SAN MIGUEL BREWERY INC.
A subsidiary of San Miguel Corporation

May 15, 2012

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

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

Gentlemen:

We submit herewith the quarterly report (SEC Form 17-Q) of the Company for the period ended March 31, 2012.

Very truly yours,

JESSICA L. ABRENICA
Assistant Corporate Secretary

COVER SHEET

CS200711828

S. E. C. Registration Number

SAN MIGUEL BREWERY INC.

(Company's Full Name)

No. 40 San Miguel Avenue, Mandaluyong City

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

Atty. Rosabel T. Balan

Contact Person

632-3000

Company Telephone Number

Month Day

17-Q (1st Quarter 2012)

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

- - - - - - - - - - - - - - - - - -

STAMPS

- - - - - - - - - - - - - - - - - -

Remarks = pls. Use black ink for scanning purposes

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, 2012**

2. Commission identification number **CS200711828**

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

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

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

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

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

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

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

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

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

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

    Yes [x] No [ ]

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

    Philippine Stock Exchange – Common Shares

12. Indicate by check mark whether the registrant:

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

    Yes [x] No [ ]

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

    Yes [x] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

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

PART II--OTHER INFORMATION

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

NONE

SIGNATURES

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

Issuer **SAN MIGUEL BREWERY INC.**

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

Date May 15, 2012

Annex "A"

SAN MIGUEL BREWERY INC.
AND SUBSIDIARIES

Unaudited Consolidated Financial Statements
For the period ended March 31, 2012
(with comparative figures for 2011)

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

	Note		2012 Unaudited		2011 Audited
ASSETS					
Current Assets					
Cash and cash equivalents	7,8	P	21,750	P	18,279
Trade and other receivables - net	3,7,8		4,621		4,977
Inventories			3,559		3,370
Prepaid expenses and other current assets	7,8		1,009		996
Total Current Assets			30,939		27,622
Noncurrent Assets					
Investments - net	7,8		86		132
Property, plant and equipment - net	4		19,875		20,214
Investment properties - net			651		664
Intangible assets - net			36,020		36,063
Deferred tax assets			248		341
Other noncurrent assets - net	7,8		6,610		6,387
Total Noncurrent Assets			63,490		63,801
		P	94,429	P	91,423
LIABILITIES AND EQUITY					
Current Liabilities					
Drafts and loans payable	7,8	P	1,802	P	1,857
Accounts payable and accrued expenses	3,7,8		7,441		7,296
Income and other taxes payable			3,642		2,606
Current maturities of long-term debt, net of debt issue costs	7,8		17,805		13,577
Total Current Liabilities			30,690		25,336
Noncurrent Liabilities					
Long-term debt - net of current maturities and debt issue costs	7,8		34,782		37,962
Deferred tax liabilities			19		35
Other noncurrent liabilities	7,8		123		216
Total Noncurrent Liabilities			34,924		38,213
EQUITY					
Equity Attributable to Equity Holders of the Parent Company					
Capital stock			15,410		15,410
Additional paid-in capital			515		515
Cumulative translation adjustments			(850)		(672)
Unappropriated retained earnings			11,713		10,618
			26,788		25,871
Non-controlling Interests			2,027		2,003
Total Equity			28,815		27,874
		P	94,429	P	91,423

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

CERTIFIED CORRECT:

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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
For the Period Ended March 31, 2012 and 2011
(In Millions, Except Per Share Data)

	2012	2011
SALES (Notes 2 and 3)	P 18,345	P 17,530
COST OF SALES (Note 3)	9,358	9,010
GROSS PROFIT	8,987	8,520
SELLING AND ADMINISTRATIVE EXPENSES (Note 3)	(3,688)	(3,457)
INTEREST INCOME	191	168
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(1,060)	(1,004)
IMPAIRMENT LOSSES ON NONCURRENT ASSETS	(44)	-
OTHER INCOME - NET (Note 8)	325	136
INCOME BEFORE TAX	4,711	4,363
INCOME TAX EXPENSE	1,367	1,334
NET INCOME	P 3,344	P 3,029
Net Income Attributable to:		
Equity Holders of the Parent Company	P 3,252	P 3,029
Non-controlling Interests	92	-
	P 3,344	P 3,029
Basic/Diluted Earnings Per Share (Note 5)	P 0.21	P 0.20

