



SAN MIGUEL BREWERY INC.

A subsidiary of San Miguel Corporation

May 16, 2011

Philippine Stock Exchange Inc.

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

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

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period March 31, 2011.

Very truly yours,


JESSICA L. ABRENICA
Legal Counsel

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

Atty. Rosabel T. Balan

Contact Person

632-3000

Company Telephone Number

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Month

		17-Q (1 st Qtr of 2011)
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FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.
Number/Section

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Amended Articles

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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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 MARCH 31, 2011
2. Commission identification number CS200711828
3. BIR Tax Identification No. 006-807-251
4. Exact name of issuer as specified in its charter SAN MIGUEL BREWERY INC.
5. Philippines
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. No. 40 San Miguel Avenue,
Mandaluyong City 1550
Address of issuer's principal office Postal Code
8. (632) 632-3000
Issuer's telephone number, including area code
9. N/A
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Common Shares (Outstanding as of March 31, 2011)	15,410,478,960
Philippine Peso-denominated Fixed Rate Bonds (As of March 31, 2011)	P38,800,000,000

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

Yes No

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

Philippine Stock Exchange – Common Shares

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Brewery Inc. (the "Company" or the "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended March 31, 2011 (with comparative figures as of December 31, 2010 and for the period ended March 31, 2010) and Selected Notes to the Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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


PART II—OTHER INFORMATION

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

NONE

SIGNATURES

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

Issuer	SAN MIGUEL BREWERY INC.
Signature and Title	 MERCY MARIE J. L. AMADOR Chief Finance Officer and Treasurer
Date	May 16, 2011

Annex "A"

**SAN MIGUEL BREWERY INC.
AND SUBSIDIARIES**

Unaudited Consolidated Financial Statements
For the period ended March 31, 2011
(with comparative figures for 2010)

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2011 and DECEMBER 31, 2010
(In Millions)

	<u>Note</u>		<u>2011</u> <u>(Unaudited)</u>		<u>2010</u> <u>(Audited)</u>
ASSETS					
Current Assets					
Cash and cash equivalents	7, 8	P	19,330	P	15,076
Trade and other receivables - net	3, 7, 8		4,546		4,366
Inventories			3,603		3,557
Prepaid expenses and other current assets	7, 8		1,124		1,149
Total Current Assets			28,603		24,148
Noncurrent Assets					
Investments - net	7, 8		137		135
Property, plant and equipment - net	4		19,525		19,635
Investment properties			1,360		1,379
Intangible assets			36,092		36,136
Deferred tax assets			68		68
Other noncurrent assets - net	7, 8		5,678		5,620
Total Noncurrent Assets			62,860		62,973
		P	91,463	P	87,121
LIABILITIES AND EQUITY					
Current Liabilities					
Drafts and loans payable	7, 8	P	1,966	P	1,644
Accounts payable and accrued expenses	3, 7, 8		9,205		6,833
Income and other taxes payable			3,186		2,263
Total Current Liabilities			14,357		10,740
Noncurrent Liabilities					
Long-term debt - net of debt issue cost	7, 8		51,271		51,364
Deferred tax liabilities			91		89
Other noncurrent liabilities	7, 8		113		107
Total Noncurrent Liabilities			51,475		51,560
EQUITY					
Equity Attributable to Equity Holders of the Parent Company					
Capital stock			15,410		15,410
Additional paid-in capital			515		515
Cumulative translation adjustments			(630)		(542)
Unappropriated retained earnings			8,157		7,286
			23,452		22,669
Non-controlling Interests			2,179		2,152
Total Equity			25,631		24,821
		P	91,463	P	87,121

**The consolidated statements of financial position as at March 31, 2011 and December 31, 2010 refer to the consolidated accounts of the of the Group (Company, Iconic Beverages, Inc., Brewery Properties Inc. and San Miguel Brewing International Limited).*

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

CERTIFIED CORRECT:


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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
For the Period Ended March 31, 2011 and 2010
(In Millions, Except Per Share Data)

	2011	2010
SALES (Notes 2 and 3)	P 17,530	P 16,024
COST OF SALES (Note 3)	9,010	8,208
GROSS PROFIT	8,520	7,816
SELLING AND ADMINISTRATIVE EXPENSES (Note 3)	(3,457)	(3,186)
INTEREST INCOME	168	177
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(1,004)	(961)
INCOME FROM ACQUISITION OF ASSETS AT FAIR VALUE	-	2,990
OTHER INCOME - NET (Notes 7 and 8)	136	148
INCOME BEFORE TAX	4,363	6,984
INCOME TAX EXPENSE	1,334	1,193
NET INCOME	P 3,029	P 5,791
Net Income Attributable to:		
Equity Holders of the Parent Company	P 3,029	P 5,748
Non-controlling Interests	-	43
	P 3,029	P 5,791
 Basic/Diluted Earnings Per Share (Note 5)	 P 0.20	 P 0.37

