**SAN MIGUEL BREWERY INC.**
A subsidiary of San Miguel Corporation

August 15, 2011

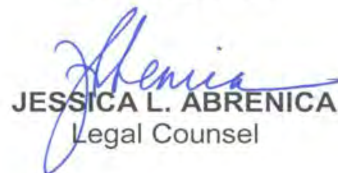
**Philippine Stock Exchange Inc.**
Disclosure Department
3rd Floor, Philippine Stock Exchange Center
Ayala Triangle, Ayala Avenue
Makati City

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

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period June 30, 2011.

Very truly yours,



JESSICA L. ABRENICA
Legal Counsel

# COVER SHEET

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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 | 632-3000 |
|---|---|
| Contact Person | Company Telephone Number |

| | | 17-Q (2nd Qtr. 2011) | | |
|---|---|---|---|---|
| Month | Day | FORM TYPE | Month | Day |
| | | | | Annual Meeting |

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

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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, 2011**

2. Commission identification number **CS200711828**

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

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

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

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

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

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

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

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

| | |
|---|---|
| **Common Shares** (Outstanding as of June 30, 2011) | **15,410,478,960** |
| **Philippine Peso-denominated Fixed Rate Bonds** (As of June 30, 2011) | **₱38,800,000,000** |

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" or the "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2011 (with comparative figures as of December 31, 2010 and for the period ended June 30, 2010) and Selected Notes to the Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

## PART II--OTHER INFORMATION

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

**NONE**

## SIGNATURES

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

Issuer **SAN MIGUEL BREWERY INC.**

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

Date August 15, 2011

**Annex "A"**

# SAN MIGUEL BREWERY INC.
# AND SUBSIDIARIES

Unaudited Consolidated Financial Statements
For the period ended June 30, 2011
*(with comparative figures for 2010)*

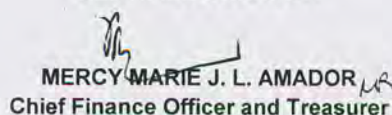
**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**JUNE 30, 2011 and DECEMBER 31, 2010**
**(In Millions)**

| | Note | | 2011 (Unaudited) | | 2010 (Audited) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 7, 8 | P | 15,657 | P | 15,076 |
| Trade and other receivables - net | 3, 7, 8 | | 4,558 | | 4,366 |
| Inventories | | | 4,071 | | 3,557 |
| Prepaid expenses and other current assets | 7, 8 | | 1,168 | | 1,149 |
| **Total Current Assets** | | | 25,454 | | 24,148 |
| **Noncurrent Assets** | | | | | |
| Investments - net | 7, 8 | | 138 | | 135 |
| Property, plant and equipment - net | 4 | | 19,806 | | 19,635 |
| Investment properties - net | | | 1,384 | | 1,379 |
| Intangible assets - net | | | 36,058 | | 36,136 |
| Deferred tax assets | | | 68 | | 68 |
| Other noncurrent assets - net | 7, 8 | | 5,764 | | 5,620 |
| **Total Noncurrent Assets** | | | 63,218 | | 62,973 |
| | | P | 88,672 | P | 87,121 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current Liabilities** | | | | | |
| Drafts and loans payable | 7, 8 | P | 1,983 | P | 1,644 |
| Accounts payable and accrued expenses | 3, 7, 8 | | 6,905 | | 6,833 |
| Income and other taxes payable | | | 2,170 | | 2,263 |
| Current maturities of long-term debt, net of debt issue costs | 7, 8 | | 13,548 | | - |
| **Total Current Liabilities** | | | 24,606 | | 10,740 |
| **Noncurrent Liabilities** | | | | | |
| Long-term debt - net of debt issue cost | 7, 8 | | 37,748 | | 51,364 |
| Deferred tax liabilities | | | 110 | | 89 |
| Other noncurrent liabilities | 7, 8 | | 118 | | 107 |
| **Total Noncurrent Liabilities** | | | 37,976 | | 51,560 |
| **EQUITY** | | | | | |
| **Equity Attributable to Equity Holders of the Parent Company** | | | | | |
| Capital stock | | | 15,410 | | 15,410 |
| Additional paid-in capital | | | 515 | | 515 |
| Cumulative translation adjustments | | | (688) | | (542) |
| Unappropriated retained earnings | | | 8,996 | | 7,286 |
| | | | 24,233 | | 22,669 |
| Non-controlling Interests | | | 1,857 | | 2,152 |
| **Total Equity** | | | 26,090 | | 24,821 |
| | | P | 88,672 | P | 87,121 |

**The consolidated statements of financial position as at June 30, 2011 and December 31, 2010 refer to the consolidated accounts of the of the Group (Company, Iconic Beverages, Inc., Brewery Properties Inc. and San Miguel Brewing International Limited).*

