 2015	30	1,988	26	894	Non-interest bearing	No impairment
Shareholder	**September 30, 2016**	**-**	**-**	**5**	**-**	On demand;	Unsecured;
	December 31, 2015	-	-	1	-	Non-interest bearing	No impairment
Entities Under Common Control	**September 30, 2016**	**176**	**4,001**	**80**	**910**	On demand;	Unsecured;
	December 31, 2015	172	4,156	88	1,022	Non-interest bearing	No impairment
Total	**September 30, 2016**	**₱194**	**₱4,904**	**₱87**	**₱1,136**		
Total	December 31, 2015	₱202	₱6,144	₱115	₱1,925		

All current outstanding balances with the related parties are expected to be settled in cash within 12 months as of the reporting date. None of the balances are secured.

a. Amounts owed by related parties consist of trade and non-trade receivables and share in expenses.

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

4. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2016

	Land	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Other Equipment	Office Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost									
January 1, 2016 (Audited)	₱7,959	₱11,875	₱39,289	₱812	₱104	₱547	₱330	₱380	₱61,296
Additions	-	104	433	10	30	21	2	(38)	562
Disposals/reclassifications	(1)	(316)	(49)	(29)	(8)	(5)	(2)	(5)	(415)
Currency translation adjustments	68	161	356	8	2	10	-	1	606
September 30, 2016 (Unaudited)	**8,026**	**11,824**	**40,029**	**801**	**128**	**573**	**330**	**338**	**62,049**
Accumulated Depreciation and Amortization									
January 1, 2016 (Audited)	-	4,898	25,687	587	63	440	180	-	31,855
Depreciation and amortization	-	175	657	64	7	21	20	-	944
Disposals/reclassification	-	(113)	(47)	(30)	(8)	(3)	(1)	-	(202)
Currency translation adjustments	-	72	238	8	1	8	-	-	327
September 30, 2016 (Unaudited)	**-**	**5,032**	**26,535**	**629**	**63**	**466**	**199**	**-**	**32,924**
Accumulated Impairment Losses									
January 1, 2016 (Audited)	-	2,448	8,172	9	13	40	-	-	10,682
Disposal/reclassifications	-	(6)	6	-	1	(1)	-	-	-
Currency translation adjustments	-	3	86	(1)	-	1	1	-	90
September 30, 2016 (Unaudited)	**-**	**2,445**	**8,264**	**8**	**14**	**40**	**1**	**-**	**10,772**
Carrying Amount									
September 30, 2016 (Unaudited)	**₱8,026**	**₱4,347**	**₱5,230**	**₱164**	**₱51**	**₱67**	**₱130**	**₱338**	**₱18,353**

September 30, 2015

	Land	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Other Equipment	Office Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost									
January 1, 2015 (Audited)	₱7,997	₱11,880	₱38,492	₱857	₱103	₱547	₱327	₱326	₱60,529
Additions	-	48	452	22	2	13	-	(57)	480
Disposals/reclassifications	-	(7)	(6)	(38)	-	(3)	-	(13)	(67)
Currency translation adjustments	(53)	125	112	(8)	1	1	-	(3)	175
September 30, 2015 (Unaudited)	7,944	12,046	39,050	833	106	558	327	253	61,117
Accumulated Depreciation and Amortization									
January 1, 2015 (Audited)	-	4,705	24,873	558	56	435	154	-	30,781
Depreciation and amortization	-	177	664	71	6	24	19	-	961
Disposals/reclassifications		(7)	(7)	(36)	-	(3)	-	-	(53)
Currency translation adjustments	-	35	(21)	(6)	-	-	-	-	8
September 30, 2015 (Unaudited)	-	4,910	25,509	587	62	456	173	-	31,697
Accumulated Impairment Losses									
January 1, 2015 (Audited)	-	2,268	7,297	9	14	39	1	-	9,628
Currency translation adjustments	-	9	134	(1)	1	2	-	-	145
September 30, 2015 (Unaudited)	-	2,277	7,431	8	15	41	1	-	9,773
Carrying Amount									
September 30, 2015 (Unaudited)	₱7,944	₱4,859	₱6,110	₱238	₱29	₱61	₱153	₱253	₱19,647