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, 2012 and 2011
(In Millions)

	2012	2011
NET INCOME	₱ 3,344	₱ 3,029
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(245)	(70)
NET GAIN (LOSS) ON AVAILABLE FOR SALE FINANCIAL ASSETS	(1)	1
OTHER COMPREHENSIVE LOSS - NET OF TAX	(246)	(69)
TOTAL COMPREHENSIVE INCOME - NET OF TAX	₱ 3,098	₱ 2,960
Comprehensive Income Attributable to:		
Equity Holders of the Parent Company	₱ 3,074	₱ 2,941
Non-controlling Interests	24	19
	₱ 3,098	₱ 2,960

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

CERTIFIED CORRECT:

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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended March 31, 2012 and 2011
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company												
		Capital Stock		Additional Paid-in Capital		Cumulative Translation Adjustment		Unappropriated Retained Earnings		Total		Non-controlling Interests		Total Equity
As of January 1, 2012 (Audited)	P	15,410	P	515	P	(672)	P	10,618	P	25,871	P	2,003	P	27,874
Foreign currency translation differences		-		-		(177)		-		(177)		(68)		(245)
Net change in fair value of available-for-sale financial assets, net of tax		-		-		(1)		-		(1)		-		(1)
Net income for the period		-		-		-		3,252		3,252		92		3,344
Total comprehensive income for the period		-		-		(178)		3,252		3,074		24		3,098
Cash dividends (Note 6)		-		-		-		(2,157)		(2,157)		-		(2,157)
As of March 31, 2012 (Unaudited)	P	15,410	P	515	P	(850)	P	11,713	P	26,788	P	2,027	P	28,815
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

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, 2012 and 2011
(In Millions)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 4,711	P 4,363
Adjustments for:		
Interest expense and other financing charges	1,060	1,004
Depreciation, amortization and others	214	453
Retirement costs	122	96
Provision for doubtful accounts and inventory losses	122	105
Impairment loss	44	-
Interest income	(191)	(168)
Gain on sale of investment property and property, plant and equipment - net	(1)	(2)
Operating income before working capital changes	6,081	5,851
Decrease (increase) in:		
Trade and other receivables	339	(230)
Inventories	(243)	(115)
Prepaid expenses and other current assets	38	61
Decrease in:		
Accounts payable and accrued expenses	(763)	(582)
Income and other taxes payable	(159)	(376)
Cash generated from operations	5,293	4,609
Income taxes paid	(94)	(31)
Interest paid	(119)	(121)
Contributions paid	(232)	(120)
Net cash flows provided by operating activities	4,848	4,337
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	191	150
Proceeds from sale of property and equipment	1	3
Additions to intangible assets	(1)	(11)
Additions to property and equipment and investment property	(68)	(248)
Additions to intangible assets and other noncurrent assets	(498)	(292)
Net cash flows used in investing activities	(375)	(398)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	1,288	-
Proceeds from short-term borrowings	-	328
Payment of short-term borrowings	(18)	-
(Decrease) Increase in other noncurrent liabilities	(7)	27
Cash dividends paid	(2,157)	-
Net cash flows provided by (used in) financing activities	(894)	355
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(108)	(40)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,471	4,254
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,279	15,076
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 21,750	P 19,330

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, 2012

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	CURRENT	PAST DUE		
				1 - 30 DAYS	31 - 60 DAYS	OVER 60 DAYS
DOMESTIC	P	2,814,732,617.10	2,621,637,130.86	51,969,009.21	28,333,483.48	112,792,993.55
INTERNATIONAL		2,045,658,764.60	1,421,766,126.33	140,059,703.29	94,073,480.22	389,759,454.76
TOTAL		4,860,391,381.70	4,043,403,257.19	192,028,712.50	122,406,963.70	502,552,448.31
ALLOWANCE FOR DOUBTFUL ACCOUNTS		(1,093,741,929.66)				
NET	P	3,766,649,452.04				

ukarquito

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

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

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

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

Amendments to Standard and Interpretations Adopted in 2012

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

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

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

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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments,* which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt these standards early and the extent of the impact has not been determined.

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

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

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

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

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

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

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

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

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

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

2. Segment Information

<u>Operating Segments</u>

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

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

The domestic operations produce and market fermented and malt-based beverages within the Philippines. It also distributes its products to some export markets.