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

**CERTIFIED CORRECT:**



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

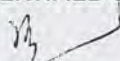
## SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
### For the Period Ended June 30, 2011 and 2010
### (In Millions, Except Per Share Data)

| | | | | | For the Quarter Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2011 | | 2010 | | 2011 | | 2010 |
| SALES (Notes 2 and 3) | P | 35,593 | P | 33,328 | P | 18,063 | P | 17,304 |
| COST OF SALES (Note 3) | | 18,374 | | 17,190 | | 9,364 | | 8,982 |
| GROSS PROFIT | | 17,219 | | 16,138 | | 8,699 | | 8,322 |
| SELLING AND ADMINISTRATIVE EXPENSES (Note 3) | | (6,975) | | (6,681) | | (3,518) | | (3,495) |
| INTEREST INCOME | | 314 | | 354 | | 146 | | 177 |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | | (2,015) | | (1,979) | | (1,011) | | (1,018) |
| INCOME FROM ACQUISITION OF ASSETS AT FAIR VALUE | | - | | 2,418 | | - | | (572) |
| OTHER INCOME - NET (Notes 7 and 8) | | 192 | | 203 | | 56 | | 55 |
| INCOME BEFORE TAX | | 8,735 | | 10,453 | | 4,372 | | 3,469 |
| INCOME TAX EXPENSE | | 2,698 | | 2,491 | | 1,364 | | 1,298 |
| NET INCOME | P | 6,037 | P | 7,962 | P | 3,008 | P | 2,171 |
| Net Income Attributable to: | | | | | | | | |
| Equity Holders of the Parent Company | P | 6,025 | P | 7,887 | P | 2,996 | P | 2,139 |
| Non-controlling Interests | | 12 | | 75 | | 12 | | 32 |
| | P | 6,037 | P | 5,791 | P | 3,008 | P | 2,171 |
| Basic/Diluted Earnings Per Share (Note 5) | P | 0.39 | P | 0.51 | P | 0.19 | P | 0.14 |

**The consolidated statement of income for the period ended June 30, 2011 refers to the consolidated accounts of the Group (Company, Iconic Beverages, Inc., Brewery Brewery Properties Inc. and San Miguel Brewing International Limited) while the consolidated statement of income for the period ended June 30, 2010 refers to the accounts of the Group excluding Brewery Properties Inc.*

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

CERTIFIED CORRECT:



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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended June 30, 2011 and 2010
(In Millions)

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Cumulative Translation Adjustment | Unappropriated Retained Earnings | Total | Non-controlling Interests | Total Equity |
| As of January 1, 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 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 |
| As of January 1, 2010 (Audited) | P 15,410 | P 515 | P - | P 3,993 | P 19,918 | P - | P 19,918 |
| Foreign currency translation differences | - | - | 158 | - | 158 | 56 | 214 |
| Net income for the period | - | - | - | 7,887 | 7,887 | 75 | 7,962 |
| Total comprehensive income for the period | - | - | 158 | 7,887 | 8,045 | 131 | 8,176 |
| Acquisition of a subsidiary | - | - | - | - | - | 3,514 | 3,514 |
| Cash dividends (Note 6) | - | - | - | (4,161) | (4,161) | - | (4,161) |
| As of June 30, 2010 (Unaudited) | P 15,410 | P 515 | P 158 | P 7,719 | P 23,802 | P 3,645 | P 27,447 |

**The consolidated statement of changes in equity for the period ended June 30, 2011 refers to the consolidated accounts of the Group (Company, Iconic Beverages, Inc., Brewery Properties Inc. and San Miguel Brewing International Limited) while the statement of changes in equity for the period ended June 30, 2010 refers to the accounts of the Group excluding Brewery Properties Inc.*

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

CERTIFIED CORRECT:

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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
For the Period Ended June 30, 2011 and 2010
(In Millions)

| | 2011 | 2010 | For the Quarter Ended 2011 | For the Quarter Ended 2010 |
|---|---|---|---|---|
| NET INCOME | P 6,037 | P 7,962 | P 3,008 | P 2,171 |
| EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS | (111) | 214 | (41) | 540 |
| NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS | 2 | - | 1 | - |
| OTHER COMPREHENSIVE INCOME - NET OF TAX | (109) | 214 | (40) | 540 |
| TOTAL COMPREHENSIVE INCOME - NET OF TAX | P 5,928 | P 8,176 | P 2,968 | P 2,711 |
| Comprehensive Income Attributable to: | | | | |
| Equity Holders of the Parent Company | P 5,879 | P 8,045 | P 2,938 | P 2,566 |
| Non-controlling interests | 49 | 131 | 30 | 145 |
| | P 5,928 | 8,176 | P 2,968 | 2,711 |

**The consolidated statement of comprehensive income for the period ended June 30, 2011 refers to the consolidated accounts of the Group (Company, Iconic Beverages Inc., Brewery Properties Inc. and San Miguel Brewing International Limited) while the consolidated statement of comprehensive income for the period ended June 30, 2010 refers to the accounts of the Group excluding Brewery Properties Inc.*

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

CERTIFIED CORRECT:

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

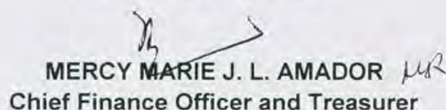
SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Period Ended June 30, 2011 and 2010
(In Millions)

| | 2011 | 2010 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | ₱ 8,735 | ₱ 10,453 |
| Adjustments for: | | |
| Interest expense and other financing charges | 2,015 | 1,979 |
| Depreciation, amortization and others | 1,061 | 1,312 |
| Income from acquisition of assets at fair value | - | (2,418) |
| Interest income | (314) | (354) |
| Provision for allowance for doubtful accounts and inventory losses | 103 | 199 |
| Gain on sale of property and equipment | (3) | (2) |
| Operating income before working capital changes | 11,597 | 11,169 |
| Changes in noncash current assets and certain current liabilities and others | (539) | (476) |
| Cash generated from operations | 11,058 | 10,693 |
| Income taxes paid | (2,652) | (2,424) |
| Interest paid | (1,927) | (1,743) |
| Net cash flows provided by operating activities | 6,479 | 6,526 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 314 | 350 |
| Proceeds from sale of property and equipment | 5 | 3 |
| Acquisition of subsidiaries, net of cash received | - | (9,835) |
| (Increase) decrease in intangible assets and other noncurrent assets | (821) | 81 |
| Additions to property and equipment | (1,040) | (298) |
| Net cash flows used in investing activities | (1,542) | (9,699) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term debt | - | 13,469 |
| Proceeds from short-term borrowings, net of payments | 327 | - |
| Cash dividends paid | (4,675) | (4,486) |
| Increase (decrease) in other noncurrent liabilities | 36 | (96) |
| Net cash flows provided by (used in) financing activities | (4,312) | 8,887 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (44) | 20 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 581 | 5,734 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 15,076 | 13,563 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | ₱ 15,657 | ₱ 19,297 |

**The consolidated statement of cash flows for the period ended June 30, 2011 refers to the consolidated accounts of the Group (Company, Iconic Beverages, Inc. Brewery Properties Inc. and San Miguel Brewing International Limited) while the consolidated statement of cash flows for the period ended June 30, 2010 refers to the accounts of the Group excluding Brewery Properties Inc.*

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

CERTIFIED CORRECT:



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

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
ACCOUNTS RECEIVABLE - TRADE
AS OF JUNE 30, 2011

| TYPE OF ACCOUNTS RECEIVABLE | | TOTAL | CURRENT | 1 - 30 DAYS | 31 - 60 DAYS | OVER 60 DAYS |
|---|---|---|---|---|---|---|
| DOMESTIC | ₱ | 2,355,365,740.46 | 2,127,991,965.22 | 58,200,704.73 | 1,885,839.37 | 167,287,231.14 |
| INTERNATIONAL | | 2,301,356,555.52 | 1,550,232,138.62 | 290,003,287.47 | 87,470,509.29 | 373,650,620.14 |
| TOTAL | | 4,656,722,295.98 | | | | |
| ALLOWANCE FOR DOUBTFUL ACCOUNTS | | (1,009,386,503.06) | | | | |
| NET | ₱ | 3,647,335,792.92 | | | | |

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

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

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

*Amendments to Standard and Interpretations Adopted in 2011*

Starting January 1, 2011, the Group adopted the following PFRS:

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues,* permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is effective for annual periods beginning on or after February 1, 2010.

- Revised PAS 24*, Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRSs 2010* contain 11 amendments to 6 standards and 1 interpretation, of which only the following are applicable to the Group.

  - PFRS 3, *Business Combinations*. The amendments (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be

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

- PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21 *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates,* and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010.

- PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented, either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.

- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011.

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

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

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

▪ *Disclosures – Transfers of Financial Assets (Amendments to PFRS 7),* require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of 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 derecognized financial assets. Entitites are required to apply the amendments for annual periods 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 Group will assess the impact of the new or revised standards, amendments to standards and interpretations on the consolidated financial statements upon adoption on their respective effective dates.

- PFRS 9, *Financial Instruments* (2009) was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. 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. In October 2010, a new version of PFRS 9, *Financial Instruments* (2010) was issued which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

The Group is still assessing the impact of the adoption of PFRS 9 (2009) or PFRS 9 (2010) on the consolidated financial statements and therefore, the interim consolidated financial statements do not reflect the impact of the new standard. The Group is evaluating whether it will opt for the early adoption of PFRS 9 (2009) or PFRS 9 (2010) in its consolidated financial statements which will result in a change in the classification and measurement of the Group's financial assets and liabilities.