Depreciation charged to operations amounted to ₱944 and ₱961 in September 2016 and 2015, 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 Company by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Basic and diluted EPS is computed as follows:

	September 30	
	2016	2015
Net income attributable to equity holders of the Company (a)	**₱11,933**	₱9,801
Weighted average number of common shares outstanding (b)	**15,359**	15,359
Basic and Diluted EPS (a/b)	**₱0.78**	₱0.64

As of September 30, 2016 and 2015, the Group has no dilutive debt or equity instruments.

6. Dividends

Cash dividends declared by the Company's Board of Directors (BOD) to shareholders amounted to ₱0.49 and ₱0.46 per share as of September 30, 2016 and 2015, respectively.

7. Financial Risk and Capital 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 exposure to each of the foregoing risks, objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, available-for-sale (AFS) financial assets, noncurrent receivables, long-term loans and derivative instruments. Cash and cash equivalents are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables and accounts payable and accrued expenses arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and interest rate risks arising from the operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group. The risk management policies of the Group 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 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 BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare an annual report of its activities to be included in the annual report of the Group.

The Audit Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group 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 accounting policies in relation to derivatives are set out in Note 8 to the selected notes to the financial statements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the 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 earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The Company does not account for any fixed-rate financial assets or financial liabilities at FVPL and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The Group has no floating rate borrowings as of September 30, 2016 and December 31, 2015.

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

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

Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

September 30, 2016	1-3 Years	>3-5 Years	>5 Years	Total
Fixed Rate				
Philippine peso-denominated	₱15,810	₱12,462	₱9,538	₱37,810
Interest rate	5.93% - 10.50%	5.50%	6.00% - 6.60%	
	₱15,810	₱12,462	₱9,538	₱37,810

December 31, 2015	1-3 Years	>3-5 Years	>5 Years	Total
Fixed Rate				
Philippine peso-denominated	₱3,000	₱12,810	₱22,000	₱37,810
Interest rate	6.05%	5.93% - 10.50%	5.50% - 6.60%	
	₱3,000	₱12,810	₱22,000	₱37,810

Foreign Currency Risk

The Company's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The 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 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 natural hedges and/or purchases 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 is as follows:

	September 30, 2016		December 31, 2015	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$123.6**	**₱5,994**	US$106.8	₱5,026
Trade and other receivables	**51.2**	**2,485**	54.4	2,559
Noncurrent receivables	**0.2**	**9**	0.2	10
	175.0	**8,488**	161.4	7,595
Liabilities				
Accounts payable and accrued expenses	**47.7**	**2,314**	44.7	2,103
Net foreign currency-denominated monetary assets	**US$127.3**	**₱6,174**	US$116.7	₱5,492

The Group reported net foreign exchange gains amounting to ₱32 and ₱33 for the period ended September 30, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the United States dollar as shown in the following table:

	Philippine Peso to US Dollar
September 30, 2016	**48.50**
December 31, 2015	47.06
September 30, 2015	46.74
December 31, 2014	44.72

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

- retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses; and

- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income.

The following table demonstrates the sensitivity to a reasonably possible change in the United States (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):

	₱1 Decrease in the US Dollar Exchange Rate		**₱1 Increase in the US Dollar Exchange Rate**	
September 30, 2016	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(₱1)**	**(₱123)**	**₱1**	**₱123**
Trade and other receivables	**(1)**	**(51)**	**1**	**51**
	(2)	**(174)**	**2**	**174**
Accounts payable and accrued expenses	**1**	**47**	**(1)**	**(47)**
	(₱1)	**(₱127)**	**₱1**	**₱127**

	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
December 31, 2015	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(₱1)	(₱107)	₱1	₱107
Trade and other receivables	(1)	(54)	1	54
	(2)	(161)	2	161
Accounts payable and accrued expenses	-	45	-	(45)
	(₱2)	(₱116)	₱2	₱116

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 to meet payment obligations when they fall under normal and stress circumstances.