The international operations also produce and market fermented and malt-based beverages in several foreign markets. It also imports beer products for distribution in the Hong Kong market.

Inter-segment Transactions

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

Financial information about business segments follow:

	For the Period Ended March 31, 2012			
	Domestic	**International**	**Eliminations**	**Consolidated**
Sales				
External sales	₱14,828	₱3,517	₱ -	₱18,345
Inter-segment sales	11	-	(11)	-
Total Sales	**₱14,839**	**₱3,517**	**(₱ 11)**	**₱18,345**
Results				
Segment Results	₱ 5,013	₱ 220	₱ 66	₱ 5,299

	For the Period Ended March 31, 2011			
	Domestic	International	Eliminations	Consolidated
Sales				
External sales	₱14,612	₱2,918	₱ -	₱17,530
Inter-segment sales	4	-	(4)	-
Total Sales	**₱14,616**	**₱2,918**	**(₱ 4)**	**₱17,530**
Results				
Segment Results	₱ 5,019	₱ 44	₱ -	₱ 5,063

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.

		Revenue from Related Parties	**Purchases from Related Parties**	**Amounts Owed by Related Parties**	**Amounts Owed to Related Parties**
SMC	**March 2012**	**₱ 2**	**₱ 292**	**₱ 12**	**₱ 353**
	December 2011	17	1,379	30	393
Kirin Holdings Company, Limited and subsidiaries	**March 2012**	**2**	**1**	**4**	**-**
	December 2011	19	18	4	-
San Miguel Yamamura Packaging Corporation	**March 2012**	**14**	**804**	**10**	**763**
	December 2011	87	2,858	24	737
SMC Shipping and Lighterage Corporation	**March 2012**	**3**	**105**	**1**	**59**
	December 2011	12	459	1	68
SMITS, Inc. and a subsidiary	**March 2012**	-	**5**	**-**	**20**
	December 2011	-	150	-	41
San Miguel Yamamura Asia Corporation	**March 2012**	**1**	**36**	**1**	**56**
	December 2011	15	890	2	408
Ginebra San Miguel, Inc. and subsidiaries	**March 2012**	**2**	**1**	**2**	**-**
	December 2011	17	1	3	7
San Miguel International Limited and subsidiaries	**March 2012**	**-**	**15**	**-**	**17**
	December 2011	2	63	-	6

Forward

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
San Miguel Pure Foods Company, Inc. and subsidiaries	**March 2012**	**14**	**3**	**26**	**10**
	December 2011	68	11	25	24
Petron Corporation and subsidiaries	**March 2012**	**35**	**251**	**35**	**151**
	December 2011	140	936	19	109
San Miguel Properties, Inc.	**March 2012**	**-**	**9**	**11**	**5**
	December 2011	-	46	11	-
Others	**March 2012**	**-**	**10**	**34**	**24**
	December 2011	3	50	45	15

4. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2012	Balance, December 31, 2011	Additions	Disposals and Reclassifications	Currency Translation Adjustments	Balance, March 31, 2012
Cost:					
Land	₱ 8,070	₱ -	₱ -	₱ 5	₱ 8,075
Buildings and improvements	11,463	21	-	(147)	11,337
Machinery and equipment	36,535	36	-	(331)	36,240
Transportation equipment	965	16	(2)	(6)	973
Tools and small equipment	114	1	(1)	(2)	112
Office equipment, furniture and fixtures	713	4	-	(7)	710
Leasehold improvements	272	3	-	-	275
Construction in progress	167	(13)	-	(1)	153
	58,299	68	(3)	(489)	57,875
Accumulated depreciation:					
Buildings and improvements	3,879	46	-	(33)	3,892
Machinery and equipment	22,037	239	(2)	(111)	22,163
Transportation equipment	553	21	(2)	(5)	567
Tools and small equipment	79	1	1	(1)	80
Office equipment, furniture and fixtures	590	8	-	(5)	593
Leasehold improvements	77	5	-	-	82
	27,215	320	(3)	(155)	27,377
Accumulated impairment losses:					
Buildings and improvements	3,802	-	-	(84)	3,718
Machinery and equipment	6,993	-	-	(160)	6,833
Transportation equipment	13	-	-	(1)	12
Tools and small equipment	21	-	-	(1)	20
Office equipment, furniture and fixtures	41	-	-	(1)	40
	10,870	-	-	(247)	10,623
Net book value	**₱ 20,214**	**(₱ 252)**	**(₱ -)**	**(₱ 87)**	**₱19,875**