**The consolidated statement of income for the period ended March 31, 2011 refers to the consolidated accounts of the Group (Company, Iconic Beverages, Inc., Brewery Properties Inc. and San Miguel Brewing International Limited) while the consolidated statement of income for the period ended March 31, 2010 refers to the accounts of the Group excluding Brewery Properties Inc.*

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

CERTIFIED CORRECT:


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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
For the Period Ended March 31, 2011 and 2010
(In Millions)

	2011	2010
NET INCOME	P 3,029	P 5,791
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(70)	(326)
NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	1	-
OTHER COMPREHENSIVE INCOME - NET OF TAX	(69)	(326)
TOTAL COMPREHENSIVE INCOME - NET OF TAX	P 2,960	P 5,465
 Comprehensive Income Attributable to:		
Equity Holders of the Parent Company	P 2,941	P 5,479
Non-controlling interests	19	(14)
	P 2,960	P 5,465

**The consolidated statement of comprehensive income for the period ended March 31, 2011 refers to the consolidated accounts of the Group (Company, Iconic Beverages, Inc., Brewery Properties Inc. and San Miguel Brewing International Limited) while the consolidated statement of comprehensive income for the period ended March 31, 2010 refers to the accounts of the Group excluding Brewery Properties Inc.*

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

CERTIFIED CORRECT:


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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
For the Period Ended March 31, 2011 and 2010
(In Millions)

	Capital Stock	Additional Paid-in Capital	Cumulative Translation Adjustment	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As of January 1, 2011 (Audited)	P 15,410	P 515	P (542)	P 7,286	P 22,669	P 2,152	P 24,821
Foreign currency translation differences	-	-	(89)	-	(89)	19	(70)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	1	-	1	-	1
Net income for the period	-	-	-	3,029	3,029	-	3,029
Total comprehensive income for the period	-	-	(88)	3,029	2,941	19	2,960
Additions to non-controlling interests	-	-	-	-	-	8	8
Cash dividends (Note 6)	-	-	-	(2,158)	(2,158)	-	(2,158)
As of March 31, 2011 (Unaudited)	P 15,410	P 515	P (630)	P 8,157	P 23,452	P 2,179	P 25,631
As of January 1, 2010 (Audited)	P 15,410	P 515	P -	P 3,993	P 19,918	P -	P 19,918
Foreign currency translation differences	-	-	(269)	-	(269)	(57)	(326)
Net income for the period	-	-	-	5,748	5,748	43	5,791
Total comprehensive income for the period	-	-	(269)	5,748	5,479	(14)	5,465
Acquisition of a subsidiary	-	-	-	-	-	3,839	3,839
Cash dividends (Note 6)	-	-	-	(2,003)	(2,003)	-	(2,003)
As of March 31, 2010 (Unaudited)	P 15,410	P 515	P (269)	P 7,738	P 23,394	P 3,825	P 27,219

*The consolidated statement of changes in equity for the period ended March 31, 2011 refers to the consolidated accounts of the Group (Company, Iconic Beverages, Inc., Brewery Properties Inc. and San Miguel Brewing International Limited) while the statement of changes in equity for the period ended March 31, 2010 refers to the accounts of the Group excluding Brewery Properties Inc.

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

CERTIFIED CORRECT:



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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Period Ended March 31, 2011 and 2010
(In Millions)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 4,363	P 6,984
Adjustments for:		
Depreciation, amortization and others	558	777
Income from acquisition of assets at fair value	-	(2,990)
Gain on sale of property and equipment	(2)	(1)
Interest expense and other financing charges	1,004	961
Interest income	(168)	(177)
Operating income before working capital changes	5,755	5,554
Changes in noncash current assets and certain current liabilities and others	(1,266)	(328)
Cash generated from operations	4,489	5,226
Interest paid	(121)	(16)
Income taxes paid	(31)	(83)
Net cash flows provided by operating activities	4,337	5,127
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(248)	(126)
Acquisition of a subsidiary	-	(9,263)
Additions to intangible assets	(11)	-
Interest received	150	172
Proceeds from sale of property and equipment	3	2
Increase in other noncurrent assets	(292)	(390)
Net cash flows used in investing activities	(398)	(9,605)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings, net of payments	328	-
Proceeds from long-term debt	-	13,469
Increase (decrease) in other noncurrent liabilities	27	(102)
Cash dividends paid	-	(2,003)
Net cash flows provided by financing activities	355	11,364
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(40)	(101)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,254	6,785
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,076	13,563
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 19,330	P 20,348

**The consolidated statement of cash flows for the period ended March 31, 2011 refers to the consolidated accounts of the Group (Company, Iconic Beverages, Inc. Brewery Properties Inc. and San Miguel Brewing International Limited) while the consolidated statement of cash flows for the period ended March 31, 2010 refers to the accounts of the Group excluding Brewery Properties Inc.*

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

CERTIFIED CORRECT:


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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
 ACCOUNTS RECEIVABLE - TRADE
 AS OF MARCH 31, 2011