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:

September 30, 2016

	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	₱19,143	₱19,143	₱19,143	₱ -	₱ -	₱ -
Trade and other receivables - net	4,532	4,532	4,532	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	1	1	1	-	-	-
AFS financial assets (included under "Investments" account)	40	40	-	-	-	40
Noncurrent receivables (included under "Other noncurrent assets" account)	41	41	-	-	41	-
Financial Liabilities						
Accounts payable and accrued expenses (excluding cash dividends payable)	7,604	7,604	7,604	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	52	52	52	-	-	-
Long-term debt (including current maturities)	37,603	46,896	5,279	2,188	29,277	10,152

Forward

December 31, 2015

	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	₱15,850	₱15,850	₱15,850	₱ -	₱ -	₱ -
Trade and other receivables - net	5,124	5,124	5,124	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	2	2	2	-	-	-
AFS financial assets (included under "Investments" account)	60	60	-	-	-	60
Noncurrent receivables (included under "Other noncurrent assets" account)	13	13	-	3	10	-
Financial Liabilities						
Accounts payable and accrued expenses (excluding cash dividends payable)	7,376	7,376	7,376	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	28	28	28	-	-	-
Long-term debt	37,566	48,673	2,369	5,234	17,823	23,247

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 trade and other receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate as these factors may have an influence on the credit risk. Where appropriate, the Group obtains collateral or arranges master netting agreements.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the 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 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 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 losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

	September 30, 2016	December 31, 2015
Cash and cash equivalents (excluding cash on hand)	**₱19,124**	₱15,743
Trade and other receivables - net	**4,532**	5,124
Derivative assets	**1**	2
Noncurrent receivables	**41**	13
	₱23,698	₱20,882

The credit risk for cash and cash equivalents and derivative 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 trade and other receivables and noncurrent 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 counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

<u>Capital Management</u>
The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

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

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

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the 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 as at FVPL, includes transaction costs.

'Day 1' Difference. 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 the fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used 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' difference amount.

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

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 as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

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

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in profit or loss when the right to receive payment has been established.

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

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account 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" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

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

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

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account 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 are classified under this category.

The Group has no financial assets classified as HTM investments as of September 30, 2016 and December 31, 2015.

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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 in the consolidated statements of changes in equity. Any interest expense incurred shall be recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

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

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as accounts payable and accrued expenses and long-term debt are included in this category.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; 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 or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. 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.

<u>Impairment of Financial Assets</u>
The Group assesses, at the reporting date, whether that 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 financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether 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 with similar 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 is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

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 equity, is transferred to profit or loss. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

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 at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Classification of Financial Instruments Between Liability and Equity
Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits. A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

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 assets and settle the liabilities 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:

	September 30, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱19,143**	**₱19,143**	₱15,850	₱15,850
Trade and other receivables – net	**4,532**	**4,532**	5,124	5,124
Derivative assets (included under "Prepaid expenses and other current assets" account)	**1**	**1**	2	2
AFS financial assets (included under "Investments" account)	**40**	**40**	60	60
Noncurrent receivables (included under "Other noncurrent assets" account)	**41**	**41**	13	13
Financial Liabilities				
Accounts payable and accrued expenses (excluding cash dividends payable)	**7,604**	**7,604**	7,376	7,376
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**52**	**52**	28	28
Long-term debt (including current maturities)	**37,603**	**41,723**	37,566	41,081

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.

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. Unquoted equity securities are carried at cost less impairment.