March 31, 2011	Balance, December 31, 2010	Additions	Disposals and Reclassifications	Currency Translation Adjustments	Balance, March 31, 2011
Cost:					
Land	₱ 8,120	₱ -	₱ -	₱ (15)	₱ 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
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	₱ 19,635	(₱ 60)	(₱ 5)	(₱ 45)	₱19,525

Depreciation charged to operations amounted to ₱320 and ₱308 in March 2012 and 2011, respectively.

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

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

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

Basic/Diluted EPS is computed as follows:

	March	
	2012	2011
Net Income attributable to equity holders of the Parent Company (a)	**₱ 3,252**	₱ 3,029
Weighted average number of shares outstanding (b)	**15,410**	15,410
Basic / Diluted EPS (a/b)	**₱ 0.21**	₱ 0.20

As of March 31, 2012 and 2011, the Group has no dilutive debt or equity instruments.

6. **Dividends**

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to ₱0.14 and ₱0.14 per share as of March 2012 and 2011, respectively.

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

Objectives and Policies

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

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

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

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

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

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

The Group's accounting policies in relation to derivatives are set out in Note 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 ₱142 and ₱130 in March 31, 2012 and 2011, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

March 31, 2012	**<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)	**4,292**	**644**	**9,228**		**-**	**-**	**14,164**
Interest rate	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**				
	₱ 17,882	**₱ 644**	**₱ 31,628**	**₱ -**	**₱ -**	**₱ 2,810**	**₱ 52,964**

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

Foreign Currency Risk

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

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

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

	March 31, 2012		December 31, 2011	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$226.3**	**₱9,711**	US$110.1	₱4,825
Trade and other receivables	**53.8**	**2,311**	56.4	2,474
Noncurrent receivable	**0.2**	**10**	0.2	11
	280.3	**12,032**	166.7	7,310
Liabilities				
Drafts and loans payable	**42.0**	**1,802**	42.3	1,857
Accounts payable and accrued expenses	**49.7**	**2,132**	55.8	2,444
Long-term debt	**330.0**	**14,164**	300.0	13,152
	421.7	**18,098**	398.1	17,453
Net foreign currency-denominated monetary liabilities	**(US$141.4)**	**(₱6,066)**	(US$231.4)	(₱10,143)

The Group reported net foreign exchange gains amounting to ₱284 and ₱128 in March 31, 2012 and 2011, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2010	43.84
March 31, 2011	43.39
December 31, 2011	43.84
March 31, 2012	42.92

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, 2012 and December 31, 2011:

March 31, 2012	**P1 decrease in the US dollar exchange rate**		**P1 increase in the US dollar exchange rate**	
	Effect on Income before Income Tax	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P87)**	**(P200)**	**P87**	**P200**
Trade and other receivables	**(2)**	**(53)**	**2**	**53**
	(89)	**(253)**	**89**	**253**
Drafts and loans payable	**-**	**42**	**-**	**(42)**
Accounts payable and accrued expenses	**1**	**49**	**(1)**	**(49)**
Long-term debt	**300**	**240**	**(300)**	**(240)**
	301	**331**	**(301)**	**(331)**
	P212	**P78**	**(P212)**	**(P78)**

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

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of March 31, 2012 and December 31, 2011:

March 31, 2012

	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	**P21,750**	**P21,750**	**P21,750**	**P -**	**P -**	**P -**
Trade and other receivables - net	**4,621**	**4,621**	**4,621**	**-**	**-**	**-**
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)	**86**	**86**	**-**	**-**	**-**	**86**
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**42**	**42**	**-**	**12**	**28**	**2**
Financial Liabilities						
Drafts and loans payable	**1,802**	**1,828**	**1,828**	**-**	**-**	**-**
Accounts payable and accrued expenses	**7,430**	**7,430**	**7,430**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**4**	**4**	**4**	**-**	**-**	**-**
Long-term debt (including current maturities)	**52,587**	**59,574**	**20,368**	**3,117**	**32,687**	**3,402**

