



SAN MIGUEL BREWERY INC.

A subsidiary of San Miguel Corporation

August 14, 2012

Philippine Stock Exchange Inc.

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

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

Gentlemen:

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

Very truly yours,


ROSABEL T. BALAN
Corporate Secretary

COVER SHEET

C S 2 0 0 7 1 1 8 2 8

S. E. C. Registration Number

S A N M I G U E L

B R E W E R Y

I N C .

(Company's Full Name)

N o . 4 0 S a n M i g u e l

A v e n u e , M a n d a l u y o n g

C i t y

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

Atty. Rosabel T. Balan

Contact Person

632-3000

Company Telephone Number

Month

Day

17-Q (2nd Quarter 2012)

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

S T A M P S

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

1. For the quarterly period ended **JUNE 30, 2012**
2. Commission identification number **CS200711828**
3. BIR Tax Identification No. **006-807-251**
4. Exact name of issuer as specified in its charter **SAN MIGUEL BREWERY INC.**
5. **Philippines**
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **No. 40 San Miguel Avenue,**
Mandaluyong City **1550**
Address of issuer's principal office Postal Code
8. **(632) 632-3000**
Issuer's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class outstanding (as of June 30, 2012)	
Common Shares	15,410,478,960
Peso-denominated fixed-rate bonds	P25.21 billion
Peso-denominated fixed-rate bonds	P20.00 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 June 30, 2012 (with comparative figures as of December 31, 2011 and for the period ended June 30, 2011) and Selected Notes to the Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

PART II--OTHER INFORMATION

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


NONE

SIGNATURES

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

Issuer **SAN MIGUEL BREWERY INC.**

Signature and Title


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

Date

August 14, 2012

**SAN MIGUEL BREWERY INC.
AND SUBSIDIARIES**

CONTENTS

Unaudited Consolidated Financial Statements for the period ended June 30, 2012 *(with comparative figures for 2011)*

Schedule on the Proceeds for ₱20 billion Bonds pursuant to Section 4 (I) of SRC Rule 68 as amended


Aging of Receivables

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

	Note		2012 Unaudited		2011 Audited
ASSETS					
Current Assets					
Cash and cash equivalents	7,8	P	18,816	P	18,279
Trade and other receivables - net	3,7,8		4,249		4,977
Inventories			3,603		3,370
Prepaid expenses and other current assets	7,8		984		996
Total Current Assets			27,652		27,622
Noncurrent Assets					
Investments - net	7,8		82		132
Property, plant and equipment - net	4		19,464		20,214
Investment properties - net			653		664
Intangible assets - net			35,879		36,063
Deferred tax assets			321		341
Other noncurrent assets - net	7,8		6,662		6,387
Total Noncurrent Assets			63,061		63,801
			P 90,713		P 91,423
LIABILITIES AND EQUITY					
Current Liabilities					
Drafts and loans payable	7,8	P	84	P	1,857
Accounts payable and accrued expenses	3,7,8		6,728		7,296
Income and other taxes payable			2,242		2,606
Current maturities of long-term debt, net of debt issue costs	7,8		157		13,577
Total Current Liabilities			9,211		25,336
Noncurrent Liabilities					
Long-term debt - net of current maturities and debt issue costs	7,8		52,198		37,962
Deferred tax liabilities			19		35
Other noncurrent liabilities	7,8		224		216
Total Noncurrent Liabilities			52,441		38,213
EQUITY					
Equity Attributable to Equity Holders of the Parent Company					
Capital stock			15,410		15,410
Additional paid-in capital			515		515
Cumulative translation adjustments			(1,325)		(672)
Unappropriated retained earnings			12,800		10,618
			27,400		25,871
Non-controlling Interests			1,661		2,003
Total Equity			29,061		27,874
			P 90,713		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 June 30, 2012 and 2011
(In Millions, Except Per Share Data)

		<u>2012</u>		<u>2011</u>		<u>For the Quarter Ended</u>	
						<u>2012</u>	<u>2011</u>
SALES (Notes 2 and 3)	P	36,884	P	35,593	P	18,539	P 18,063
COST OF SALES (Note 3)		<u>18,752</u>		<u>18,374</u>		<u>9,394</u>	<u>9,364</u>
GROSS PROFIT		18,132		17,219		9,145	8,699
SELLING AND ADMINISTRATIVE EXPENSES (Note 3)		(7,304)		(6,975)		(3,616)	(3,518)
INTEREST INCOME		372		314		181	146
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(2,131)		(2,015)		(1,071)	(1,011)
IMPAIRMENT LOSSES ON NONCURRENT ASSETS		(44)		-		-	-
OTHER INCOME - NET (Note 8)		<u>467</u>		<u>192</u>		<u>142</u>	<u>56</u>
INCOME BEFORE TAX		9,492		8,735		4,781	4,372
INCOME TAX EXPENSE		<u>2,835</u>		<u>2,698</u>		<u>1,468</u>	<u>1,364</u>
NET INCOME	P	<u>6,657</u>	P	<u>6,037</u>	P	<u>3,313</u>	P <u>3,008</u>
 Net Income Attributable to:							
Equity Holders of the Parent Company	P	6,497	P	6,025	P	3,245	P 2,996
Non-controlling Interests		<u>160</u>		<u>12</u>		<u>68</u>	<u>12</u>
	P	<u>6,657</u>	P	<u>6,037</u>	P	<u>3,313</u>	P <u>3,008</u>
 Basic/Diluted Earnings Per Share (Note 5)							
	P	<u>0.42</u>	P	<u>0.39</u>	P	<u>0.21</u>	P <u>0.19</u>