## 2. Segment Information

Operating Segments

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

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

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

The international operations also produce fermented and malt-based beverages in five foreign countries and market the same 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, 2011** | | | |
|---|---|---|---|---|
| | **Domestic** | **International** | **Eliminations** | **Consolidated** |
| **Sales** | | | | |
| External sales | ₱29,309 | ₱6,284 | ₱ - | ₱35,593 |
| Inter-segment sales | 9 | - | ( 9) | - |
| **Total Sales** | **₱29,318** | **₱6,284** | **(₱ 9)** | **₱35,593** |
| **Results** | | | | |
| Segment Results | ₱ 10,093 | ₱ 151 | ₱ - | ₱ 10,244 |

| | For the Period Ended June 30, 2010 | | | |
|---|---|---|---|---|
| | Domestic | International | Eliminations | Consolidated |
| **Sales** | | | | |
| External sales | ₱27,644 | ₱5,684 | ₱ - | ₱33,328 |
| Inter-segment sales | 25 | - | ( 25) | - |
| **Total Sales** | **₱27,669** | **₱5,684** | **(₱ 25)** | **₱33,328** |
| **Results** | | | | |
| Segment Results | ₱ 9,376 | ₱ 81 | ₱ - | ₱ 9,457 |

## 3. Related Party Transactions

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

| | | **Sales to Related Parties** | **Purchases from Related Parties** | **Amounts Owed by Related Parties** | **Amounts Owed to Related Parties** |
|---|---|---|---|---|---|
| **San Miguel Corporation** | **June 2011** | **₱ 2** | **₱ 643** | **₱ 24** | **₱ 409** |
| | Dec. 2010 | 3 | 1,806 | 49 | 527 |
| **San Miguel Yamamura Packaging Corporation** | **June 2011** | **12** | **1,042** | **12** | **739** |
| | Dec. 2010 | 36 | 2,909 | 18 | 742 |
| **San Miguel Paper Packaging Corporation** | **June 2011** | **-** | - | **-** | **-** |
| | Dec. 2010 | - | 1 | - | 1 |
| **SMC Shipping and Lighterage Corporation** | **June 2011** | **2** | **239** | **1** | **110** |
| | Dec. 2010 | 4 | 449 | 1 | 87 |
| **SMITS, Inc. and subsidiary** | **June 2011** | - | **75** | **-** | **61** |
| | Dec. 2010 | - | 199 | - | 46 |
| **San Miguel Yamamura Asia Corporation** | **June 2011** | **2** | **156** | **1** | **101** |
| | Dec. 2010 | 3 | 110 | - | 7 |

*Forward*

| | | Sales to Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties |
|---|---|---|---|---|---|
| **Ginebra San Miguel, Inc. and** | **June 2011** | **2** | **5** | **2** | **-** |
| **subsidiaries** | Dec. 2010 | 19 | 13 | 6 | 4 |
| **San Miguel International Limited and** | **June 2011** | **9** | **34** | **9** | **19** |
| **subsidiaries** | Dec. 2010 | - | - | 7 | 7 |
| **San Miguel Pure Foods Company, Inc.** | **June 2011** | **10** | **18** | **24** | **14** |
| **and subsidiaries** | Dec. 2010 | 29 | 28 | 26 | 24 |
| **Petron Corporation and subsidiaries** | **June 2011** | **-** | **358** | **-** | **96** |
| | Dec. 2010 | - | 392 | - | 100 |
| **San Miguel Properties, Inc.** | **June 2011** | **-** | **24** | **11** | **-** |
| | Dec. 2010 | - | 72 | 10 | - |
| **Others** | **June 2011** | **-** | **70** | **8** | **9** |
| | Dec. 2010 | - | 31 | 1 | 36 |

## 4. Property, Plant and Equipment

Property, plant and equipment consist of:

| 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** |

*Forward*

| June 30, 2010 | Balance, December 31, 2009 | Additions | Disposals and Reclassifications | Currency Translation Adjustments | Balance, June 30, 2010 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Land | ₱ - | ₱ - | ₱ 1,006 | ₱ 33 | ₱ 1,039 |
| Buildings and improvements | 3,551 | 30 | 8,041 | 62 | 11,684 |
| Machinery and equipment | 17,299 | 216 | 18,948 | 91 | 36,554 |
| Transportation equipment | 384 | 115 | 226 | 3 | 728 |
| Tools and small equipment | 9 | - | - | - | 9 |
| Office equipment, furniture and fixtures | 375 | 14 | 353 | 4 | 746 |
| Leasehold improvements | 76 | - | 18 | - | 94 |
| Construction in progress | 335 | (77) | 47 | 1 | 306 |
| | 22,029 | 298 | 28,639 | 194 | 51,160 |
| **Accumulated depreciation and amortization:** | | | | | |
| Buildings and improvements | 1,563 | 114 | 1,986 | 18 | 3,681 |
| Machinery and equipment | 13,990 | 544 | 7,155 | 70 | 21,759 |
| Transportation equipment | 303 | 27 | 182 | 3 | 515 |
| Tools and small equipment | 8 | - | - | 1 | 9 |
| Office equipment, furniture and fixtures | 356 | 13 | 259 | 3 | 631 |
| Leasehold improvements | 44 | 2 | 18 | - | 64 |
| | 16,264 | 700 | 9,600 | 95 | 26,659 |
| **Accumulated impairment losses:** | | | | | |
| Buildings and improvements | - | - | 2,300 | 16 | 2,316 |
| Machinery and equipment | - | - | 5,238 | 43 | 5,281 |
| Transportation equipment | - | - | 6 | - | 6 |
| Tools and small equipment | - | - | - | - | - |
| Office equipment, furniture and fixtures | - | - | 22 | - | 22 |
| | - | - | 7,566 | 59 | 7,625 |
| Net book value | ₱ 5,765 | (₱ 402 ) | ₱ 11,473 | ₱ 40 | ₱16,876 |

Depreciation and amortization charged to operations amounted to ₱611 and ₱700 in June 2011 and 2010, respectively.