Accounts Payable and Accrued Expenses. The carrying amount of 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. Discount rates used range from 1.31% to 3.63% and 2.62% to 4.54% as of September 30, 2016 and December 31, 2015, respectively.

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 that are not designated as hedges are discussed below.

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 the 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 as at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$23, US$23 and US$20 as of September and June 30, 2016 and December 31, 2015, 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 host contracts. The net negative fair value of these embedded currency forwards amounted to ₱51, ₱26 and ₱26 as of September and June 30, 2016 and December 31, 2015, respectively.

For the periods ended September 30, 2016 and 2015 and June 30, 2016 and 2015, the Group recognized marked-to-market losses from embedded derivatives amounting to ₱37, ₱54, and ₱15 and ₱34, respectively.

Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of the reporting period.

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:

	September 30, 2016			December 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	₱ -	₱1	₱1	₱ -	₱2	₱2
AFS financial assets	40	-	40	60	-	60
Financial Liabilities						
Derivative liabilities	-	52	52	-	28	28

The Group has no financial instruments valued based on Level 3 as of September 30, 2016 and December 31, 2015. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

9. Events After the Reporting Date

On November 3, 2016, the BOD of the Company declared cash dividends amounting to ₱0.17 per share payable to stockholders of record as of November 25, 2016 to be paid on December 5, 2016.

10. Other Matters

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

b. There were no material changes in estimates of amounts reported in prior 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. The effects of seasonality or cyclicality on the interim operations of the Group's business are not material.

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered into by the Group as of and for the period ended September 30, 2016.

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, 2016. 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.

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") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended September 30, 2016 (with comparative figures as of December 31, 2015 and for the period ended September 30, 2015). All necessary adjustments to fairly present the Group's consolidated financial position, financial performance and cash flows as of September 30, 2016 and for all the other periods shown, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. FINANCIAL PERFORMANCE

2016 vs. 2015

The Group continued to deliver strong performance in the third quarter, with consolidated sales revenue reaching ₱69,298 million, 18% higher than last year. Domestic operations led the growth as volume grew by 19 million cases bringing revenues to ₱60,568 million while international operations contributed US$186.6 million or ₱8,763 million.

Cost of sales also increased by 18% to ₱37,604 million resulting from the increase in sales volume and higher excise taxes of domestic operations. Domestic operations accounted for ₱32,286 million and US$114 million or ₱5,352 million for international operations.

Operating expenses amounted to ₱12,980 million, an increase of 17% from the same period in 2015 due to higher personnel expenses, advertising and promotional expenses, distribution costs and provision for inventory obsolescence. Domestic operations accounted for ₱10,230 million while international operations accounted for US$58.6 million or ₱2,749 million.

Income from operations reached ₱18,714 million, higher by 19% versus 2015. Domestic operations contributed ₱18,052 million while international operations contributed US$14.1 million or ₱662 million.

Interest income increased by ₱72 million mainly due to higher money market placements of domestic operations.

Other income also increased by ₱137 million primarily due to the higher rental income of international operations with San Miguel Brewery Hong Kong Ltd.'s ("SMBHK") additional spaces for rent and foreign exchange gain resulting from the appreciation of Indonesian rupiah and Thai baht against the United States (US) dollar.

Income tax expense increased by 21% due to the Group's higher income in 2016 as compared to 2015.

Consolidated net income increased by 22%, ending the third quarter of 2016 with ₱12,204 million income against the ₱9,965 million earned in the same period in 2015. Domestic operations contributed ₱11,501 million, 18% higher than the same period in 2015, while international operations posted US$15 million or ₱705 million, more than triple of year-ago performance.

Net income attributable to non-controlling interests also increased significantly by 65% compared to 2015 with the higher income of PT Delta Djakarta Tbk. ("PTD").

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

Domestic Beer Operations

Domestic operations sustained its robust performance, delivering revenues of ₱60,568 million, a 20% growth over 2015, mainly driven by higher sales volume. Despite the price increase implemented in April 2016, beer sales volume surpassed year-ago level by 15% on account of the encouraging external environment backed by new brand campaigns and the conduct of consumer and trade activations.