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

CERTIFIED CORRECT:



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

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

	<u>2012</u>	<u>2011</u>	<u>For the Quarter Ended</u>	
			<u>2012</u>	<u>2011</u>
NET INCOME	P 6,657	P 6,037	P 3,313	P 3,008
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(766)	(111)	(521)	(41)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(4)	2	(3)	1
OTHER COMPREHENSIVE LOSS - NET OF TAX	<u>(770)</u>	<u>(109)</u>	<u>(524)</u>	<u>(40)</u>
TOTAL COMPREHENSIVE INCOME - NET OF TAX	<u>P 5,887</u>	<u>P 5,928</u>	<u>P 2,789</u>	<u>P 2,968</u>
Comprehensive Income Attributable to:				
Equity Holders of the Parent Company	P 5,844	P 5,879	P 2,770	2,938
Non-controlling Interests	<u>43</u>	<u>49</u>	<u>19</u>	<u>30</u>
	<u>P 5,887</u>	<u>P 5,928</u>	<u>P 2,789</u>	<u>P 2,968</u>

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

CERTIFIED CORRECT:



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

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

	Equity Attributable to Equity Holders of the Parent Company					Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Cumulative Translation Adjustment	Unappropriated Retained Earnings	Total		
As of January 1, 2012 (Audited)	P 15,410	P 515	P (672)	P 10,618	P 25,871	P 2,003	P 27,874
Foreign currency translation differences	-	-	(649)	-	(649)	(117)	(766)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	(4)	-	(4)	-	(4)
Net income for the period	-	-	-	6,497	6,497	160	6,657
Total comprehensive income (loss) for the period	-	-	(653)	6,497	5,844	43	5,887
Cash dividends (Note 6)	-	-	-	(4,315)	(4,315)	(385)	(4,700)
As of June 30, 2012 (Unaudited)	P 15,410	P 515	P (1,325)	P 12,800	P 27,400	P 1,661	P 29,061
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	-	-	(148)	-	(148)	37	(111)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	2	-	2	-	2
Net income for the period	-	-	-	6,025	6,025	12	6,037
Total comprehensive income (loss) for the period	-	-	(146)	6,025	5,879	49	5,928
Additions to non-controlling interests	-	-	-	-	-	9	9
Cash dividends (Note 6)	-	-	-	(4,315)	(4,315)	(353)	(4,668)
As of June 30, 2011 (Unaudited)	P 15,410	P 515	P (688)	P 8,996	P 24,233	P 1,857	P 26,090

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 June 30, 2012 and 2011
(In Millions)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 9,492	P 8,735
Adjustments for:		
Interest expense and other financing charges	2,131	2,015
Depreciation, amortization and others	485	1,061
Retirement costs	259	229
Provision for impairment losses on receivables and inventory	262	103
Impairment loss on noncurrent assets	44	-
Interest income	(372)	(314)
Gain on sale of property and equipment	(2)	(3)
Operating income before working capital changes	12,299	11,826
Decrease (increase) in:		
Trade and other receivables	733	(319)
Inventories	(430)	(443)
Prepaid expenses and other current assets	64	(35)
Increase (decrease) in:		
Accounts payable and accrued expenses	(653)	336
Income and other taxes payable	(93)	(115)
Cash generated from operations	11,920	11,250
Income taxes paid	(1,913)	(2,652)
Interest paid	(3,102)	(1,927)
Contributions paid	(242)	(192)
Net cash flows provided by operating activities	6,663	6,479
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	373	314
Proceeds from sale of property and equipment	4	5
Additions to property and equipment and investment property	(186)	(1,040)
Increase in intangible assets and other noncurrent assets	(825)	(821)
Net cash flows used in investing activities	(634)	(1,542)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt - net of debt issue costs	21,078	-
Proceeds from short-term borrowings	-	330
Payment of short-term borrowings	(1,696)	(3)
Payment of long-term debt	(19,989)	-
Cash dividends paid	(4,315)	(4,315)
Dividends paid to non-controlling shareholders	(384)	(360)
(Decrease) increase in other noncurrent liabilities	(2)	36
Net cash flows used in financing activities	(5,308)	(4,312)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(184)	(44)
NET INCREASE IN CASH AND CASH EQUIVALENTS	537	581
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,279	15,076
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 18,816	P 15,657

CERTIFIED CORRECT:


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

SAN MIGUEL BREWERY INC.
P20 BILLION BONDS ISSUANCE
APRIL 2, 2012

		Amount (in millions)
a) Gross proceeds as disclosed in the prospectus	P	20,000
Estimated net proceed as disclosed in the prospectus		19,818
b) Actual gross proceeds		20,000
Actual net proceeds		19,796
c) Expenditure items where proceeds were used:		
Redemption of Series A of the P38.8 billion Bonds on April 3, 2012		13,590
Partial prepayment of US\$100 million of the US\$300 million term facility on April 13, 2012		4,267
Partial prepayment of US\$50 million of the US\$300 million term facility on April 27, 2012, (an additional P193 million from current funds were used to pay the US\$50 million)		1,939
	P	19,796
d) The net proceeds amounting to P19,796 million were fully utilized as at June 30, 2012.		