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

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

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

Basic/Diluted EPS is computed as follows:

| | June | |
|---|---|---|
| | **2011** | 2010 |
| Net Income attributable to equity holders of the Parent Company (a) | **₱ 6,025** | ₱ 7,887 |
| Weighted average number of shares outstanding (b) | **15,410** | 15,410 |
| Basic / Diluted EPS (a/b) | **₱ 0.39** | **₱ 0.51** |

As of June 30, 2011 and 2010, the Group has no dilutive debt or equity instruments.

## 6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to ₱0.28 and ₱0.27 per share in June 2011 and 2010, respectively.

## 7. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by ₱130 and ₱138 in June 30, 2011 and 2010, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at June 30, 2011 and December 31, 2010, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| **June 30, 2011** | **<1 year** | **1-<2 years** | **>2-<3 years** | **>3-<4 years** | **>4-<5 years** | **>5 years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Fixed rate** | | | | | | | |
| **Philippine peso-denominate** | **₱ 13,590** | **₱ -** | **₱ 22,400** | **₱ -** | **₱ -** | **₱ 2,810** | **₱ 38,800** |
| **Interest rate** | **8.25%** | | **8.875%** | | | **10.50%** | |
| **Floating rate** | | | | | | | |
| **Foreign currency-denominated** | | | | | | | |
| **(expressed in Philippine pe** | **-** | **-** | **-** | **12,999** | **-** | **-** | **12,999** |
| **Interest rate** | | | | **LIBOR + margin** | | | |
| | **₱ 13,590** | **₱ -** | **₱ 22,400** | **₱ 12,999** | **₱ -** | **₱ 2,810** | **₱ 51,799** |

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

Foreign Currency Risk

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

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

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

| | **June 30, 2011** | | December 31, 2010 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$94.8** | **₱4,106** | US$93.3 | ₱4,093 |
| Trade and other receivables | **58.5** | **2,533** | 53.6 | 2,350 |
| Noncurrent receivable | **0.2** | **10** | 0.3 | 11 |
| | **153.5** | **6,649** | 147.2 | 6,454 |
| **Liabilities** | | | | |
| Drafts and loans payable | **45.8** | **1,983** | 37.5 | 1,644 |
| Accounts payable and accrued expenses | **65.0** | **2,816** | 61.4 | 2,691 |
| Long-term debt | **300.0** | **12,999** | 300.0 | 13,152 |
| | **410.8** | **17,798** | 398.9 | 17,487 |
| Net foreign currency-denominated monetary liabilities | **(US$257.3)** | **(₱11,149)** | (US$251.7) | (₱11,033) |

The Group reported net foreign exchange gains amounting to ₱174 and ₱137 in June 30, 2011 and 2010, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

| | **Peso to US Dollar** |
|---|---|
| December 31, 2009 | 46.20 |
| June 30, 2010 | 46.37 |
| December 31, 2010 | 43.84 |
| June 30, 2011 | 43.33 |

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, 2011 and December 31, 2010:

| **June 30, 2011** | **P1 decrease in the US dollar exchange rate** | | **P1 increase in the US dollar exchange rate** | |
|---|---|---|---|---|
| | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P6)** | **(P93)** | **P6** | **P93** |
| Trade and other receivables | **(2)** | **(58)** | **2** | **58** |
| | **(8)** | **(151)** | **8** | **151** |
| Drafts and loans payable | **-** | **46** | **-** | **(46)** |
| Accounts payable and accrued expenses | **1** | **65** | **(1)** | **(65)** |
| Long-term debt | **300** | **210** | **(300)** | **(210)** |
| | **301** | **321** | **(301)** | **(321)** |
| | **P293** | **P170** | **(P293)** | **(P170)** |

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

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of June 30, 2011 and December 31, 2010:

**June 30, 2011**

| | **Carrying Amount** | **Contractual Cash Flow** | **1year or less** | **> 1 year - 2 years** | **>2 years - 5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | **P15,657** | **P15,657** | **P15,657** | **P -** | **P -** | **P -** |
| Trade and other receivables - net | **4,558** | **4,558** | **4,558** | **-** | **-** | **-** |
| Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position) | **60** | **60** | **60** | **-** | **-** | **-** |

| | Carrying Amount | Contractual Cash Flow | 1year or less | > 1 year - 2 years | >2 years - 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| AFS financial assets (included under "Investments" account in the consolidated statements of financial position) | **138** | **138** | **-** | **138** | **-** | **-** |
| Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position) | **48** | **48** | **-** | **48** | **-** | **-** |
| **Financial Liabilities** | | | | | | |
| Drafts and loans payable | **1,983** | **2,049** | **2,049** | **-** | **-** | **-** |
| Accounts payable and accrued expenses | **6,895** | **6,895** | **6,895** | **-** | **-** | **-** |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position) | **10** | **10** | **10** | **-** | **-** | **-** |
| Long-term debt (including current maturities) | **51,296** | **61,344** | **16,847** | **2,595** | **38,279** | **3,623** |