TYPE OF ACCOUNTS RECEIVABLE	TOTAL	CURRENT	1 - 30 DAYS	31 - 60 DAYS	OVER 60 DAYS
DOMESTIC	P 2,267,110,055.03	2,033,849,472.65	52,658,227.19	44,555,024.76	136,047,330.43
INTERNATIONAL	1,896,993,816.12	1,330,187,802.03	170,637,255.56	88,307,746.81	307,861,011.72
TOTAL	4,164,103,871.15				
ALLOWANCE FOR DOUBTFUL ACCOUNTS	(971,347,115.65)				
NET	P 3,192,756,755.50				

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SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
SELECTED NOTES TO FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data)

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated interim financial statements as of and for the period ended March 31, 2011 and comparative financial statements for the same period in 2010 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

Amendments to Standard and Interpretations Adopted in 2011

Starting January 1, 2011, the Group adopted the following amended PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC):

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is effective for annual periods beginning on or after February 1, 2010.
- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.
- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.
- *Improvements to PFRSs 2010* contain 11 amendments to 6 standards and 1 interpretation, of which only the following are applicable to the Group.
 - PFRS 3, *Business Combinations*. The amendments (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be

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

- PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21 *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010.
- PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.
- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented, either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.
- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.

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

2. Segment Information

Operating Segments

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

With the acquisition of San Miguel Brewing International Limited (SMBIL), the Group is organized in two major business segments – domestic and international operations.

The domestic operations produce fermented and malt-based beverages within the Philippines and market the same within the country and to some export markets.

The foreign operations also produce fermented and malt-based beverages in five foreign countries and market the same 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 transfers are eliminated in consolidation.

Financial information about business segments follow:

	For the Period Ended March 31, 2011			
	Domestic	International	Eliminations	Consolidated
Sales				
External sales	P14,612	P2,918	P -	P17,530
Inter-segment sales	4	-	(4)	-
Total Sales	P14,616	P2,918	(P 4)	P17,530
Results				
Segment Results	P 5,019	P 44	P -	P 5,063

	For the Period Ended March 31, 2010			
	Domestic	International	Eliminations	Consolidated
Sales				
External sales	P13,343	P2,681	P -	P16,024
Inter-segment sales	13	-	(13)	-
Total Sales	P13,356	P2,681	(P 13)	P16,024
Results				
Segment Results	P 4,616	P 14	P -	P 4,630

3. Related Party Transactions

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

		Sales to Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
San Miguel Corporation	Mar. 2011	P 1	P 260	P 39	P 1,502
	Dec. 2010	3	1,806	49	527
San Miguel Yamamura Packaging Corporation	Mar. 2011	14	435	10	469
	Dec. 2010	36	2,909	18	742
San Miguel Paper Packaging Corporation	Mar. 2011	-	-	-	-
	Dec. 2010	-	1	-	1
SMC Shipping and Lighterage Corporation	Mar. 2011	1	124	-	78
	Dec. 2010	4	449	1	87
SMITS, Inc. and subsidiary	Mar. 2011	-	10	-	24
	Dec. 2010	-	199	-	46
San Miguel Yamamura Asia Corporation	Mar. 2011	1	52	1	57
	Dec. 2010	3	110	-	7
Ginebra San Miguel, Inc. and subsidiaries	Mar. 2011	1	4	1	-
	Dec. 2010	19	13	6	4

Forward

		Sales to Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
San Miguel International Limited and subsidiaries	Mar. 2011	-	-	11	4
	Dec. 2010	-	-	7	7
San Miguel Pure Foods Company, Inc. and subsidiaries	Mar. 2011	9	5	25	14
	Dec. 2010	29	28	26	24
Petron Corporation and subsidiaries	Mar. 2011	-	163	-	99
	Dec. 2010	-	392	-	100
San Miguel Properties, Inc.	Mar. 2011	-	7	11	-
	Dec. 2010	-	72	10	-
Others	Mar. 2011	-	52	1	9
	Dec. 2010	-	31	1	36

4. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2011	Balance, December 31, 2010	Additions	Disposals and Reclassifications	Currency Translation Adjustments	Balance, March 31, 2011
Cost:					
Land	P 8,120	P -	P -	P (15)	P 8,105
Buildings and improvements	11,398	17	(3)	(41)	11,371
Machinery and equipment	35,588	132	(10)	(85)	35,625
Transportation equipment	800	45	(18)	(1)	826
Tools and small equipment	139	3	-	(1)	141
Office equipment, furniture and fixtures	708	13	(8)	(1)	712
Leasehold improvements	94	-	-	-	94
Construction in progress	368	38	(4)	(1)	401
	57,215	248	(43)	(145)	57,275
Accumulated depreciation and amortization:					
Buildings and improvements	3,691	46	(4)	(18)	3,715
Machinery and equipment	21,368	236	(8)	(65)	21,531
Transportation equipment	520	17	(18)	-	519
Tools and small equipment	107	1	-	(2)	106
Office equipment, furniture and fixtures	590	7	(8)	(1)	588
Leasehold improvements	65	1	-	-	66
	26,341	308	(38)	(86)	26,525
Accumulated impairment losses:					
Buildings and improvements	3,822	-	-	(9)	3,813
Machinery and equipment	7,344	-	-	(5)	7,339
Transportation equipment	12	-	-	-	12
Tools and small equipment	20	-	-	-	20
Office equipment, furniture and fixtures	41	-	-	-	41
	11,239	-	-	(14)	11,225
Net book value	P 19,635	(P 60)	(P 5)	(P 45)	P19,525