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

TYPE OF ACCOUNTS RECEIVABLE	TOTAL	CURRENT	PAST DUE		
			1 - 30 DAYS	31 - 60 DAYS	OVER 60 DAYS
DOMESTIC	P 2,336,641,887.87	P 2,153,792,531.61	P 41,397,297.02	P 30,067,180.96	P 111,384,878.28
INTERNATIONAL	<u>2,080,359,505.62</u>	<u>1,450,795,686.79</u>	<u>156,122,079.98</u>	<u>60,614,910.89</u>	<u>412,826,827.96</u>
TOTAL	4,417,001,393.49	3,604,588,218.40	197,519,377.00	90,682,091.85	524,211,706.24
ALLOWANCE FOR DOUBTFUL ACCOUNTS	<u>(1,056,437,662.18)</u>				
NET	<u><u>P 3,360,563,731.31</u></u>				

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

1. Summary of Significant Accounting and Financial Reporting Policies

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

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

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

Amendments to Standard and Interpretations Adopted in 2012

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7, Financial Instruments Disclosures)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets. Entities are required to apply the amendments for annual period beginning on or after July 1, 2011.
- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC) - 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, into PAS 12, and as a result Philippine Interpretation SIC - 21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively.

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

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

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

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

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs continue to apply in this regard. The effective date of the amendment is for periods beginning on or after January 1, 2013.
- PFRS 10, *Consolidated Financial Statements*. PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27, *Consolidated and Separate Financial Statements* (2008). The new standard is effective for annual periods beginning on or after January 1, 2013.
- PFRS 11, *Joint Arrangements*. PFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The new standard is effective for annual periods beginning on or after January 1, 2013.
- PFRS 12, *Disclosures of Interests in Other Entities*. PFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The new standard is effective for annual periods beginning on or after January 1, 2013.
- PFRS 13, *Fair Value Measurement*. PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value nor

does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The new standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted and is required to be disclosed.

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

Operating Segments

The reporting format of the Group's operating segments is determined by the Group's risks and rates of return which are affected predominantly by differences in the products produced. The operating businesses are organized and managed separately according to 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 June 30, 2012			
	Domestic	International	Eliminations	Consolidated
Sales				
External sales	P29,779	P7,105	P -	P36,884
Inter-segment sales	22	-	(22)	-
Total Sales	P29,801	P7,105	(P 22)	P36,884
Results				
Segment Results	P 10,285	P 476	P 67	P 10,828

	For the Period Ended June 30, 2011			
	Domestic	International	Eliminations	Consolidated
Sales				
External sales	P29,309	P6,284	P -	P35,593
Inter-segment sales	9	-	(9)	-
Total Sales	P29,318	P6,284	(P 9)	P35,593
Results				
Segment Results	P10,093	P 151	P -	P 10,244

3. Related Party Transactions

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

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties
SMC	June 2012	P 5	P 448	P= 5	P 339
	December 2011	17	1,379	30	393
Kirin Holdings Company, Limited and subsidiaries	June 2012	6	1	4	-
	December 2011	19	18	4	-
San Miguel Yamamura Packaging Corporation	June 2012	35	1,641	17	686
	December 2011	87	2,858	24	737
SMC Shipping and Lighterage Corporation	June 2012	5	203	2	67
	December 2011	12	459	1	68
SMITS, Inc. and a subsidiary	June 2012	-	65	-	67
	December 2011	-	150	-	41
San Miguel Yamamura Asia Corporation	June 2012	2	170	1	99
	December 2011	15	890	2	408
Ginebra San Miguel, Inc. and subsidiaries	June 2012	5	1	2	-
	December 2011	17	1	3	7
San Miguel International Limited and subsidiaries	June 2012	-	5	-	6
	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	June 2012	29	3	26	10
	December 2011	68	11	25	24
Petron Corporation and subsidiaries	June 2012	79	469	21	105
	December 2011	140	936	19	109
San Miguel Properties, Inc.	June 2012	-	22	11	2
	December 2011	-	46	11	-
Others	June 2012	-	38	30	40
	December 2011	3	50	45	15

4. Property, Plant and Equipment

Property, plant and equipment consist of:

	June 30, 2012	Balance, December 31, 2011	Additions	Disposals and Reclassifications	Currency Translation Adjustments	Balance, June 30, 2012
Cost:						
Land		₱ 8,070	₱ -	₱ -	₱ (45)	₱ 8,025
Buildings and improvements		11,463	27	-	(329)	11,161
Machinery and equipment		36,535	108	(23)	(776)	35,844
Transportation equipment		965	18	(17)	(14)	952
Tools and small equipment		114	1	(1)	(4)	110
Office equipment, furniture and fixtures		713	15	(169)	(14)	545
Leasehold improvements		272	16	-	(1)	287
Construction in progress		167	(12)	(1)	(2)	152
		58,299	173	(211)	(1,185)	57,076
Accumulated depreciation:						
Buildings and improvements		3,879	92	-	(86)	3,885
Machinery and equipment		22,037	477	(25)	(318)	22,171
Transportation equipment		553	42	(15)	(12)	568
Tools and small equipment		79	2	-	(3)	78
Office equipment, furniture and fixtures		590	17	(168)	(11)	428
Leasehold improvements		77	11	-	(1)	87
		27,215	641	(208)	(431)	27,217
Accumulated impairment losses:						
Buildings and improvements		3,802	-	-	(162)	3,640
Machinery and equipment		6,993	-	-	(308)	6,685
Transportation equipment		13	-	-	(1)	12
Tools and small equipment		21	-	-	(2)	19
Office equipment, furniture and fixtures		41	-	-	(2)	39
		10,870	-	-	(475)	10,395
Net book value		₱ 20,214	(₱ 468)	(₱ 3)	(₱ 279)	₱19,464

Forward

June 30, 2011	Balance, December 31, 2010	Additions	Disposals and Reclassifications	Currency Translation Adjustments	Balance, June 30, 2011
Cost:					
Land	₱ 8,120	₱ -	₱ -	₱ (30)	₱ 8,090
Buildings and improvements	11,398	19	1	(4)	11,414
Machinery and equipment	35,588	192	10	30	35,820
Transportation equipment	800	44	(26)	2	820
Tools and small equipment	139	4	(28)	(1)	114
Office equipment, furniture and fixtures	708	15	(11)	-	712
Leasehold improvements	94	-	-	-	94
Construction in progress	368	766	(251)	(1)	882
	57,215	1,040	(305)	(4)	57,946
Accumulated depreciation and amortization:					
Buildings and improvements	3,691	93	(4)	(8)	3,772
Machinery and equipment	21,368	466	(9)	(29)	21,796
Transportation equipment	520	33	(25)	2	530
Tools and small equipment	107	2	(29)	(1)	79
Office equipment, furniture and fixtures	590	15	(12)	(1)	592
Leasehold improvements	65	2	-	-	67
	26,341	611	(79)	(37)	26,836
Accumulated impairment losses:					
Buildings and improvements	3,822	-	-	16	3,838
Machinery and equipment	7,344	-	(4)	53	7,393
Transportation equipment	12	-	-	-	12
Tools and small equipment	20	-	-	-	20
Office equipment, furniture and fixtures	41	-	-	-	41
	11,239	-	(4)	69	11,304
Net book value	₱ 19,635	₱ 429	(₱ 222)	(₱ 36)	₱19,806

Depreciation charged to operations amounted to ₱641 and ₱611 in June 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:

	June	
	2012	2011
Net Income attributable to equity holders of the Parent Company (a)	₱ 6,497	₱ 6,025
Weighted average number of shares outstanding (b)	15,410	15,410
Basic / Diluted EPS (a/b)	₱ 0.42	₱ 0.39

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

6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to ₱0.28 and ₱0.28 per share as of June 2012 and 2011, respectively.

7. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

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 ₱76 and ₱130 in June 30, 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 June 30, 2012 and December 31, 2011, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

June 30, 2012	<1 year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years	Total
Fixed rate							
Philippine peso-denominated	₱ -	₱22,400	₱ -	₱ -	₱ 3,000	₱19,810	₱ 45,210
Interest rate		8.875%			6.05%	5.93%-10.50%	
Floating rate							
Foreign currency-denominated (expressed in Philippine peso)	158	632	6,792		-	-	7,582
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin				
	₱ 158	₱23,032	₱ 6,792	₱ -	₱ 3,000	₱19,810	₱ 52,792
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:

	June 30, 2012		December 31, 2011	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$100.5	₱4,232	US\$110.1	₱4,825
Trade and other receivables	56.1	2,364	56.4	2,474
Noncurrent receivable	0.5	21	0.2	11
	157.1	6,617	166.7	7,310
Liabilities				
Drafts and loans payable	2.0	84	42.3	1,857
Accounts payable and accrued expenses	53.8	2,266	55.8	2,444
Long-term debt (including current maturities)	180.0	7,582	300.0	13,152
	235.8	9,932	398.1	17,453
Net foreign currency-denominated monetary liabilities	(US\$78.7)	(₱3,315)	(US\$231.4)	(₱10,143)

The Group reported net foreign exchange gains amounting to ₱392 and ₱174 in June 30, 2012 and 2011, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2010	43.84
June 30, 2011	43.33
December 31, 2011	43.84
June 30, 2012	42.12

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 June 30, 2012 and December 31, 2011:

<u>June 30, 2012</u>	<u>P1 decrease in the US dollar exchange rate</u>		<u>P1 increase in the US dollar exchange rate</u>	
	<u>Effect on Income before Income Tax</u>	<u>Effect on Equity</u>	<u>Effect on Income before Income Tax</u>	<u>Effect on Equity</u>
Cash and cash equivalents	(P6)	(P99)	P6	P99
Trade and other receivables	(1)	(56)	1	56
	(7)	(155)	7	155
Drafts and loans payable	-	2	-	(2)
Accounts payable and accrued expenses	1	53	(1)	(53)
Long-term debt (including current maturities)	150	135	(150)	(135)
	151	190	(151)	(190)
	P144	P35	(P144)	(P35)

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

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of June 30, 2012 and December 31, 2011:

<u>June 30, 2012</u>	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	P18,816	P18,816	P18,816	P -	P -	P -
Trade and other receivables - net	4,249	4,249	4,249	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	66	66	66	-	-	-
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	82	82	-	-	-	82
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	51	51	-	12	38	1
Financial Liabilities						
Drafts and loans payable	84	84	84	-	-	-
Accounts payable and accrued expenses	6,716	6,716	6,716	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	3	3	3	-	-	-
Long-term debt (including current maturities)	52,355	68,112	3,873	26,240	14,436	23,563

December 31, 2011

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

	June 30, 2012	December 31, 2011
Cash and cash equivalents	P18,816	P18,279
Trade and other receivables - net	4,249	4,977
Derivative assets	66	41
AFS financial assets	82	132
Noncurrent receivables	51	45
	P23,264	P23,474

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.

Financial Assets

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains 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 ₱66, ₱54 and ₱41 as of June 30 and 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 ₱23,116, ₱26,413 and ₱23,301 as of June 30 and 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 June 30 and 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 ₱82, ₱86 and ₱132 as of June 30 and March 31, 2012 and December 31, 2011, respectively.

Financial Liabilities

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in 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 ₱3, ₱4 and ₱11 as of June 30 and 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 ₱59,155, ₱61,819 and ₱60,674 as of June 30 and 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 June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	₱18,816	₱18,816	₱18,279	₱18,279
Trade and other receivables - net	4,249	4,249	4,977	4,977
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	66	66	41	41
AFS financial assets (included under "Investments" account in the consolidated statements of financial position)	82	82	132	132
Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position)	51	51	45	45
Financial Liabilities				
Drafts and loans payable	84	84	1,857	1,857
Accounts payable and accrued expenses	6,716	6,716	7,278	7,278
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	3	3	11	11
Long-term debt (including current maturities)	52,355	56,719	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 June 30, 2012 and December 31, 2011, discount rates used range from 2.39% to 5.89% and 1.66% to 5.28%, respectively. The carrying amount of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

Other Derivative Instruments Not Designated as Hedges

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

Embedded Derivatives

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

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

Embedded Currency Forwards

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

As of June 30 and March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$32, 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 June 30 and March 31, 2012 and December 31, 2011, the

net positive fair value of these embedded currency forwards amounted to ₱63, ₱50 and ₱30, respectively.

For the periods ended June 30 and March 31, 2012 and June 30 and March 31, 2011, the Group recognized marked-to-market gains from embedded derivatives amounting to ₱52, ₱36, ₱13 and ₱15 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 June 30, 2012 and December 31, 2011. The different levels have been defined as follows:

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

<u>June 30, 2012</u>			
	Level 1	Level 2	Total
Financial Assets			
Derivative Assets	₱ -	₱ 66	₱ 66
AFS financial assets	82	-	82
Financial Liabilities			
Derivative Liabilities	-	3	3
 <u>December 31, 2011</u>			
	Level 1	Level 2	Total
Financial Assets			
Derivative Assets	₱ -	₱ 41	₱ 41
AFS financial assets	132	-	132
Financial Liabilities			
Derivative Liabilities	-	11	11

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

9. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Performance.
- b. There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.

- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. There were no material off-statement of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered into by the Group as of and for the period ended June 30, 2012.
- g. The effects of seasonality or cyclicity on the interim operations of the Group's business are not material.
- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of June 30, 2012. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash.
- i. On August 9, 2012, the BOD of the Parent Company declared cash dividends amounting to ₱0.14 per share payable to stockholders of record as of August 29, 2012 to be paid on September 10, 2012.