December 31, 2011

	Carrying Amount	Contractual Cash Flow	1year or less	>1 year - 2 years	>2 years - 5 years	Over 5 years
Financial Assets						
Cash and cash equivalents	P18,279	P18,279	P18,279	P -	P -	P -
Trade and other receivables - net	4,977	4,977	4,977	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	41	41	41	-	-	-
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	132	132	-	-	-	132
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	45	45	-	11	-	34
Financial Liabilities						
Drafts and loans payable	1,857	1,890	1,890	-	-	-
Accounts payable and accrued expenses	7,278	7,278	7,278	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	11	11	11	-	-	-
Long-term debt (including current maturities)	51,539	59,846	16,480	2,602	37,289	3,475

Credit Risk

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

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

Trade and Other Receivables

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

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

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on cash basis.

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

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

Financial information on the Group's maximum exposure to credit risk as of March 31, 2012 and December 31, 2011, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	March 31, 2012	December 31, 2011
Cash and cash equivalents	**₱21,750**	₱18,279
Trade and other receivables - net	**4,621**	4,977
Derivative assets	**54**	41
AFS financial assets	**86**	132
Noncurrent receivables	**42**	45
	₱26,553	₱23,474

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

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

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

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

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

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

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

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

8. **Financial Assets and Financial Liabilities**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The carrying amounts of financial assets under this category amounted to ₱54 and ₱41 as of March 31, 2012 and December 31, 2011, respectively.

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

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

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

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

The combined carrying amounts of financial assets under this category amounted to ₱26,413 and ₱23,301 as of March 31, 2012 and December 31, 2011, respectively.

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

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

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

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

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

The carrying amounts of financial assets under this category amounted to ₱86 and ₱132 as of March 31, 2012 and December 31, 2011, respectively.

<u>Financial Liabilities</u>

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

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

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

The carrying amounts of financial liabilities under this category amounted to ₱4 and ₱11 as of March 31, 2012 and December 31, 2011, respectively.

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

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

The combined carrying amounts of financial liabilities under this category amounted to ₱61,819 and ₱60,674 as of March 31, 2012 and December 31, 2011, 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 recognized in profit or loss.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

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

	March 31, 2012		December 31, 2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱21,750**	**₱21,750**	₱18,279	₱18,279
Trade and other receivables - net	**4,621**	**4,621**	4,977	4,977
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**54**	**54**	41	41
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	**86**	**86**	132	132
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**42**	**42**	45	45
Financial Liabilities				
Drafts and loans payable	**1,802**	**1,802**	1,857	1,857
Accounts payable and accrued expenses	**7,430**	**7,430**	7,278	7,278
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**4**	**4**	11	11
Long-term debt (including current maturities)	**52,587**	**55,964**	51,539	56,549

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

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

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

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

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

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of March 31, 2012 and December 31, 2011, discount rates used range from 2.5% to 5.2% and 1.66% to 5.28%, respectively. The carrying amount of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

Other Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Embedded Derivatives

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

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

Embedded Currency Forwards

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

As of March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$32 and US$34, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2012 and December 31, 2011, the net positive fair value of these embedded currency forwards amounted to ₱50 and ₱30, respectively.

For the periods ended March 31, 2012 and 2011 and December 31, 2011 and 2010, the Group recognized marked-to-market gains from embedded derivatives amounting to ₱36, ₱15, (₱4) and ₱118 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, 2012 and December 31, 2011. The different levels have been defined as follows:

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

March 31, 2012

	Level 1	Level 2	Total
Financial Assets			
Derivative Assets	₱ **-**	₱ **54**	₱ **54**
AFS financial assets	**86**	**-**	**86**
Financial Liabilities			
Derivative Liabilities	**-**	**4**	**4**

December 31, 2011

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

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

9. **Events after the Reporting Date**

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

b. On April 3, 2012, the Company completed the payment of the aggregate principal amount of the Series A fixed rate bonds ("Series A Bonds") of ₱13,590, which matured on the same day. The Series A Bonds form part of the ₱38.8 billion fixed rate bonds that were issued by the Company in 2009. Part of the proceeds of the Company's ₱20 billion Bonds offering was used to settle the Series A Bonds maturity.

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

d. On May 10, 2012, the BOD of the Parent Company declared cash dividends amounting to ₱0.14 per share payable to stockholders of record as of May 25, 2012 to be paid on June 11, 2012.