December 31, 2010

| | Carrying Amount | Contractual Cash Flow | 1year or less | > 1 year - 2 years | >2 years - 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | P15,076 | P15,076 | P15,076 | P - | P - | P - |
| Trade and other receivables - net | 4,366 | 4,366 | 4,366 | - | - | - |
| Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position) | 54 | 54 | 54 | - | - | - |
| AFS financial assets (included under "Investments" account in the consolidated statements of financial position) | 135 | 135 | - | 135 | - | - |
| Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position) | 11 | 11 | - | 11 | - | - |
| **Financial Liabilities** | | | | | | |
| Drafts and loans payable | 1,644 | 1,663 | 1,663 | - | - | - |
| Accounts payable and accrued expenses | 6,825 | 6,825 | 6,825 | - | - | - |

| | Carrying Amount | Contractual Cash Flow | 1year or less | > 1 year - 2 years | >2 years - 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position) | 8 | 8 | 8 | - | - | - |
| Long-term debt | 51,364 | 63,379 | 3,722 | 16,479 | 39,407 | 3,771 |

Credit Risk

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

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

*Trade and Other Receivables*

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

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

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

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

*Investments*

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

Financial information on the Group's maximum exposure to credit risk as of June 30, 2011 and December 31, 2010, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

| | **June 30, 2011** | December 31, 2010 |
|---|---|---|
| Cash and cash equivalents | **₱15,657** | ₱15,076 |
| Trade and other receivables - net | **4,558** | 4,366 |
| Derivative assets | **60** | 54 |
| AFS financial assets | **138** | 135 |
| Noncurrent receivables | **48** | 11 |
| | **₱20,461** | ₱19,642 |

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

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

Capital Management

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

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

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

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

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

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

## 8. **Financial Assets and Financial Liabilities**

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

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

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

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

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

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

<u>Financial Assets</u>

*Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. 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 ₱60, ₱61 and ₱54 as of June 30 and March 31, 2011 and December 31, 2010, respectively.

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in 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 ₱20,263, ₱23,887 and ₱19,453 as of June 30 and March 31, 2011 and December 31, 2010, respectively.

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

part of the effective interest rate. The periodic amortization is also included as part of “Interest income” in the consolidated statements of income. Gains and losses are recognized in 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, 2011 and December 31, 2010.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the “Cumulative translation adjustments” in equity. The effective yield component of AFS debt securities is reported as part of “Interest income” in the consolidated statements of income. 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 ₱138, ₱137 and ₱135 as of June 30 and March 31, 2011 and December 31, 2010, respectively.

*Financial Liabilities*

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in 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 ₱10, ₱7 and ₱8 as of June 30 and March 31, 2011 and December 31, 2010, respectively.

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

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

The combined carrying amounts of financial liabilities under this category amounted to ₱60,174, ₱62,435 and ₱59,833 as of June 30 and March 31, 2011 and December 31, 2010, respectively.

Debt Issue Costs
Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are charged against current operations.

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

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

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in 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 consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Assets.* If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in 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 reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in 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.

<u>Classification of Financial Instruments Between Debt and Equity</u>
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, 2011 and December 31, 2010:

| | **June 30, 2011** | | December 31, 2010 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **₱15,657** | **₱15,657** | ₱15,076 | ₱15,076 |
| Trade and other receivables – net | **4,558** | **4,558** | 4,366 | 4,366 |
| Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position) | **60** | **60** | 54 | 54 |
| AFS financial assets (included under "Investments" account in the consolidated statements of financial position) | **138** | **138** | 135 | 135 |
| Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position) | **48** | **48** | 11 | 11 |
| **Financial Liabilities** | | | | |
| Drafts and loans payable | **1,983** | **1,983** | 1644 | 1,644 |
| Accounts payable and accrued expenses | **6,895** | **6,895** | 6,825 | 6,825 |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position) | **10** | **10** | 8 | 8 |
| Long-term debt (including current maturities) | **51,296** | **56,084** | 51,364 | 57,346 |

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

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

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

*AFS Financial Assets.* The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a

reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

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

*Long-term Debt.* The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of June 30, 2011 and December 31, 2010, discount rates used range from 3.1% to 6.1% and 1.34% to 5.71%, respectively. The carrying values of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of 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.

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

*Embedded Currency Forwards*

As of June 30 and March 31, 2011 and December 31, 2010, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$49, US$25 and US$24, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of June 30 and March 31, 2011 and December 31, 2010, the net positive fair value of these embedded currency forwards amounted to ₱49, ₱54 and ₱46, respectively.