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 June 30, 2012 (with comparative figures as of December 31, 2011 and for the period ended June 30, 2011). All necessary adjustments to present fairly the Group’s financial position, financial performance and cash flows as of June 30, 2012 and for all the periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. KEY TRANSACTIONS – 2nd Quarter

- 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 million (“₱20 billion Bonds”) with its issuance of the ₱20 billion Bonds and receipt of the proceeds amounting to ₱20,000 million. The ₱20 billion Bonds consisted of the following: Series D Bonds with the aggregate principal amount of ₱3,000 million having a term of 5 years and 1 day beginning on April 2, 2012 (“Issue Date”) and ending on April 3, 2017, with a fixed interest rate of 6.05% per annum; Series E Bonds with an aggregate principal amount of ₱10,000 million having a term of 7 years beginning on Issue Date and ending on April 2, 2019, with a fixed interest rate of 5.93% per annum; and Series F Bonds with an aggregate principal amount of ₱7,000 million having a term of 10 years beginning on Issue Date and ending on April 2, 2022, with a fixed interest rate of 6.60% per annum. The Series E Bonds and Series F Bonds of the ₱20 billion Bonds were listed on the Philippine Dealing & Exchange Corp. on the same date.
- On April 3, 2012, the Company completed the payment of the aggregate principal amount of the Series A fixed rate bonds (“Series A Bonds”) of ₱13,590 million, which matured on the same day. The Series A Bonds form part of the ₱38.8 billion fixed rate bonds that were issued by the Company in 2009 (“₱38.8 billion Bonds”). Part of the proceeds of the Company’s ₱20 billion Bonds offering was used for the said payments.
- On April 13, 2012, the Company made a partial prepayment of its US\$300 million term facility in the amount of US\$100 million. A subsequent partial prepayment was made on April 27, 2012 in the amount of US\$50 million. Part of the proceeds of the Company’s ₱20 billion Bonds offering was used for the said prepayments.

1st Quarter

- In February 2012, the Company obtained the consents of record bondholders holding and/or representing 76.92% of the outstanding principal amount of the ₱38.8 billion Bonds to replace the financial covenant from a minimum current ratio of 1:1 to a minimum interest coverage ratio of 4.75:1, in the terms and conditions of the ₱38.8 billion Bonds under the trust agreement dated March 16, 2009 (“Trust Agreement”) between the Company and the trustee for the said bonds (“Trustee”). Accordingly, the Company and the Trustee executed a Supplemental Agreement to the Trust Agreement on February 7, 2012 to effect the said amendment to the Trust Agreement.
- On February 7, 2012, the Board of Directors approved the use of the proceeds for the Company’s ₱20 billion Bonds offering for the prepayment of the Company’s US\$300 million term facility in addition to the use of the said proceeds to support the redemption of the Series A Bonds maturing in April 2012.
- On March 13, 2012, the Board of Directors approved the interest rates for the Company’s ₱20 billion Bonds offering. The ₱20 billion Bonds were offered for sale and distribution on March 19 to 23 pursuant to the permit to sell and order of registration issued by the Securities and Exchange Commission on March 16, 2012.

II. FINANCIAL PERFORMANCE

2012 vs. 2011

The Group’s consolidated sales revenue for the first semester of 2012 reached ₱36,884 million, 3.6% higher than last year, as higher selling prices offset the 2.7% drop in sales volume. Domestic operations contributed ₱29,801 million while international operations contributed US\$165.6 million or ₱7,105 million.

Cost of sales amounted to ₱18,752 million in 2012, with domestic operations accounting for ₱14,198 million and US\$106.7 million or ₱4,576 million for international operations.

Operating expenses amounted to ₱7,304 million, an increase of 4.7% from the same period in 2011 due to higher personnel expenses, increased advertising and promotional activities and freight charges. Domestic operations accounted for ₱5,318 million, higher by 8.2% from the same period last year while international operations accounted for US\$47.9 million or ₱2,053 million.

Despite the increase in operating expenses, operating income increased by 5.7% to ₱10,828 million in the first semester of 2012 with domestic operations contributing ₱10,285 million and US\$11.1 million or ₱476 million from international operations.

Interest expense and other financing charges went up by 5.8% to ₱2,131 million this year due to amortization of transaction cost pertaining to the prepaid US\$300 million term facility and 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 18.5% 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 increased by ₱275 million from the same period last year due to the realized foreign exchange gains on the partial payment of the US\$300 million term facility amounting to US\$150 million and the revaluation of the balance of such US dollar loan.

With higher income from domestic and international operations, income tax expense increased by 5.1%. Consolidated net income amounted to ₱6,657 million, an increase of 10.3% compared to the first semester of 2011, ₱6,357 million of which came from domestic operations while international operations posted US\$6.86 million or ₱295 million net income.

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

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

Domestic Beer Operations

Revenue growth remained positive at 1.6% despite lower sales volume for the first semester of 2012 due to the full impact of the price increase implemented in May 2011. Cost of sales was lower by 0.8% while operating costs went up by 8.2% largely due to higher personnel expenses and increased advertising and promotional activities.

Consequently, operating income slightly increased by 1.9% from ₱10,093 million in 2011 to ₱10,285 million this year. With the strengthening of the peso over the US dollar and the considerable increase in interest income from money market placements, net income grew by 4.5% in the first half of 2012.

International Beer Operations

International operations' sales revenue increased by 14.6% due to improvement in mix towards higher priced brands and price increase in PTD, Guangzhou San Miguel Brewery Company Limited ("GSMB") and SMBHK. Consequently, cost of sales also increased by 13.9% or US\$13 million, resulting to a first semester operating income of US\$11.1 million, 198% better than 2011 on the back of the improvements in Indonesia and SMBHK and lower losses of Thailand and South China.