10. **Other Matters**

a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and 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, 2012.

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

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of March 31, 2012. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash.

Annex "B"

SAN MIGUEL BREWERY INC.
A subsidiary of San Miguel Corporation

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

INTRODUCTION

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

I. KEY TRANSACTIONS

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

- On February 7, 2012, the Board of Directors approved the use of the proceeds for the Company's ₱20 billion fixed rate bond offering (₱20 billion Bond Offering") for the prepayment of the Company's US$300 million term facility in addition to the use of the said proceeds to support the redemption of Series A of the ₱38.8 billion Bonds maturing in April 2012. The Company made partial prepayments in the amount of US$100 million and US$50 million on April 13 and 27, respectively.

- On March 13, 2012, the Board of Directors approved the interest rates for the Company's ₱20 billion Bond Offering. The bonds were offered for sale and distribution on March 19 to 23 pursuant to the permit to sell and order of registration issued by the Securities and Exchange Commission on March 16, 2012. The bonds were subsequently issued on April 2, 2012.

II. FINANCIAL PERFORMANCE

<u>2012 vs. 2011</u>

The Group's consolidated sales revenue reached ₱18,345 million, 4.6% higher versus the same period last year despite a 3.6% drop in sales volume. This was mainly due to increase in selling prices. Domestic operations contributed ₱14,839 million while international operations contributed US$81.7 million or ₱3,517 million.

Cost of sales amounted to ₱9,358 million in 2012, with domestic operations accounting for ₱7,072 million and US$53.4 million or ₱2,298 million for international operations.

Operating expenses amounted to ₱3,688 million, an increase of 6.7% from the same period in 2011 due to higher personnel expenses, increased advertising and promotional activities and freight charges. Domestic operations accounted for ₱2,754 million, higher by 10.7% from the same period last year while international operations accounted for US$23.2 million or ₱999 million.

Income from operations increased by 4.7% to ₱5,299 million in the first quarter of 2012 with domestic operations contributing ₱5,013 million and US$5.1 million or ₱220 million from international operations.

Interest expense and other financing charges went up by 5.6% to ₱1,060 million this year primarily due to the payment of consent fees to bondholders who consented to replace the financial covenant of the ₱38.8 billion Bonds to maintain a minimum current ratio of 1:1 with a minimum interest coverage ratio of 4.75:1.

Interest income is higher by 13.7% compared to the same period last year owing to higher cash balance of both domestic and international operations.

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

Other income amounted to ₱325 million, a ₱189 million increase from the same period last year mainly due to foreign exchange gains from the strengthening of the peso over the US dollar.

Consolidated net income amounted to ₱3,344 million, an increase of 10.4% compared to the first quarter of 2011, ₱3,152 million of which came from domestic operations while international operations posted US$4.35 million or ₱187 million net income.

Net income attributable to non-controlling interest increase is primarily due to PTD's higher net income and lower loss of San Miguel Brewery Hong Kong Co. Ltd. ("SMBHK") group.

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

Domestic Beer Operations

Notwithstanding the 5.6% drop in domestic operations' sales volume, revenue increased from ₱14,616 million to ₱14,839 million due to a price increase in May 2011. However, operating costs went up by 10.7% largely due to higher personnel expenses and increased advertising and promotional activities, resulting in a slightly lower operating income.

On the other hand, the increase in foreign exchange gain brought about by the strengthening of the peso over the US dollar and the considerable increase in interest income earned from money market placements compensated for the decline in operating profit, providing a 2.4% increase in net income at the end of the first quarter of 2012.

International Beer Operations

Owing to the strong volume performance from Indonesia, Hong Kong and SMBIL's Exports operations, total sales volume was 9% ahead of last year. International operations' sales revenue increased by 22.6%, resulting to a first quarter operating income of $5.10 million, a strong growth over last year's operating income of $1.1 million.

Net income for the first three months of 2012 reached $4.35 million, a turnaround from the $1.1 million net loss registered last year.

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 in 2010. 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 in 2010.

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 in 2010. 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 of 2011 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 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 in 2010, 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 2010 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 of 2010. 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 of 2010 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 of 2010 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 of 2010, 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 in 2010. However, higher financing costs and other charges of SMBHK resulted to a US$1.1 million net loss, reversing the increase in operating income.