For the periods ended June 30 and March 31, 2011 and June 30 and March 31, 2010, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to ₱13, ₱15, ₱37 and ₱28, 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, 2011 and December 31, 2010. The different levels have been defined as follows:

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

**June 30, 2011**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Financial Assets** | | | |
| Derivative Assets | ₱ - | ₱ 60 | ₱ 60 |
| AFS financial assets | 138 | - | 138 |
| **Financial Liabilities** | | | |
| Derivative Liabilities | - | 11 | 11 |

December 31, 2010

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

As of June 30, 2011 and December 31, 2010, the Group has no financial instruments valued based on Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

9. **Other Matters**

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

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

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

d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. There were no material off-statement of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered into by the Group as of and for the period ended June 30, 2011.

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

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of June 30, 2011. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash.

i. On August 11, 2011, the BOD of the Parent Company declared cash dividends amounting to ₱0.14 per share payable to stockholders of record as of August 26, 2011 to be paid on September 12, 2011.

Annex "B"

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

## INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Brewery Inc. (the "Company" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended June 30, 2011 (with comparative figures as of December 31, 2010 and for the period ended June 30, 2010). All necessary adjustments to present fairly the Group's financial position, financial performance and cash flows as of June 30, 2011 and for all the periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

## I. FINANCIAL PERFORMANCE

### 2011 vs. 2010

The consolidated statement of income for the first 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 last year. Domestic operations contributed ₱29,318 million or 6.0% increase from the same period last year due to a 4% increase in volume while international operations contributed US$144 million, an improvement of 16.3% from the same period last year 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 last year. 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 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 last year, 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 last year 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 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 last year. 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 last year 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 last year 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 last year. However, higher financing costs, lower foreign exchange gain and other charges of San Miguel Brewery Hong Kong ("SMBHK") resulted in a US$1.1 million net loss, reversing the increase in operating income.

**2010 vs. 2009**

The financial performance for the second quarter of 2010 already reflects the consolidated transactions of the Parent Company, Iconic Beverages, Inc. (which became a wholly-owned subsidiary of the Parent Company in April 2009) and SMBIL and its subsidiaries following the completion of the Parent Company's purchase of the international beer and malt-based beverage

business from SMC through the purchase of SMBIL in January 2010. SMBIL and its subsidiaries are responsible for the international beer operations of the Group.

Consolidated sales revenue amounted to ₱33,328 million for the first semester of 2010, ₱27,644 million of which came from domestic operations and ₱5,684 million from international operations.

Operating income amounted to ₱9,457 million, with domestic operations accounting for 99% of the total amount.

Net Income from domestic operations amounting to ₱5,512 million and the income from acquisition of assets at fair value arising from the purchase of SMBIL amounting to ₱2,418 million mostly accounted for the ₱7,962 million consolidated net income.

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

***Domestic Beer Operations***

Domestic operations continued its strong performance in the first semester of 2010 with its 6% increase in volume translating to an 11% growth in revenue compared to the same period in 2009. Cost of sales, however, was also higher by 5% given higher volumes and increased fuel prices.

Operating income continued to grow at a double-digit pace, closing the semester with a 24% increase despite a 10% rise in operating expenses from increased advertising and promotional activities. With this, net income increased by 13% versus the first semester of 2009, notwithstanding higher financing costs due to funding requirements for the acquisition of SMBIL. Likewise, income tax expense increased by 11.5% for the first semester of 2010 due to higher revenue.

***International Beer Operations***

International operations' sales revenue rebounded in the second quarter, posting a 13% increase over the first quarter of 2010 mainly due to the price increase implemented in Indonesia effective April 2010 and sustained revenue growth from SMBIL exports.

This resulted to a significant increase in operating income from the first quarter of 2010. However, the income tax imposed on the dividend income of San Miguel Malaysia Pte. Ltd. resulted to a decrease in net income of 60% from the first quarter of 2010.

## II. FINANCIAL POSITION

**2011 vs. 2010**

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

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 San Miguel Guangdong Brewery Co. Ltd. in March 2011 amounting to US$7.6 million.

The current maturities of long-term debt pertains to the Series A of the ₱38,800 million bonds issued by the Company in 2009 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 P.T. Delta Djakarta, TBK ("PTD"), San Miguel Beer Thailand Limited, SMBHK group and BPI, decreased by 13.7% due to dividend payment to minority shareholders.

**2010 vs. 2009**

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

Cash and cash equivalents amounted to ₱19,297 in 2010 compared to ₱13,563 million in 2009 primarily due to consolidation of international operations' cash amounting to ₱4,169 million. Domestic operations' cash balance increased by ₱1,565 million due to efficient collection of receivables.

Trade and other receivables amounted to ₱4,267 million compared to ₱3,311 million in 2009. Receivables from domestic operations decreased by ₱947 million from ₱3,311 million in 2009 to ₱2,364 million in 2010 mainly due to higher collection of trade receivables and settlement of insurance claims. International operations accounted for ₱2,110 million of the total receivables as of June 2010.