Net income for the first semester of 2012 reached US\$6.86 million, a turnaround from the US\$1.05 million net loss registered the same period last year.

2011 vs. 2010

The consolidated statement of income for the first half 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 statement of income for the first half of 2010 also reflects the consolidated results of both domestic and international operations excluding BPI and its subsidiary.

The Group registered consolidated sales revenue of ₱35,593 million for the first half of 2011, 6.8% higher compared with the ₱33,328 million for the same period in 2010. Domestic operations contributed ₱29,318 million or 6% increase from the same period in 2010 due to a 4% increase in volume while international operations contributed US\$144 million, an improvement of 16.3% from the same period in 2010 due to a 6% increase in volume.

Cost of sales amounted to ₱18,374 million in 2011, with domestic operations accounting for ₱14,310 million and US\$94 million for international operations.

Operating expenses amounted to ₱6,975 million, an increase of 4.4% from the same period in 2010. Domestic operations accounted for ₱4,915 million while international operations accounted for US\$47 million or ₱2,060 million.

Income from operations increased by 8.3% to ₱10,244 million in the first half of 2011 with domestic operations contributing ₱10,093 million and US\$4 million or ₱151 million from international operations.

Interest income is lower by 11.3% in 2011 compared to first half of 2010 owing to lower cash balance primarily due to the partial payment in November 2010 of the purchase price for the land previously owned by San Miguel Corporation where the Company's production facilities and sales offices are located.

Other income amounted to ₱192 million in 2011, an ₱11 million decrease from the same period in 2010, due to lower marked-to-market gain and other charges of the international operations.

Income tax expense increased by 8.3% primarily due to higher income of domestic operations while non-controlling interests decreased by ₱63 million for the first half of 2011 versus same period in 2010 due to losses incurred by the Thailand operations.

As a result of the foregoing, consolidated net income amounted to ₱6,037 million, ₱6,083 million of which came from domestic operations while international operations registered a US\$1.05 million loss or ₱46 million. Without the non-recurring income from acquisition of assets at fair value amounting to ₱2,418 million in 2010 which arose from the acquisition by the Company of SMBIL, net income increased by 9% or ₱493 million.

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

Domestic Beer Operations

Domestic operations sustained its uptrend through the first semester of 2011 owing to favorable market conditions as well as conduct of programs to boost consumption. Sales revenue increased by 6% compared to the same period in 2010. Cost of sales increased by only 4.7% despite the 8% excise tax increase implemented on January 1, 2011 and the 4% increase in volume due to lower cost of raw materials.

Operating expenses increased by 6.2% from the same period in 2010 mainly due to higher personnel-related expenses and containers depreciation. Higher sales volume, lower cost of materials and cost management initiatives raised operating income by 7.6% or ₱717 million. Net income increased by 10.4% or ₱571 million despite higher financing cost.

International Beer Operations

International operations' sales increased by 16.3% for the first half of 2011 as compared with the same period in 2010 driven by the strong volume performance of the Group's operations in Indonesia, North China, Thailand, Hong Kong and Exports. Cost of sales also increased by 20.6% or US\$16 million due to higher volumes and the increase in excise taxes in Indonesia. Meanwhile, operating expenses increased by 5.1% mainly due to personnel-related expenses.

Owing to the volume growth in Indonesia, North China, Exports and Hong Kong, operating income increased by 108.5% or US\$1.9 million from the same period in 2010. However, higher financing costs, lower foreign exchange gain and other charges of SMBHK resulted in a US\$1.05 million net loss, reversing the increase in operating income.

III. FINANCIAL POSITION

2012 vs. 2011

The Group's total assets slightly decreased from December 2011 balances of ₱91,423 million to ₱90,713 million as of June, 2012 with only trade and other receivables and investments accounts that registered double digit declines.

Trade and other receivables decreased by 14.6% from ₱4,977 million last year to ₱4,249 million this year. The decrease is largely due to effective collection efforts of domestic operations with 27.4% decrease in its trade and other receivables from ₱2,734 million in 2011 to ₱1,986 million this year.

Inventories increased by 6.9% from ₱3,370 million in 2011 to ₱3,603 million in 2012 primarily due to domestic operations' higher inventory levels owing to the slowdown in sales volume for the first half of 2012.

Investments decreased from ₱132 million to ₱82 million this year due to the impairment of PTD's investment in PTSMI amounting to US\$1 million.

Deferred tax assets is lower by ₱20 million from ₱341 million in 2011 to ₱321 million in 2012 primarily due to revaluation of domestic operations' long-term debt.

Drafts and loans payable decreased due to the payment by San Miguel Guangdong Brewery Company Limited ("SMGB") of its short-term loan of US\$40 million or ₱1,695 million from the proceeds of the equity infusion of San Miguel Shunde Holdings Limited, its immediate parent company.

Accounts payable and accrued expenses decreased to ₱6,728 million from ₱7,296 million in December 2011 primarily due to payments made to affiliates and external suppliers for both domestic and international operations.

Income and other taxes payable amounted to ₱2,242 million as of June 30, 2012, a 14% decrease over December 2011 balance of ₱2,606 million mainly due to lower net income for the second quarter of this year as compared to the fourth quarter of 2011 for domestic operations.