March 31, 2010	Balance, December 31, 2009	Additions	Disposals and Reclassifications	Currency Translation Adjustments	Balance, March 31, 2010
Cost:					
Land	₱ -	₱ -	₱ 1,006	₱ 8	₱ 1,014
Buildings and improvements	3,551	16	8,041	(157)	11,451
Machinery and equipment	17,299	142	18,614	(357)	35,698
Transportation equipment	384	112	230	(3)	723
Tools and small equipment	9	5	320	(7)	327
Office equipment, furniture and fixtures	375	8	311	(6)	688
Leasehold improvements	76	-	18	(1)	93
Construction in progress	335	(157)	45	-	223
	22,029	126	28,585	(523)	50,217
Accumulated depreciation and amortization:					
Buildings and improvements	1,563	57	1,986	(38)	3,568
Machinery and equipment	13,990	271	6,931	(129)	21,063
Transportation equipment	303	14	187	(3)	501
Tools and small equipment	8	3	276	(7)	280
Office equipment, furniture and fixtures	356	5	234	(5)	590
Leasehold improvements	44	1	18	-	63
	16,264	351	9,632	(182)	26,065
Accumulated impairment losses:					
Buildings and improvements	-	-	2,299	(51)	2,248
Machinery and equipment	-	-	5,228	(113)	5,115
Transportation equipment	-	-	6	-	6
Tools and small equipment	-	-	13	-	13
Office equipment, furniture and fixtures	-	-	20	-	20
	-	-	7,566	(164)	7,402
Net book value	₱ 5,765	(₱ 225)	₱ 11,387	(₱ 177)	₱16,750

Depreciation and amortization charged to operations amounted to ₱308 and ₱351 in March 2011 and 2010, respectively.

5. Basic and Diluted Earnings Per Share (EPS)

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

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

Basic/Diluted EPS is computed as follows:

	March	
	2011	2010
Net Income attributable to equity holders of the Parent Company (a)	₱ 3,029	₱ 5,748
Weighted average number of shares outstanding (b)	15,410	15,410
Basic / Diluted EPS (a/b)	₱ 0.20	₱ 0.37

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

6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to ₱0.14 and ₱0.13 per share in March 2011 and March 2010, respectively.

7. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal

Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

Interest Rate Risk

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by ₱130 and ₱138 in March 31, 2011 and 2010, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

March 31, 2011	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated	₱ -	₱ 13,590	₱ -	₱ 22,400	₱ -	₱ 2,810	38,800
Interest rate		8.25%		8.875%		10.50%	
Floating rate							
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	13,017	-	-	13,017
Interest rate				LIBOR + margin			
	₱ -	₱ 13,590	₱ -	₱ 35,417	₱ -	₱ 2,810	51,817
<hr/>							
December 31, 2010	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated	₱ -	₱ 13,590	₱ -	₱ 22,400	₱ -	₱ 2,810	38,800
Interest rate		8.25%		8.875%		10.50%	
Floating rate							
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	-	13,152	-	13,152
Interest rate					LIBOR + margin		
	₱ -	₱ 13,590	₱ -	₱ 22,400	₱ 13,152	₱ 2,810	51,952

Foreign Currency Risk

The Group's exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The Group's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

The Group uses a combination of natural hedges and buying foreign currencies at spot rates where necessary to address short-term imbalances from importations, revenue and expense transactions, and other foreign currency-denominated obligations.

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

	March 31, 2011		December 31, 2010	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$98.9	₱4,289	US\$93.3	₱4,093
Trade and other receivables	54.3	2,356	53.6	2,350
Noncurrent receivable	0.2	11	0.3	11
	153.4	6,656	147.2	6,454
Liabilities				
Drafts and loans payable	45.3	1,966	(37.5)	(1,644)
Accounts payable and accrued expenses	58.1	2,523	(61.4)	(2,691)
Long-term debt	300.0	13,017	(300.0)	(13,152)
	403.4	17,506	398.9	17,487
Net foreign currency-denominated monetary liabilities	(US\$250.0)	(₱10,850)	(US\$251.7)	(₱11,033)

The Group reported net foreign exchange gains amounting to ₱128 and ₱109 in March 31, 2011 and 2010, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2009	46.20
March 31, 2010	45.17
December 31, 2010	43.84
March 31, 2011	43.39