Inventories amounted to ₱4,445 million in 2010 as against ₱3,246 million in 2009 primarily due to international operations inventory balance of ₱957 million and an increase in domestic operations' finished goods.

Prepaid expenses and other current assets for domestic operations slightly decreased by ₱22 million from ₱653 million in 2009 to ₱631 million in 2010 primarily due to the reversal of pension asset. On the other hand, balances from international operations amounted to ₱477 million in June 2010.

Investments pertain to investment in shares of stocks carried at fair value while investment properties pertain to properties held for lease and capital appreciation. Both accounts are for the international operations.

Property, plant and equipment increased from ₱5,765 million in 2009 to ₱16,876 million in 2010 primarily due to the consolidation of the international operations' fixed assets amounting to ₱11,327 million.

Intangible assets increased by ₱4,030 million from ₱32,020 million in 2009 to ₱36,050 million in 2010 primarily due to the consolidation of international operations' brands and licenses.

Deferred tax assets decreased by ₱102 million from ₱232 million in 2009. This was mainly due to the deferred tax asset from domestic operations which decreased by ₱170 million due to the offsetting effect of the set-up of deferred tax liability attributed to debt issue costs which were already availed in full as deduction for tax purposes.

Other noncurrent assets amounted to ₱5,762 million in 2010 from ₱5,300 million in 2009 primarily due to the consolidation of international operations balance.

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

Accounts payable and accrued expenses amounted to ₱5,728 million in 2010 from ₱4,077 million in 2009. Accounts payable and accrued expense for domestic operations amounted to ₱3,295 million, ₱782 million lower than 2009 due to payment of trade payables. International operations accounted for ₱2,640 million in June 2010.

Income and other taxes payable amounted to ₱2,223 million in 2010 as against ₱1,679 million in 2009. Taxes payable from domestic operations increased by ₱136 million from ₱1,679 million in 2009 primarily due to the increase in revenues for 2010. International operations' taxes payable accounted for ₱408 million of the total amount.

Long-term debt increased by ₱13,550 million from ₱38,416 million in 2009 primarily due to the US$300 million loan availed of by the Parent Company for the purchase of SMBIL.

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

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

Cumulative translation adjustments of ₱158 million is basically the foreign currency translation adjustment of international operations' net assets.

Non-controlling interests pertain to the share of the non-controlling stockholders in the assets and liabilities of SMBHK and PTD.

The increase in equity is due to:

| (In Millions) | June 30<br>2011 | <br>2010 |
|---|---|---|
| Income during the period | **₱6,037** | ₱7,962 |
| Increase in non-controlling interests | **9** | - |
| Non-controlling interests from acquisition of a subsidiary | **-** | 3,514 |
| Effect of translation adjustment | **(109)** | 214 |
| Cash dividends paid | **(4,668)** | (4,161) |
| | **₱ 1,269** | ₱ 7,529 |

## III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| (In Millions) | June 30<br>2011 | <br>2010 |
|---|---|---|
| Net cash flows provided by operating activities | **₱ 6,479** | ₱6,526 |
| Net cash flows used in investing activities | **(1,542)** | (9,699) |
| Net cash flows provided by (used in) financing activities | **(4,312)** | 8,887 |

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

Net cash flows used in investing activities included the following:

| (In Millions) | June 30<br>2011 | <br>2010 |
|---|---|---|
| Interest received | **₱ 314** | ₱ 350 |
| Proceeds from sale of property and equipment | **5** | 3 |
| Acquisition of a subsidiary | **-** | (9,835) |
| Decrease (increase) in intangible assets and other noncurrent assets | **(821)** | 81 |
| Additions to property and equipment and investment property | **(1,040)** | (298) |

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

| (In Millions) | June 30<br>2011 | <br>2010 |
|---|---|---|
| Net proceeds from short-term loans | **₱ 327** | ₱ - |
| Proceeds from long-term debt | **-** | 13,469 |
| Increase (decrease) in other noncurrent liabilities | **36** | (96) |
| Cash dividends paid | **(4,675)** | (4,486) |

The effect of exchange rate changes on cash and cash equivalents amounted to (₱44 million) and ₱20 million in June 30, 2011 and 2010, respectively.

## IV. KEY PERFORMANCE INDICATORS

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

| | June 2011 | December 2010 |
|---|---|---|
| Liquidity: | | |
| Current Ratio | 1.03 | 2.25 |
| Solvency: | | |
| Debt-to-Equity Ratio | 2.40 | 2.51 |
| Profitability: | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | 51.4% | 55.3% |

| | Period Ended June 30 | |
|---|---|---|
| | 2011 Consolidated | 2010 Domestic |
| Operating Efficiency: | | |
| Volume Growth | 4.6% | 6.0% |
| Revenue Growth | 6.8% | 11.5% |
| Operating Margin | 28.8% | 34.0% |

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

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

* Annualized for quarterly reporting