Current maturities of long-term debt decreased by ₱13,420 million due to the redemption of the Series A Bonds last April 3, 2012. On the other hand, long-term debt increased by ₱14,236 million mainly due to the issuance of the ₱20 billion Bonds on April 2, 2012, which was used to support the payment of the Series A Bonds and partially prepay half of the US\$300 million term facility in April 2012, and the availment by SMBHK of a US\$30 million loan.

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

Cumulative translation adjustments of ₱1,325 million relates to the foreign currency translation adjustments of international operations' accounts.

Non-controlling interests, which pertain to the share of the non-controlling stockholders in the net assets of PTD, San Miguel Holdings Thailand Limited ("SMHTL"), San Miguel Beer (Thailand) Limited ("SMBTL"), SMBHK group and BPI, decreased by 17.1% due to PTD's dividend payment to non-controlling shareholders.

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.

The Group's total assets slightly increased by 1.8% from December 2010 balances with only inventories posting a double-digit increase of 14.5%.

Trade and other receivables amounted to ₱4,558 million compared to ₱4,366 million in 2010. Domestic trade and other receivables account slightly increased by ₱3 million, ending the semester with a ₱2,321 million balance. International operations' balance increased by 9.8% due to higher sales, thus closing the quarter with a US\$57 million balance.

Inventories rose by 14.5% to ₱4,071 million primarily due to domestic operations' higher inventory levels of malt and international operations' build-up of finished goods in anticipation of higher volumes during the summer months.

All the other noncurrent assets' balances have minimal changes except for the increase in investment properties of domestic operations due to the purchase by BPI of a property in Bacolod and the foreclosed properties and international operations' other noncurrent assets which increased by 23% due to new purchases of containers and additional funding of SMBHK's retirement fund.

Drafts and loans payable which is solely the account of international operations increased to ₱1,983 million due to the additional short-term loan availed by SMGB in March 2011 amounting to US\$7.6 million.

The current maturities of long-term debt pertains to the Series A of the ₱38.8 billion Bonds which will mature on April 3, 2012 amounting to ₱13,590 million. Long-term debt conversely decreased as a result of the reclassification of the current portion of the bonds.

Deferred tax liabilities increased to ₱110 million from ₱89 million in December 2010 due to additional temporary taxable differences arising from the revaluation of the long-term debt and the marked-to-market gains on embedded derivatives of domestic operations.

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

Cumulative translation adjustments of ₱688 million relates to the foreign currency translation adjustments of international operations' accounts.

Non-controlling interests, which pertain to the share of the non-controlling stockholders in the net assets of PTD, SMHTL, SMBTL, SMBHK group and BPI, decreased by 13.7% due to dividend payment to non-controlling shareholders.

The increase (decrease) in equity is due to:

(in Millions)	June 30	
	2012	2011
Income during the period	₱6,657	₱ 6,037
Increase in non-controlling interests	-	9
Effect of translation adjustments and others	(770)	(109)
Cash dividends	(4,700)	(4,668)
	₱1,187	₱ 1,269

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	June 30	
	2012	2011
Net cash flows provided by operating activities	₱ 6,663	₱ 6,479
Net cash flows used in investing activities	(634)	(1,542)
Net cash flows used in financing activities	(5,308)	(4,312)

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:

	June 30	
	2012	2011
Interest received	₱ 373	₱ 314
Proceeds from sale of property and equipment	4	5
Additions to property and equipment and investment property	(186)	(1,040)
Increase in intangible assets and other noncurrent assets	(825)	(821)

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

	June 30	
	2012	2011
Proceeds from long-term debt – net of debt issue costs	₱ 21,078	₱ -
Proceeds from short-term borrowings	-	330
Payment of long-term debt	(19,989)	-
Payment of short-term borrowings	(1,696)	(3)
Increase (decrease) in other noncurrent liabilities	(2)	36
Cash dividends paid	(4,699)	(4,675)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱184 million) and (₱44 million) in June 30, 2012 and 2011, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” of the MD&A for the discussion of certain computed Key Performance Indicators.

	June 2012	December 2011
Liquidity:		
Current Ratio	3.00	1.09
Solvency:		
Interest Coverage Ratio*	5.68	5.70
Debt to Equity Ratio	2.12	2.28
Interest-bearing Debt to Equity Ratio	1.82	1.93
Asset to Equity Ratio	3.12	3.28
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	48.78%	49.29%

	Period Ended June 30	
	2012	2011
Operating Efficiency:		
Volume (Decline) Growth	(2.7%)	4.6%
Revenue Growth	3.6%	6.8%
Operating Margin	29.4%	28.8%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Interest Coverage Ratio	$\frac{\text{Earnings before interest, taxes, depreciation and amortization (EBITDA)*}}{\text{Interest expense and other financing charges}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Total Equity}}$
Interest-bearing Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Debt}}{\text{Total Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Total Equity}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company**}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$

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

* Based on 12-month rolling Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).

** Annualized for quarterly reporting