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

<u>March 31, 2011</u>	<u>P1 decrease in the US dollar exchange rate</u>		<u>P1 increase in the US dollar exchange rate</u>	
	<u>Effect on</u>		<u>Effect on</u>	
	<u>Income before Income Tax</u>	<u>Effect on Equity</u>	<u>Income before Income Tax</u>	<u>Effect on Equity</u>
Cash and cash equivalents	(P5)	(P97)	P5	P97
Trade and other receivables	(2)	(54)	2	54
	(7)	(151)	7	151
Drafts and loans payable	-	45	-	(45)
Accounts payable and accrued expenses	2	58	(2)	(58)
Long-term debt	300	210	(300)	(210)
	302	313	(302)	(313)
	P295	P162	(P295)	(P162)

<u>December 31, 2010</u>	<u>P1 decrease in the US dollar exchange rate</u>		<u>P1 increase in the US dollar exchange rate</u>	
	<u>Effect on</u>		<u>Effect on</u>	
	<u>Income before Income Tax</u>	<u>Effect on Equity</u>	<u>Income before Income Tax</u>	<u>Effect on Equity</u>
Cash and cash equivalents	(P5)	(P92)	P5	P92
Trade and other receivables	(2)	(53)	2	53
	(7)	(145)	7	145
Drafts and loans payable	-	38	-	(38)
Accounts payable and accrued expenses	2	52	(2)	(52)
Long-term debt	300	210	(300)	(210)
	302	300	(302)	(300)
	P295	P155	(P295)	(P155)

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

Liquidity Risk

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

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

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

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

March 31, 2011

	Carrying Amount	Contractual Cash Flow	1year or less	> 1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	P19,330	P19,330	P19,330	P -	P -	P -
Trade and other receivables - net	4,546	4,546	4,546	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	61	61	61	-	-	-
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	137	137	-	137	-	-
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	11	11	-	11	-	-
Financial Liabilities						
Drafts and loans payable	1,966	2,008	2,008	-	-	-
Accounts payable and accrued expenses	9,198	9,198	9,198	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	7	7	7	-	-	-
Long-term debt	51,271	62,501	3,725	16,197	38,882	3,697

December 31, 2010

	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	P15,076	P15,076	P15,076	P -	P -	P -
Trade and other receivables - net	4,366	4,366	4,366	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	54	54	54	-	-	-
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	135	135	-	135	-	-
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	11	11	-	11	-	-
Financial Liabilities						
Drafts and loans payable	1,644	1,663	1,663	-	-	-
Accounts payable and accrued expenses	6,825	6,825	6,825	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	8	8	8	-	-	-
Long-term debt	51,364	63,379	3,722	16,479	39,407	3,771

Credit Risk

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

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures. Where appropriate, the Group obtains collateral or arranges master netting agreements.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of dealers, wholesalers and retailers as these factors may have an influence on the credit risk.

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

regular basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a 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, retail or end-user customer, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on cash basis.

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

Investments

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

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

	March 31, 2011	December 31, 2010
Cash and cash equivalents	₱19,330	₱15,076
Trade and other receivables - net	4,546	4,366
Derivative assets	61	54
AFS financial assets	137	135
Noncurrent receivables	11	11
	₱24,085	₱19,642

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

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

Capital Management

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

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

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

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

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

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

8. Financial Assets and Financial Liabilities

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

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

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

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

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

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

Financial Assets

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

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

Financial assets may be designated by management at initial recognition as at FVPL or reclassified under this category through the fair value option, 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; or
- the assets are part of a group of financial assets, which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

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

The carrying amounts of financial assets under this category amounted to ₱61 and ₱54 as of March 31, 2011 and December 31, 2010, respectively.

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

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

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

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

The combined carrying amounts of financial assets under this category amounted to ₱23,887 and ₱19,453 as of March 31, 2011 and December 31, 2010, respectively.

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

The Group has no investments accounted for under this category as of March 31, 2011 and December 31, 2010.

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, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Cumulative translation adjustments" in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Any interest earned on AFS debt securities shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. Any unrealized gains or losses for the period arising from the fair valuation of AFS financial assets are reported as part of other comprehensive income, while the accumulated unrealized gains or losses are reported as a separate component of the Group's equity. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

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

The carrying amounts of financial assets under this category amounted to ₱137 and ₱135 as of March 31, 2011 and December 31, 2010, respectively.

Financial Liabilities

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

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

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

The carrying amounts of financial liabilities under this category amounted to ₱7 and ₱8 as of March 31, 2011 and December 31, 2010, respectively.

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

Included in this category are the Group’s liabilities arising from its trade or borrowings such as drafts and loans payable, accounts payable and accrued expenses and long-term debt.

The combined carrying amounts of financial liabilities under this category amounted to ₱62,435 and ₱59,833 as of March 31, 2011 and December 31, 2010, respectively.