Cost of sales increased by ₱5,513 million or 21% due to the increase in sales volume and higher excise taxes which took effect January 1, 2016.

With increased volumes, income from operations for the first three quarters of 2016 ended at ₱18,052 million, higher by 17% from last year. Net income reached ₱11,501 million, 18% higher than the ₱9,748 million earned in 2015.

International Beer Operations

San Miguel Brewing International Limited ("SMBIL") consolidated volume as of September 2016 was 1.62 million hectoliters, 4% lower than the same period in 2015 primarily due to the decline in the North China, South China and Thailand operations. This was partly offset by the growth in the Indonesia operations on the back of enhanced strategies to address the new beer regulatory environment and the growth in exports of San Miguel brands. SMBIL's operating income as of September was at US$ 14.1 million, 134% higher than last year with most units registering improvements due to higher margins, more efficient advertising and promotion spending and improved cost management.

2015 vs. 2014

Domestic and international operations posted mixed results for the first three quarters of 2015. Consolidated sales revenue increased by of ₱2,507 million or 4.5% over 2014 largely due to domestic operations' higher revenue resulting from the price increase implemented in October 2014 coupled with a 1% increase in volume. Domestic operations contributed ₱50,566 million while international operations contributed US$183.3 million or ₱8,263 million.

Cost of sales slightly increased by 3% from 2014 mainly due to the increase in sales volume and higher excise taxes of domestic operations. Domestic operations accounted for ₱26,773 million and US$116.1 million or ₱5,231 million for international operations.

Operating expenses amounted to ₱11,079 million, higher by 12% from the same period in 2014 due to higher advertising and promotional expenses, distribution costs, contracted services and advisory fees for the consent solicitation of the Series C and Series D, E and F bondholders for the negative covenants amendment. Domestic operations accounted for ₱8,321 million while international operations accounted for US$61.2 million or ₱2,758 million.

Income from operations amounted to ₱15,746 million, an increase of 3% from the same period in 2014. Domestic operations contributed ₱15,472 million, while international operations contributed US$6 million or ₱274 million.

Interest income increased by 33% due to higher money market placements of the domestic operations while interest expense and other financing charges decreased by ₱269 million due to lower debt balance and lower interest rates of the Company's outstanding long-term debt.

Other income increased by ₱5 million due to higher royalty income of international operations partially offset by higher marked-to-market losses and foreign exchange losses with the appreciation of the US dollar.

Income tax expense is higher by 7% due to domestic operations' higher earnings as of the third quarter of 2015 versus same period in 2014.

Consequently, consolidated net income increased by 6%, ending the first three quarters of 2015 with ₱9,965 million income as against the ₱9,426 million in 2014. Domestic operations contributed ₱9,748 million while international operations contributed US$4.7 million or ₱215 million.

Net income attributable to equity holders of the Company increased by 8% versus the same period in 2014. However, net income attributable to non-controlling interests decreased by ₱152 million due to the lower income of PTD and net loss of SMBHK.

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

Domestic Beer Operations

Domestic operations posted an 11% increase in sales revenue as compared to the same period in 2014 due to a volume growth of 1.38 million cases and higher selling prices. The growth in volumes was driven by new brand campaigns and implementation of demand-generating programs, alongside favorable economic growth.

Cost of sales increased by ₱2,367 million due to the increase in sales volume and higher excise taxes effected in January 2015.

Operating expenses for the first three quarters of 2015 is 20% higher than 2014 due to higher advertising and promotional expenses, distribution costs, contracted services and payment of advisory fees for the consent solicitation of the Series C and Series D, E and F bondholders for the negative covenants amendment. With the significant growth in volumes and revenue covering costs increases, income from operations ended higher by 8% as compared to the same period in 2014. Likewise, net income rose by 12%, ending September 2015 with ₱9,748 million.