III. FINANCIAL POSITION

<u>2012 vs. 2011</u>

The Group's total assets slightly increased by 3.3% from December 2011 balances of ₱91,423 million to ₱94,429 million as of March 2012.

Cash and cash equivalents increased by 19% to ₱21,750 million in March 2012. Domestic operations' balance increased by ₱2,079 million to ₱15,793 million primarily due to higher cash generated from operations. International operations' cash and cash equivalent balances increased by US$35 million to US$139 million primarily due to the proceeds of the long-term debt of SMBHK amounting to US$30 million drawn in March 2012.

Trade and other receivables decreased by 7.2% from ₱4,977 million last year to ₱4,621 million this year. Domestic operations' balance is lower by 11.2% while international operations' is lower by 4.8% largely due to effective collection efforts of both domestic and international operations.

Inventories increased by 5.6% from ₱3,370 million in 2011 to ₱3,559 million in 2012 primarily due to domestic operations' higher inventory levels of finished goods, containers and raw materials owing to the slowdown in sales volume for the first three months of 2012.

Investments decreased from ₱132 million to ₱86 million this year due to the impairment of PTD's investment in PTSMI amounting to US$1 million.

Deferred tax assets is lower by ₱93 million from ₱341 million in 2011 to ₱248 million in 2012 primarily due to revaluation of domestic operations' long-term debt.

Income and other taxes payable amounted to ₱3,642 million this year, a 39.8% increase over last year due to provisions for income tax for the first quarter of 2012.

The 31.1% increase in current maturities of long term debt or ₱4,228 million is due to the reclassification of a portion of the US$300 million loan in the amount of US$100 million that was paid on April 13, 2012. Conversely, long-term debt decreased by ₱3,180 million, net of the ₱1,288 million or US$30 million new loan of SMBHK.

Deferred tax liabilities decreased by ₱16 million from ₱35 million balance as at December 2011 due to the reclassification of deferred tax liability to deferred tax asset of PTD.

Other noncurrent liabilities dropped by 43.1% from ₱216 million last year to ₱123 million this year due to the payment of pension liability of domestic operations.

Cumulative translation adjustments of ₱850 million relates to the foreign currency translation adjustments of international operations' accounts.

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.

The increase in equity is due to:

	March 31	
(in Millions)	**2012**	2011
Income during the period	**₱3,344**	₱3,029
Additions to non-controlling interests	**-**	8
Effect of translation adjustments and others	**(246)**	(69)
Cash dividends	**(2,157)**	(2,158)
	₱ 941	₱ 810

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	March 31	
	2012	2011
Net cash flows provided by operating activities	**₱ 4,848**	₱ 4,337
Net cash flows used in investing activities	**(375)**	(398)
Net cash flows provided by (used in) financing activities	**(894)**	355

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

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

	March 31	
	2012	**2011**
Interest received	**₱ 191**	₱ 150
Proceeds from sale of property and equipment	**1**	3
Additions to intangible assets	**(1)**	(11)
Additions to property and equipment	**(68)**	(248)
Additions to other noncurrent assets	**(498)**	(292)

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

	March 31	
	2012	**2011**
Proceeds from long-term debt	₱ **1,288**	₱ -
Proceeds from short-term borrowings	**-**	328
Payment of short-term borrowings	**(18)**	-
Increase (decrease) in other noncurrent liabilities	**(7)**	27
Cash dividends paid	**(2,157)**	-

The effect of exchange rate changes on cash and cash equivalents amounted to (₱108 million) and (₱40 million) in March 31, 2012 and 2011, respectively.

V. KEY PERFORMANCE INDICATORS

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

	March 2012	**December 2011**
Liquidity:		
Current Ratio	1.01	1.09
Solvency:		
Interest Coverage Ratio*	5.69	5.70
Debt to Equity Ratio	2.28	2.28
Interest-bearing Debt to Equity Ratio	1.90	1.93
Asset to Equity Ratio	3.28	3.28
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	49.40%	49.29%

	Period Ended Mar. 31	
	2012	**2011**
Operating Efficiency:		
Volume (Decline) Growth	(3.6%)	9.0%
Revenue Growth	4.6%	9.4%
Operating Margin	28.9%	28.9%

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

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

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