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 charged against current operations.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is transferred from equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of

impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of 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 the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

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

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	₱19,330	₱19,330	₱15,076	₱15,076
Trade and other receivables - net	4,546	4,546	4,366	4,366
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	61	61	54	54
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	137	137	135	135
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	11	11	11	11
Financial Liabilities				
Drafts and loans payable	1,966	1,966	1,644	1,644
Accounts payable and accrued expenses	9,198	9,198	6,825	6,825
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	7	7	8	8
Long-term debt	51,271	56,768	51,364	57,346

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

Cash and Cash Equivalents, Trade and Other Receivables and Noncurrent Receivables. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. Fair values for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

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

Drafts and Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of drafts and loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of March 31, 2011 and December 31, 2010, discount rates used range from 1.4% to 6.9% and 1.34% to 5.71%, respectively. The carrying values of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges are discussed below.

Derivative Instruments Accounted for as Hedges

Freestanding Derivatives

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

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

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

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

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

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

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented under the "Cumulative translation adjustments" account in equity. The ineffective portion is immediately recognized in the consolidated statements of income.

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

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

As of March 31, 2011 and December 31, 2010, the Group has no outstanding derivatives accounted for as cash flow hedge.

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

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

Embedded Derivatives

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

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

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

Embedded Currency Forwards

As of March 31, 2011 and December 31, 2010, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$25 and US\$24, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2011 and December 31, 2010, the net positive fair value of these embedded currency forwards amounted to ₱54 and ₱46, respectively.

For the periods ended March 31, 2011 and 2010 and December 31, 2010 and 2009, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to ₱15, ₱28, ₱118 and ₱155, respectively.

Fair Value Hierarchy

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

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

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

March 31, 2011

	Level 1	Level 2	Total
Financial Assets			
Derivative Assets	₱ -	₱ 61	₱ 61
AFS financial assets	137	-	137
Financial Liabilities			
Derivative Liabilities	-	7	7

December 31, 2010

	Level 1	Level 2	Total
Financial Assets			
Derivative Assets	₱ -	₱ 54	₱ 54
AFS financial assets	135	-	135
Financial Liabilities			
Derivative Liabilities	-	8	8

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

9. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Performance.
- b. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. There were no material off-statement of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered into by the Group as of and for the period ended March 31, 2011.
- g. The effects of seasonality or cyclicity on the interim operations of the Group's business are not material.
- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of March 31, 2011. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash.
- i. On May 10, 2011, the Parent Company declared cash dividend amounting to ₱0.14 per share payable to stockholders of record as of May 25, 2011 to be paid on June 13, 2011.



SAN MIGUEL BREWERY INC.

A subsidiary of San Miguel Corporation

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND PERFORMANCE

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Brewery Inc. (the “Company” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended March 31, 2011 (with comparative figures as of December 31, 2010 and for the period ended March 31, 2010). All necessary adjustments to present fairly the Group’s financial position, financial performance and cash flows as of March 31, 2011 and for all the periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. FINANCIAL PERFORMANCE

2011 vs. 2010

The consolidated statement of income for the first quarter of 2011 already reflects the financial performance of the Group’s domestic and international businesses including Iconic Beverages Inc. (“IBI”), Brewery Properties Inc. (“BPI”), San Miguel Brewing International Limited (“SMBIL”) and the subsidiaries of BPI and SMBIL while the first quarter 2010 statement of income also reflects the consolidated results of both domestic and international operations excluding BPI and its subsidiary.

The Group registered consolidated sales revenue of ₱17,530 million for the first quarter of 2011, 9.4% higher compared with the ₱16,024 million for the same period last year. Domestic operations contributed ₱14,616 million or 9.4% increase from the same period last year due to an 11% increase in volume while international operations contributed US\$67 million or ₱2,918 million, an improvement of 14% from the same period last year.

Cost of sales amounted to ₱9,010 million in 2011, with domestic operations accounting for ₱7,110 million and US\$43 million or ₱1,904 million for international operations.

Operating expenses amounted to ₱3,457 million, an increase of 8.5% from the same period last year. Domestic operations accounted for ₱2,487 million while international operations accounted for US\$22 million or ₱970 million.

Income from operations increased by 9.4% to ₱5,063 million in the first quarter with domestic operations contributing ₱5,019 million and US\$1 million or ₱44 million from international operations.

Interest income is lower by 5% in 2011 compared to first quarter of 2010 owing to lower money market placements of PT Delta Djakarta Tbk. (“PTD”) due to pay-out of last year’s dividend.

Other income amounted to ₱136 million in 2011, a ₱12 million decrease from the same period last year, due to lower marked-to-market gain and other charges of international operations.

Non-controlling interests decreased by ₱43 million for the first quarter of 2011 versus first quarter of last year due to higher losses by the Thailand operations.

As a result of the foregoing, consolidated net income amounted to ₱3,029 million, ₱3,077 million of which came from domestic operations while international operations posted a US\$1.1 million loss or ₱48 million. Without the non-recurring income from acquisition of assets at fair value amounting to ₱2,990 million in 2010 which arose from the acquisition by the Company of SMBIL, net income increased by 8% or ₱228 million.