International Beer Operations

SMBIL's consolidated volume as of September 2015 ended at 1.7 million hectoliters, declining by 21% compared to the same period in 2014 on account of the issues encountered in the North China, Indonesia, and Hong Kong operations, partly offset by the domestic volume improvements in the Thailand and Vietnam operations, and the growth in the exports of the San Miguel brands.

While the new government regulation in Indonesia limiting the sale of beer products in on-premise outlets, supermarkets and hypermarkets where wines and spirits are currently available, and prohibiting their sale in convenience stores and provision stores resulted to a 29% decline in total beer industry volume as of end-September 2015, PTD's year-to-date volume decline was also at 29%. Recently, volume performance showed signs of improvements particularly after PTD implemented targeted programs to address trade issues.

For SMBHK, the termination of the distribution agreement with the Anheuser-Busch InBev group for certain premium brands in the last quarter of 2014 adversely affected its volume.

On the other hand, Thailand operations have already registered a turnaround owing to the growth in volumes and lower fixed costs.

On the other hand, Thailand operations have already registered a turnaround owing to the growth in volumes and lower fixed costs.
SMBIL reported an operating income of US$6.0 million for the first nine months of 2015, a 72% unfavorable variance versus 2014 due to the volume decline, partly offset by the decrease in fixed cost spending.

II. FINANCIAL POSITION

2016 vs. 2015

The Group's total assets increased by 5% as of September 30, 2016 primarily due to the increase in current assets.

Cash and cash equivalents increased by ₱3,293 million mainly due to higher cash generated from domestic operations.

Trade and other receivables decreased by 12% as of September 2016 due to improved collection and lower credit sales this September as compared to December 2015.

On the other hand, inventories increased by ₱1,208 million mainly due to domestic operations' inventory build-up in anticipation of higher sales volume for the last quarter of the year.

Prepaid expenses and other current assets increased by 10% due to domestic operations' advance payment of pension contribution.

Investments decreased by 33% due to the return of PTD's investment in PT San Miguel Indonesia Foods & Beverages ("PTSMIFB"). PTSMIFB stopped its operation in 2013 and completed its liquidation last July 2016.

The increase in investment property was due to SMBHK's reclassification of the building space in its Tai Wai property previously used in business that is now rented out to third parties, from property, plant and equipment to this account.

Deferred tax assets increased by 11% mainly due to higher provision for inventory obsolescence for both domestic and international operations and PTD's accrual of pension cost.

Other noncurrent assets increased from ₱9,236 million in December 2015 to ₱10,001 million due to the purchase of new bottles and shells.

Income and other taxes payable decreased by 9% over last year mainly due to lower taxes withheld resulting from lower trade payables as of September 2016.

Current maturities of long-term debt amounting to ₱2,996 million pertains to the Company's Series D bonds that were reclassified from long-term debt. The bonds will mature on April 3, 2017.

Other noncurrent liabilities decreased by ₱423 million due to domestic operations' contribution for past service liability to its retirement fund.

Cumulative translation adjustments decreased by 93% due to the appreciation of US dollar against the Philippine pes

2015 vs. 2014

The Group's total assets increased by ₱2,201 million as of September 2015 primarily due to the 29% increase in cash and cash equivalents and 23% increase in inventories.

Trade and other receivables is lower by 17% from ₱6,005 million as of December 31, 2014 to ₱5,009 million as of September 30, 2015 due to improved collection and lower credit sales for the month of September 2015 as compared to December 2014 for both domestic and international operations.

Inventories is higher by ₱810 million mainly due to domestic operations' higher inventory levels of finished goods in anticipation of higher volume requirement for October and higher inventory levels of containers due to purchase of new bottles and shells.

Accounts payable and accrued expenses increased 8% mainly due to accrual of interest payable on the Company's outstanding bonds.

Income and other taxes payable decreased by 26% or ₱697 million over 2014 due to (i) lower net income for the third quarter of 2015 versus fourth quarter of 2014 resulting to lower income tax payable, and (ii) lower revenue for the month of September 2015 as compared to December 2014 resulting to lower value-added tax payable for September.

Deferred tax liabilities, which pertains to international operations' balance, increased by ₱18 million or 5% due to the depreciation of the Philippine peso versus the US dollar.

Other noncurrent liabilities decreased from ₱3,288 million as of December 31, 2014 to ₱3,002 million as of September 2015 due to the payment of pension contribution by the domestic operations.

Cumulative translation adjustments increased by 15% from the depreciation of the Indonesian rupiah, Chinese renminbi and Thai baht against the US dollar.

Increase in Equity 2016 vs 2015

The increase in equity is due to:

	September 30	
(in Millions)	**2016**	2015
Income during the period	**₱12,204**	₱9,965
Cash dividends declared	**(7,684)**	(7,248)
Effect of translation adjustments and others	**746**	(102)
	₱5,266	₱2,615

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	September 30	
(in Millions)	**2016**	2015
Net cash flows provided by operating activities	**₱13,938**	₱11,606
Net cash flows used in investing activities	**(3,127)**	(1,650)
Net cash flows used in financing activities	**(7,665)**	(7,247)

Net cash flows provided by operating activities basically consist of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows used in investing activities included the following:

(in Millions)	September 30 2016	2015
Interest received	**₱ 264**	₱ 194
Proceeds from sale of property and equipment and investment property	**11**	5
Proceeds from sale of investment	**35**	-
Acquisitions of property and equipment and investment property	**(562)**	(484)
Increase in intangible assets and other noncurrent assets	**(2,875)**	(1,365)

Net cash flows used in financing activities included the following:

(in Millions)	September 30 2016	2015
Cash dividends paid	**(₱ 7,526)**	(₱ 7,067)
Dividends paid to non-controlling shareholders	**(155)**	(181)
Redemption of common shares	**-**	(6)
Increase in other noncurrent liabilities	**16**	7

The effect of exchange rate changes on cash and cash equivalents amounted to ₱147 million and ₱178 million on September 30, 2016 and 2015, respectively.

IV. 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 of the current period against the same period of previous year. Please refer to Item II "Financial Performance" for the discussion of certain Key Performance Indicators.

	September 2016	December 2015
Liquidity:		
Current Ratio	**2.26**	2.53
Solvency:		
Debt-to-Equity Ratio	**1.07**	1.22
Interest-bearing Debt-to-Equity Ratio	**0.80**	0.90
Asset-to-Equity Ratio	**2.07**	2.22
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Company	**37.98%**	35.26%
Interest Coverage Ratio	**10.74**	9.89

	Periods Ended September 30 2016	2015
Operating Efficiency:		
Volume Growth (Decline)*	**12.38%**	(2.84%)
Revenue Growth	**17.87%**	4.45%
Operating Margin	**27.01%**	26.78%

**Represents domestic beer and malt-based beverage volumes only as conversion factors to arrive at comparable volumes for non-alcoholic beverages have yet to be determined as of the reporting date.*

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

KPI	Formula
Current Ratio	$\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt-to-Equity Ratio	$\dfrac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Interest-bearing Debt-to-Equity Ratio	$\dfrac{\text{Total Interest-Bearing Debt}}{\text{Equity + Non-controlling Interests}}$
Asset-to-Equity Ratio	$\dfrac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Return on Average Equity	$\dfrac{\text{Net Income Attributable to Equity Holders of the Company*}}{\text{Average Equity Attributable to Equity Holders of the Company}}$
Interest Coverage Ratio	$\dfrac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization (EBITDA)**}}{\text{Interest Expense and Other Financing Charges}}$
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	$\dfrac{\text{Income from Operating Activities}}{\text{Net Sales}}$

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