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

Domestic Beer Operations

Driven by higher sales volume, domestic operations posted a 9.4% increase in sales revenue as compared to the same period last year. Cost of sales also increased by 8.4% primarily due to the 8% excise tax increase implemented effective January 1, 2011 and the increase in volumes.

Operating expenses increased by 14.1% from the same period last year mainly due to increased advertising and promotional activities primarily the TV ad campaign for Pale Pilsen, Red Horse and San Mig Light and other personnel-related expenses. Notwithstanding higher operating expenses and financing charges, net income still increased by 13% or ₱353 million.

International Beer Operations

International operations posted a 14% increase in sales revenue compared to the same period last year mainly due to the effect of the price increase implemented in Indonesia effective April 2010. Though sales volume was at par with the same period last year, cost of sales increased by 20.4% due to the excise tax increase in Indonesia effective April 2010. Meanwhile, operating expenses slightly increased by 1.3%.

Owing to improved margins from Indonesia and Thailand, operating income increased by US\$702 thousand from the same period last year. However, higher financing costs and other charges of San Miguel Brewery Hong Kong (“SMBHK”) resulted to a US\$1.1 million net loss, reversing the increase in operating income.

2010 vs. 2009

The financial performance for the first quarter of 2010 already reflect the consolidated transactions of the Company, IBI (which became a wholly-owned subsidiary of the Company in April 2009) and SMBIL and its subsidiaries following the completion of the Company’s purchase of the international beer and malt-based beverage business from San Miguel Corporation (“SMC”) through the purchase of SMBIL in January 2010. SMBIL and its subsidiaries are responsible for the international beer operations of the Company.

The Group’s consolidated sales revenue amounted to ₱16,024 million for the first quarter of 2010, ₱13,356 million of which came from domestic operations and ₱2,668 million from international operations. Domestic sales increased by 7.5% in 2010 primarily as a result of higher

sales volume and selling prices. International operations on the other hand, posted an 8% increase in net sales.

Cost of sales amounted to ₱8,208 million in 2010, with domestic operations accounting for ₱6,561 million. Domestic operations' costs are slightly lower by ₱13 million, mostly a result of reduced malt prices. International operations' cost of sales increased by 1%.

Operating expenses amounted to ₱3,186 million in 2010. Domestic operations accounted for ₱2,179 million, which is higher by 10% from the same period in 2009 primarily due to increased advertising and promotional activities. On the other hand, international operations' operating expenses increased by 17%.

Income from operating activities amounted to ₱4,630 million. Operating income from domestic operations increased despite higher operating expense by 19% or ₱743 million due to higher revenues. International operations recovered from an operating loss in 2009, posting an increase of 166% in its operating income in 2010.

Consolidated net income amounted to ₱5,791 million, with domestic operations contributing ₱2,724 million and ₱77 million from international operations. The income from acquisition of assets at fair value arising from the purchase of SMBIL, which amounted to ₱2,990 million, mainly accounted for the increase in net income. The income was due to the difference in value of assets acquired of US\$367 million as compared to consideration paid of US\$302 million.

II. FINANCIAL POSITION

2011 vs. 2010

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

Total assets of the Group slightly increased by 5% from December 2010 balances with cash and cash equivalents accounting for 28.2% increase. Cash and cash equivalents of domestic operations increased by ₱4,050 million to ₱15,271 million primarily due to higher cash generated from operations as major expenses such as income tax, dividend and interest on bonds were paid in April. International operations' cash and cash equivalent also increased by 6.4%, from US\$88 million to US\$94 million primarily due to additional short-term loan availed by San Miguel Guangdong Brewery Co. Ltd. ("SMGB") in March 2011.

Trade and other receivables amounted to ₱4,546 million compared to ₱4,366 million in 2010. Receivables from domestic operations amounting to ₱2,497 million is higher by 7.7% from December 2010 balances due to higher credit issuance and initial payments for the construction of the Sta. Rosa bottling plant. International operations' trade and other receivables slightly increased by 1.4% closing the quarter with a US\$52 million balance.

All the other noncurrent assets' balances have minimal changes except for the other noncurrent assets of international operations which increased by 7% due to additional funding of SMBHK's retirement plan.

Drafts and loans payable which is solely the account of international operations increased to ₱1,966 million due to the additional short-term loan availed by SMGB in March 2011 amounting to US\$7.6 million.

Accounts payable and accrued expenses increased to ₱9,205 million from ₱6,833 million in December 2010 primarily due to cash dividends declared on March 11, 2011 amounting to ₱2,158 million which was subsequently paid on April 11, 2011 and accrual of interest on bonds.

Income and other taxes payable amounted to ₱3,186 million in 2011 as against ₱2,263 million in 2010. Taxes payable from both domestic and international operations increased by ₱923 million due to income tax provisions for the first quarter of 2011.

Other noncurrent liabilities amounting to ₱113 million as of March, 2011 pertain to international operations' pension liability accruals, particularly PTD, for the three-month period ended March, 2011.

Cumulative translation adjustments of ₱630 million relates to the foreign currency translation adjustments of international operations' accounts.

2010 vs. 2009

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

Cash and cash equivalents amounted to ₱20,348 in 2010 compared to ₱13,563 million in 2009 primarily due to international operations' cash amounting to ₱4,814 million and an increase of ₱1,971 million in domestic operations' cash balance due to collection of receivables.

Trade and other receivables amounted to ₱4,133 million compared to ₱3,311 in 2009. Receivables from domestic operations decreased by ₱735 million from ₱3,311 million in 2009 to ₱2,576 million in the 2010 mainly due to higher collection of trade receivables and settlement of insurance claims. International operations accounted for ₱1,557 million of the total receivables.

Inventories amounted to ₱4,453 million in 2010 as against ₱3,246 million in 2009 primarily due to international operations inventory balance of ₱889 million and an increase in domestic operations' finished goods.

Prepaid expenses and other current assets for domestic operations slightly increased by ₱46 million from ₱653 million in 2009 to ₱699 million in 2010 while prepaid expenses and other current assets for international operations amounted to ₱420 million.

Investments pertain to investment in shares of stocks and other club shares while investment properties pertain to properties held for lease and capital appreciation, both accounts are for international operations.

Property, plant and equipment increased from ₱5,765 million to ₱16,750 million primarily due to the consolidation of the international operations' assets following the Company's purchase of SMBIL amounting to ₱11,106 million.

Intangible assets increased by ₱3,934 million from ₱32,020 million in 2009 to ₱35,954 million in 2010 primarily due to the addition of international operations' brands and licenses.

Deferred tax assets decreased by ₱118 million in 2010 from ₱232 million in 2009. Deferred tax asset from domestic operations decreased by ₱180 million due to the offsetting effect of the set-up of deferred tax liability attributed to the long-term debt transaction costs that were already availed in full as deduction for tax purposes.

Other noncurrent assets amounted to ₱6,404 million in 2010 from ₱5,300 million in 2009 primarily due to the addition of international operations accounts.

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

Accounts payable and accrued expenses amounted to ₱6,588 million in 2010 from ₱4,077 million in 2009. Accounts payable and accrued expense for domestic operations amounted to ₱4,241 million while international operations accounted for ₱2,347 million of the total balance.

Income and other taxes payable amounted to ₱3,008 million in 2010 as against ₱1,679 million in 2009. Taxes payable from domestic operations increased by ₱871 million from ₱1,679 million in 2009 primarily due to higher income for 2010. International operations accounted for ₱458 million of the total amount.

Long-term debt increased by ₱13,509 million from ₱38,416 million in 2009 primarily due to the US\$300 million loan availed of by the Company for the purchase of SMBIL.

Deferred tax liabilities pertain to international operations' taxable temporary differences.

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

Cumulative translation adjustment of ₱269 million is basically the foreign currency translation adjustments on the international operations' accounts.

The increase in equity is due to:

(in Millions)	March 31	
	2011	2010
Income during the period	₱3,029	₱5,748
Additions to non-controlling interests	8	-
Non-controlling interests from acquisition of a subsidiary	-	3,825
Effect of translation adjustments	(69)	(269)
Cash dividends	(2,158)	(2,003)
	₱ 810	₱ 7,301

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	March 31	
	2011	2010
Net cash flows provided by operating activities	₱ 4,337	₱ 5,127
Net cash flows used in investing activities	(398)	(9,605)
Net cash flows provided by financing activities	355	11,364

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

Net cash flows used in investing activities included the following:

	March 31	
	2011	2010
Interest received	₱ 150	₱ 172
Proceeds from sale of property and equipment	3	2
Acquisition of a subsidiary	-	(9,263)
Increase in other noncurrent assets	(292)	(390)
Additions to property and equipment	(248)	(126)
Additions to intangible assets	(11)	-

Major components of cash flow provided by financing activities are as follows:

	March 31	
	2011	2010
Net proceeds from short term loans	₱ 328	₱ -
Increase (decrease) in other noncurrent liabilities	27	(102)
Proceeds from long-term debt	-	13,469
Cash dividends paid	-	(2,003)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱40 million) and (₱101 million) in March 31, 2011 and 2010, respectively.

VI. KEY PERFORMANCE INDICATORS

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

	March	December
	2011	2010
Liquidity:		
Current Ratio	1.99	2.25
Solvency:		
Debt to Equity Ratio	2.57	2.51
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	52.5%	55.3%
	Period Ended Mar. 31	
	2011	2010
	Consolidated	Domestic
Operating Efficiency:		
Volume Growth	9.0%	2.0%
Revenue Growth	9.4%	7.5%
Operating Margin	28.9%	34.6%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non Controlling Interest + Equity}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Volume Growth	$\left(\frac{\text{Current Period Sales Volume}}{\text{Prior period Sales Volume}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting