November 14, 2012

The Philippine Stock Exchange, Inc.
Disclosure Department
3rd Floor, Philippine Stock Exchange Plaza
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 ended September 30, 2012.

Very truly yours,

CONCHITA P. JAMORA
Assistant Corporate Secretary

GINEBRA SAN MIGUEL, INC.
3rd & 6th Floors, San Miguel Properties Centre St. Fancis Street, Mandaluyong City, Metro Manila, Philippines 1550 Telephone: (632) 689-9100 Fax: (632) 643-2211
A Subsidiary of: SAN MIGUEL CORPORATION

COVER SHEET

1 4 2 3 1 2

S. E. C. Registration Number

G I N E B R A

S A N M I G U E L

I N C .

(Company's Full Name)

3rd & 6th Floor San Miguel

Properties Centre

St. Francis Street

Mandaluyong City

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

Atty. Maila N. Pagsanhan

Contact Person

(632) 689-9100

Company Telephone Number

SEC FORM

1 2	3 1	17-Q (3rd Qtr 2012)		
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

Remarks = pls. use black ink for scanning purposes

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

1. For the quarterly period ended **September 30, 2012**

2. Commission identification number **142312** 3. BIR Tax Identification No. **000-083-856**

3. Exact name of issuer as specified in its charter: **GINEBRA SAN MIGUEL, INC.**

PHILIPPINES
5. Province, country or other jurisdiction of incorporation or organization:

6. Industry Classification Code: [ ] (SEC use only)

3RD & 6TH FLOORS, SAN MIGUEL PROPERTIES CENTER,
ST. FRANCIS STREET, MANDALUYONG CITY **1550**
7. Address of issuer's principal office Postal Code

(632) 689-9100
8. Issuer's telephone number, including area code

N.A.
9. 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

	Outstanding Capital Stock and Amount of Debt Outstanding as of September 30, 2012
COMMON SHARES	**290,075,941**
PREFERRED SHARES	**32,786,885**
	322,862,829
TOTAL LIABILITIES	**Php 14,559,177,001**

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

Yes [/] No [ ]

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

PHILIPPINE STOCK EXCHANGE - Common

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 12 months (or for such shorter period the registrant was required to file such reports)

Yes [/] No [ ]

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

Yes [/] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Ginebra San Miguel, Inc. and its subsidiaries as of and for the period ended September 30, 2012 (with comparative figures as of December 31, 2011 and for the period ended September 30, 2011) and Selected Notes to Consolidated Financial Statements are attached hereto as **Annex "A"**.

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

The information required by Part III, Paragraph (A)(2)(b) of "Annex C, as amended" is attached hereto as **Annex "B"**.

PART II – OTHER INFORMATION

Ginebra San Miguel, Inc. 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 **GINEBRA SAN MIGUEL, INC.**

Signature and Title **Cynthia M. Baroy**
Chief Finance Officer

Date **NOVEMBER 14, 2012**

Annex "A"

**GINEBRA SAN MIGUEL INC.
AND SUBSIDIARIES**

Unaudited Consolidated Financial Statements
for the period ended September 30, 2012
(with comparative figures as of December 31, 2011)

GINEBRA SAN MIGUEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2012 AND DECEMBER 31, 2011
(Amounts in Thousands)

	Note		2012 *Unaudited*		2011 *Audited*
ASSETS					
Current Assets					
Cash and cash equivalents	8,9	P	574,536	P	366,116
Trade and other receivables - net	5,8,9		4,041,969		3,177,311
Inventories			6,055,962		6,782,788
Prepaid taxes and other current assets	8,9		860,918		891,850
Total Current Assets			11,533,385		11,218,065
Noncurrent Assets					
Property, plant and equipment - net	3		7,590,484		6,836,356
Investment properties - net	4		151,194		157,998
Intangible assets			300,084		58,834
Deferred tax assets - net			815,183		541,055
Other noncurrent assets - net	8,9		941,501		737,464
Total Noncurrent Assets			9,798,446		8,331,707
		P	21,331,831	P	19,549,772
LIABILITIES AND EQUITY					
Current Liabilities					
Notes payable	8,9	P	9,129,837	P	7,931,093
Trade and other payables	5,8,9		3,097,013		2,274,044
Income and other taxes payable			63,250		118,484
Current maturities of long-term debt - net of debt issue costs	8,9		656,639		373,974
Total Current Liabilities			12,946,739		10,697,595
Noncurrent Liabilities					
Retirement liability			12,824		6,044
Long-term debt - net of current maturities and debt issue costs	8,9		1,512,028		1,416,847
Finance lease liabilities - net of current portion included in "Trade and other payables"	8,9		834		-
Other noncurrent liabilities	8,9		86,752		91,203
Total Noncurrent Liabilities			1,612,438		1,514,094
Total Liabilities			14,559,177		12,211,689
Equity					
Capital stock			399,063		399,063
Additional paid-in capital			2,537,933		2,526,625
Cumulative translation adjustments			(50,528)		(35,936)
Retained earnings					
Appropriated			2,500,000		2,500,000
Unappropriated			3,965,595		4,527,740
Treasury stock			(2,579,409)		(2,579,409)
Total Equity			6,772,654		7,338,083
		P	21,331,831	P	19,549,772

Note : See accompanying Management's Discussion and Analysis of Financial Position and Performance and Selected Notes to Consolidated Financial Statements

GINEBRA SAN MIGUEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIOD ENDED SEPTEMBER 30, 2012 AND 2011 (UNAUDITED)
(Amounts in Thousands, Except Loss Per Share)

	Note	2012	2011	For the Quarter Ended 2012	For the Quarter Ended 2011
SALES	2	P **10,922,983**	P 11,509,221	P **3,696,910**	P 3,317,795
COST OF SALES		**8,288,154**	9,155,773	**2,780,395**	2,676,266
GROSS PROFIT		**2,634,829**	2,353,448	**916,515**	641,529
SELLING AND MARKETING EXPENSES		**(1,865,592)**	(1,791,537)	**(698,935)**	(626,409)
GENERAL AND ADMINISTRATIVE EXPENSES		**(1,162,309)**	(1,149,061)	**(397,356)**	(373,516)
INTEREST EXPENSE		**(455,355)**	(337,101)	**(163,092)**	(127,953)
INTEREST INCOME		**2,938**	3,027	**1,391**	786
OTHER INCOME - NET		**79,420**	41,245	**16,045**	9,651
LOSS BEFORE INCOME TAX		**(766,069)**	(879,979)	**(325,432)**	(475,912)
INCOME TAX BENEFIT		**(203,924)**	(39,282)	**(90,891)**	(26,211)
NET LOSS		P **(562,145)**	P (840,697)	P **(234,541)**	P (449,701)
Basic and diluted loss per share	7	P **(2.07)**	P (3.03)	P **(0.85)**	P (1.59)

Note : See accompanying Management's Discussion and Analysis of Financial Position and Performance and Selected Notes to Consolidated Financial Statements

GINEBRA SAN MIGUEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts in Thousands)

	Note	Capital Stock		Additional	Cumulative Translation	Retained Earnings		Treasury	
		Common	Preferred	Paid-in Capital	Adjustments	Appropriated	Unappropriated	Stock	Total
At December 31, 2011 (Audited)		**P 345,625**	**P 53,438**	**P 2,526,625**	**P (35,936)**	**P 2,500,000**	**P 4,527,740**	**P (2,579,409)**	**P 7,338,083**
Exchange differences on translation of foreign operations/Other comprehensive loss		**-**	**-**	**-**	**(14,592)**	**-**	**-**	**-**	**(14,592)**
Net loss for the period		**-**	**-**	**-**	**-**	**-**	**(562,145)**	**-**	**(562,145)**
Total comprehensive loss for the period		**-**	**-**	**-**	**(14,592)**	**-**	**(562,145)**	**-**	**(576,737)**
Stock options			**-**	**11,308**	**-**	**-**	**-**	**-**	**11,308**
As of September 30, 2012 (Unaudited)		**P 345,625**	**P 53,438**	**P 2,537,933**	**P (50,528)**	**P 2,500,000**	**P 3,965,595**	**P (2,579,409)**	**P 6,772,654**
At December 31, 2010 (Audited)		P 342,986	P 53,438	P 2,435,476	P (9,439)	P 2,500,000	P 5,991,914	P (2,579,409)	P 8,734,966
Exchange differences on translation of foreign operations/Other comprehensive loss		-	-	-	(20,703)	-	-	-	(20,703)
Net loss for the period		-	-	-	-	-	(840,697)	-	(840,697)
Total comprehensive loss for the period		-	-	-	(20,703)	-	(840,697)	-	(861,400)
Issuance of capital stock		2,639	-	84,889	-	-	-	-	87,528
Cash dividends	6	-	-	-	-	-	(362,082)	-	(362,082)
As of September 30, 2011 (Unaudited)		P 345,625	P 53,438	P 2,520,365	P (30,142)	P 2,500,000	P 4,789,135	P (2,579,409)	P 7,599,012

Note : See accompanying Management's Discussion and Analysis of Financial Position and Performance and Selected Notes to Consolidated Financial Statements

GINEBRA SAN MIGUEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED SEPTEMBER 30, 2012 AND 2011 (UNAUDITED)
(Amounts in Thousands)

			For the Quarter Ended	
	2012	2011	**2012**	2011
NET LOSS	**P (562,145)**	P (840,697)	**P (234,541)**	P (449,701)
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**(14,592)**	(20,703)	**8,792**	(1,806)
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	**(14,592)**	(20,703)	**8,792**	(1,806)
TOTAL COMPREHENSIVE LOSS - NET OF TAX	**P (576,737)**	P (861,400)	**P (225,749)**	P (451,507)

Note : See accompanying Management's Discussion and Analysis of Financial Position and Performance and Selected Notes to Consolidated Financial Statements

GINEBRA SAN MIGUEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED SEPTEMBER 30, 2012 AND 2011 (UNAUDITED)
(Amounts in Thousands)

		2012		2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax	P	(766,069)	P	(879,979)
Adjustments for:				
Depreciation and amortization		523,853		382,188
Interest expense		455,355		337,101
Loss (gain) on sale of property and equipment		(386)		246
Net unrealized foreign exchange gain		(856)		(1,883)
Interest income		(2,938)		(3,027)
Net derivative loss (gain)		(6,220)		15,841
Operating income (loss) before working capital changes		202,739		(149,513)
Decrease (increase) in:				
Trade and other receivables		(1,401,823)		(170,318)
Inventories		731,631		(569,485)
Prepaid taxes and other current assets		30,406		130,237
Increase (decrease) in:				
Trade and other payables		967,417		(611,215)
Other taxes payable		(55,234)		(50,565)
Retirement liability		6,780		41,843
Cash provided by (used in) operations		481,916		(1,379,016)
Income taxes paid		(368)		(3,406)
Net cash flows provided by (used in) operating activities		481,548		(1,382,422)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment		(203,895)		(1,059,699)
Increase in other noncurrent assets		(135,907)		(132,634)
Interest received		2,938		3,027
Acquisition of a subsidiary, net of cash and cash equivalents acquired		(142,672)		-
Net cash flows used in investing activities		(479,536)		(1,189,306)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		94,542,272		69,430,511
Issuance of capital stock		22,907		29,549
Finance lease liabilities		1,030		-
Other noncurrent liabilities		-		96,176
Payments of:				
Short-term borrowings		(93,336,859)		(66,345,919)
Interest		(480,658)		(373,307)
Cash dividends		(117,970)		(234,596)
Long-term borrowings		(416,432)		(121,379)
Finance lease liabilities		(390)		(1,768)
Net cash flows provided by financing activities		213,900		2,479,267
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(7,492)		(4,756)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		208,420		(97,217)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		366,116		422,630
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P	574,536	P	325,413

Note : See accompanying Management's Discussion and Analysis of Financial Position and Performance and Selected Notes to Consolidated Financial Statements

GINEBRA SAN MIGUEL, INC. AND SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLES
SEPTEMBER 30, 2012 (Unaudited)
(Amounts in Thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	Current	< 30 days past due	30 - 60 days past due	60 - 90 days past due	Over 90 days past due
a) **Trade Receivables**	P	3,518,868	2,317,370	508,799	140,531	162,692	389,476
Less: Allowance for Doubtful Accounts		108,289	-	-	-	-	108,289
NET TRADE RECEIVABLES		**3,410,579**	**2,317,370**	**508,799**	**140,531**	**162,692**	**281,187**
b) **Non-Trade Receivables**		631,390	113,047	5,113	17,871	26,691	468,668
NET NON-TRADE RECEIVABLES		**631,390**	**113,047**	**5,113**	**17,871**	**26,691**	**468,668**
NET RECEIVABLES	P	**4,041,969**	**2,430,417**	**513,912**	**158,402**	**189,383**	**749,855**

1. Summary of Significant Accounting and Financial Reporting Policies

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

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

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

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

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7, Financial Instruments: Disclosures)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities 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 adoption of these foregoing new or revised standards, amendments to standards and Philippine Interpretations of IFRIC did not have a material effect on the interim consolidated financial statements.

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 11, *Joint Arrangements*, which will become mandatory for the Group's 2013 financial statements and will require the equity method for joint ventures and PFRS 9, *Financial Instruments,* which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group conducted an evaluation on the possible financial impact of the adoption of PFRS 9 and does not plan to adopt this standard early.

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

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

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

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

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

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

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

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

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

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

2. Segment Information

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

The Group is organized into two major operating segments namely alcoholic and nonalcoholic beverages.

The alcoholic segment produces and markets alcoholic beverages.

The nonalcoholic segment is involved in the production and marketing of nonalcoholic beverages.

Financial information about reportable segments follow:

	Alcoholic		Nonalcoholic		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
REVENUES						
Net Sales	P **10,445,311**	P 11,030,309	P **477,672**	P 478,912	P **10,922,983**	P 11,509,221
RESULT						
Segment Result *	**(230,958)**	(411,742)	**(90,157)**	(119,958)	**(321,115)**	(531,700)

** Includes rental income and sale of scrap.*

3. Property, Plant and Equipment

The movements in property, plant and equipment are as follows:

September 30, 2012

	December 31, 2011	Additions	Retirements	Reclassification	Cumulative Translation Adjustments	September 30, 2012
Cost:						
Land and Improvements	P 928,560	P -	P (43)	P 99,896	P (5,285)	P 1,023,128
Buildings and Improvements	1,471,653	-	-	447,400	(3,734)	1,915,319
Machinery and Equipment	8,540,977	-	-	735,433	(16,542)	9,259,868
Transportation Equipment	241,948	-	(2,051)	1,029	(224)	240,702
Furniture & Office Equipment	117,995	-	-	10,123	(255)	127,863
Other Equipment	702,096	-	-	11,977	(358)	713,715
Construction in Progress	232,994	203,895	-	(101,637)	(48)	335,204
	P 12,236,223	P 203,895	P (2,094)	P 1,204,221	P (26,446)	P 13,615,799
Accumulated Depreciation:						
Land and Improvements	P 184,983	P 9,470	P -	P 8,966	P (853)	P 202,566
Buildings and Improvements	540,493	42,745	-	165,359	(741)	747,856
Machinery and Equipment	3,937,615	359,617	-	(15,362)	(4,408)	4,277,462
Transportation Equipment	132,575	22,754	(2,010)	(4,055)	(178)	149,086
Furniture & Office Equipment	73,586	17,483	-	1,765	(219)	92,615
Other Equipment	530,615	32,672	-	(7,401)	(156)	555,730
	P 5,399,867	P 484,741	P (2,010)	P 149,272	P (6,555)	P 6,025,315
Net Book Value	P 6,836,356	P (280,846)	P (84)	P 1,054,949	P (19,891)	P 7,590,484

September 30, 2011

		December 31, 2010		Additions		Disposals / Retirement		Reclassification		Cumulative Translation Adjustments		September 30, 2011
Cost:												
Land and Improvements	P	665,119	P	-	P	(929)	P	267,531	P	(6,324)	P	925,397
Buildings and Improvements		1,229,042		-		-		128,636		(4,482)		1,353,196
Machinery and Equipment		7,192,673		-		-		1,198,685		(19,846)		8,371,512
Transportation Equipment		224,757		-		(4,069)		54,004		(1,273)		273,419
Furniture & Office Equipment		86,321		-		-		16,377		(320)		102,378
Other Equipment		597,214		-		-		111,352		(379)		708,187
Construction in Progress		1,089,434		1,059,699		-		(1,692,879)		(1)		456,253
	P	11,084,560	P	1,059,699	P	(4,998)	P	83,706	P	(32,625)	P	12,190,342
Accumulated Depreciation:												
Land and Improvements	P	178,202	P	13,217	P	(929)	P	(6,702)	P	(938)	P	182,850
Buildings and Improvements		500,939		29,688		-		(889)		(699)		529,039
Machinery and Equipment		3,603,943		240,073		-		21,897		(4,150)		3,861,763
Transportation Equipment		154,370		21,715		(3,439)		(5,460)		(982)		166,204
Furniture & Office Equipment		54,116		15,050		-		(663)		(237)		68,266
Other Equipment		507,352		30,344		-		(5,813)		(126)		531,757
	P	4,998,922	P	350,087	P	(4,368)	P	2,370	P	(7,132)	P	5,339,879
Net Book Value	P	6,085,638	P	709,612	P	(630)	P	81,336	P	(25,493)	P	6,850,463

Depreciation and amortization charged to operations amounted to P484,741 and P350,087 in September 30, 2012 and 2011, respectively.

4. Investment Properties

This account consists of a bottling plant, which includes land and land improvements, buildings and building improvements, machinery and equipment, and other equipment leased by a third party under an operating lease agreement.

September 30, 2012

		Land and Land Improvements		Buildings and Building Improvements		Machinery and Equipment		Other Equipment		Total
Cost:										
December 31, 2011	P	49,297	P	116,300	P	633,837	P	9,247	P	808,681
September 30, 2012		**49,297**		**116,300**		**633,837**		**9,247**		**808,681**
Accumulated depreciation and amortization:										
December 31, 2011		17,558		71,008		552,870		9,247		650,683
Additions		23		2,339		4,442		-		6,804
September 30, 2012		**17,581**		**73,347**		**557,312**		**9,247**		**657,487**
Net Book Value:										
December 31, 2011	P	31,739	P	45,292	P	80,967	P	-	P	157,998
September 30, 2012	**P**	**31,716**	**P**	**42,953**	**P**	**76,525**	**P**	**-**	**P**	**151,194**

September 30, 2011

		Land and Improvements		Buildings and Improvements		Machinery and Equipment		Other Equipment		Total
Gross carrying amount:										
December 31, 2010	P	49,297	P	116,300	P	632,842	P	9,247	P	807,686
Reclassifications		-		-		996		-		996
Balance, September 30, 2011		49,297		116,300		633,838		9,247		808,682
Accumulated depreciation and amortization:										
December 31, 2010		17,528		68,180		561,809		9,247		656,764
Depreciation and amortization		23		2,049		2,031		-		4,103
Reclassifications		(1)		(1)		(12,451)		-		(12,453)
Balance, September 30, 2011		17,550		70,228		551,389		9,247		648,414
Net Book Value:										
Balance, September 30, 2011	P	31,747	P	46,072	P	82,449	P	-	P	160,268

5. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products to related parties. Transactions with related parties are made on arm's length basis at normal market prices and terms:

September 30, 2012

		Amounts Owed by (Owed to) Related Parties		Sales to Related Parties		Purchases from Related Parties
Thai San Miguel Liquor Co. Ltd. (TSML)	P	118,393	P	-	P	-
GSMI Retirement Plan (GSMIRP)		77,025		-		-
San Miguel Beverages, Inc. (SMBI)		36,927		-		-
San Miguel Yamamura Asia Corporation (SMYAC)		(420,731)		28,217		752,412
San Miguel Yamamura Packaging Corp. and a subsidiary (SMYPC)		(279,968)		17,242		333,238
SMC Shipping and Lighterage Corporation (SMCSLC)		(175,748)		18,691		864,830
Petron Corporation and subsidiaries (Petron)		(165,060)		917		570,127
SMITS, Inc. (SMITS)		(11,529)		-		25,609
San Miguel Corporation (SMC)		(5,262)		10,948		177,650
SMC Global Power Holdings Corp. and subsidiaries (SMC Global)		(7,865)		2,656		23,165
San Miguel Brewery, Inc. (SMB)		(1,441)		1,151		9,779
San Miguel Pure Foods Company, Inc. and subsidiaries (SMPFC)		(703)		1,432		16,127
Archen Technologies, Inc. (Archen)		(606)		-		2,046
Manila Electric Company (Meralco)		-		-		16,387
Others		537		475		1,124
	P	(836,031)	P	81,729	P	2,792,494

December 31, 2011

		Amounts Owed by (Owed to) Related Parties		Sales to Related Parties		Purchases from Related Parties
GSMIRP	P	137,025	P	-	P	-
TSML		118,393		-		-
SMBI		36,927		-		-
SMB		3,711		752		17,137
SMC Global		3,119		1,170		-
Petron		(142,192)		11,224		673,865
SMYAC		(136,444)		516		650,827
SMCSLC		(123,980)		93,967		1,763,671
SMC		(89,374)		21,371		440,686
SMYPC		(19,972)		7,716		327,575
SMITS		(6,349)		-		45,497
SMPC		(3,610)		34,471		-
Archen		(2,353)		-		11,872
Meralco		-		-		23,789
Others		2,123		356		817
	P	(222,976)	P	171,543	P	3,955,736

6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common and preferred shareholders amounted to P1.125 per share as of September 30, 2011.

7. Basic and Diluted Loss Per Share

Basic and diluted loss per share is computed as follows:

		September 30, 2012		September 30, 2011
Net loss	P	**(562,145)**	P	(840,697)
Less: Dividends on preferred shares		**(36,885)**		(36,885)
Net loss available to common shares (a)		**(599,030)**		(877,582)
Weighted average number of common shares outstanding (b)		**290,076**		289,783
Basic and diluted loss per share (a/b)	P	**(2.07)**	P	(3.03)

8. 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
- Commodity Price 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, notes payable and long-term debt and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets such as trade and other receivables and noncurrent receivables and deposits presented under other noncurrent assets and financial liabilities such as trade and other payables, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The Group's commodity forwards are intended mainly for risk management purposes. The Group uses derivatives to manage its exposure to commodity price risk arising from the Group's operations.

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

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

The Group's accounting policies in relation to derivatives are set out in Note 9 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, 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 P6,733 and P3,538 for the period ending September 30, 2012 and December 31, 2011, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

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

September 30, 2012	**<1year**	**1-<2 years**	**>2-<3 years**	**>3-<4 years**	**>4-<5 years**	**Total**
Fixed Rate						
Philippine peso-denominated	**P 428,571**	**P 428,571**	**P 428,572**	**P -**	**P -**	**P 1,285,714**
Interest rate	**7.25% - 7.89%**	**7.25% - 7.89%**	**7.25% - 7.89%**	-	-	
Floating rate						
Philippine peso-denominated	**114,286**	**114,286**	**114,286**	**114,286**	**257,142**	**714,286**
Interest rate	**PDST-F +1.00%**	**PDST-F +1.00%**	**PDST-F +1.00%**	**PDST-F +1.00%**	**PDST-F +1.00%**	
Foreign currency - denominated (expressed in Philippine peso)	**115,612**	**57,806**	-	-	-	**173,418**
Interest rate	**THBFIX +1.75%**	**THBFIX +1.75%**	-	-	-	
	P 658,469	**P 600,663**	**P 542,858**	**P 114,286**	**P 257,142**	**P 2,173,418**

December 31, 2011	<1year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Total
Fixed Rate						
Philippine peso-denominated	P 257,143	P 428,571	P 428,571	P 385,715	P -	P 1,500,000
Interest rate	7.25% - 7.89%	7.25% - 7.89%	7.25% - 7.89%	7.25% - 7.89%	-	
Floating rate						
Foreign currency - denominated (expressed in Philippine peso)	118,828	118,828	59,414	-	-	297,070
Interest rate	THBFIX +1.75%	THBFIX +1.75%	THBFIX +1.75%	-	-	
	P 375,971	**P 547,399**	**P 487,985**	**P 385,715**	**P -**	**P 1,797,070**

Foreign Currency Risk

The Group's functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The Group's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

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

	September 30, 2012		December 31, 2011	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US$ 5,146	P 214,599	US$ 3,802	P 166,658
Trade and other receivables	1,875	78,196	4,150	181,943
	7,021	292,795	7,952	348,601
Liabilities				
Trade and other payables	1,563	65,172	785	34,421
Notes payable	5,749	239,737	5,621	246,406
Long-term debt (including current maturities)	4,159	173,418	6,776	297,071
Finance lease liabilities (including current portion)	24	1,017	9	391
Other noncurrent liabilities	2,065	86,124	2,080	91,203
	13,560	565,468	15,271	669,492
Net foreign currency-denominated monetary liabilities	(US$ 6,539)	(P 272,673)	(US$ 7,319)	(P 320,891)

The Group reported net foreign exchange gain amounting to P856 and P1,883 on September 30, 2012 and 2011, respectively, with the translation of these foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2010	43.84
September 30, 2011	43.72
December 31, 2011	43.84
September 30, 2012	41.70

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 September 30, 2012 and December 31, 2011:

September 30, 2012	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P 5,146)	(P 3,602)	P 5,146	P 3,602
Trade and other receivables	(1,875)	(1,313)	1,875	1,313
	(7,021)	(4,915)	7,021	4,915
Trade and other payables	1,563	1,094	(1,563)	(1,094)
Notes payable	5,749	4,024	(5,749)	(4,024)
Long-term debt (including current maturities)	4,159	2,911	(4,159)	(2,911)
Finance lease liabilities (including current portion)	24	17	(24)	(17)
Other noncurrent liabilities	2,065	1,446	(2,065)	(1,446)
	13,560	9,492	(13,560)	(9,492)
	P 6,539	P 4,577	(P 6,539)	(P4,577)

December 31, 2011	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P 3,802)	(P 2,661)	P 3,802	P 2,661
Trade and other receivables	(4,150)	(2,905)	4,150	2,905
	(7,952)	(5,566)	7,952	5,566
Trade and other payables	785	550	(785)	(550)
Notes payable	5,621	3,935	(5,621)	(3,935)
Long-term debt (including current maturities)	6,776	4,743	(6,776)	(4,743)
Finance lease liabilities (including current portion)	9	6	(9)	(6)
Other noncurrent liabilities	2,080	1,456	(2,080)	(1,456)
	15,271	10,690	(15,271)	(10,690)
	P 7,319	P 5,124	(P 7,319)	(P 5,124)

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

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group, through SMC, enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

SMC enters into commodity derivative transactions on behalf of the Group to reduce cost by optimizing purchasing synergies within the SMC Group and managing inventory levels of common materials.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

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 Group also uses derivative instruments such as forwards and swaps to manage liquidity.

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 September 30, 2012 and December 31, 2011.

September 30, 2012	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years
Financial Assets					
Cash and cash equivalents	P 574,536	P 574,536	P 574,536	P -	P -
Trade and other receivables - net	4,041,969	4,041,969	4,041,969	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position	1,969	1,969	1,969	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	310,299	310,299	-	191,906	118,393
Financial Liabilities					
Notes payable	9,129,837	9,172,700	9,172,700	-	-
Trade and other payables (excludes dividends payable)	3,091,710	3,091,710	3,091,710	-	-
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	322	322	322	-	-
Long-term debt (including current maturities)	2,168,667	2,434,492	778,079	679,296	977,117
Finance lease liabilities (including current portion recognized under "Trade and other payables" account in the consolidated statements of financial position)	1,017	1,172	241	241	690
Other noncurrent liabilities (excludes deferred tax liability)	86,124	93,366	2,447	2,177	88,742

December 31, 2011	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years
Financial Assets					
Cash and cash equivalents	P 366,116	P 366,116	P 366,116	P -	P -
Trade and other receivables - net	3,177,311	3,177,311	3,177,311	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position	315	315	315	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	432,670	432,670	-	314,277	118,393
Financial Liabilities					
Notes payable	7,931,093	7,985,546	7,985,546	-	-
Trade and other payables (excludes dividends payable)	2,147,431	2,147,431	2,147,431	-	-
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	3,619	3,619	3,619	-	-
Long-term debt (including current maturities)	1,790,821	2,077,565	495,361	637,251	944,952
Finance lease liabilities (including current portion recognized under "Trade and other payables" account in the consolidated statements of financial position)	391	400	400	-	-
Other noncurrent liabilities	91,203	98,108	2,543	2,791	92,774

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

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

Trade and Other Receivables

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

Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

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

Financial information on the Group's maximum exposure to credit risk as of September 30, 2012 and December 31, 2011, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	September 30, 2012	December 31, 2011
Cash and cash equivalents	**P 574,536**	P 366,116
Trade and other receivables - net	**4,041,969**	3,177,311
Derivative assets	**1,969**	315
Noncurrent receivables and deposits	**310,299**	432,670
	P 4,928,773	P 3,976,412

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

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade receivables is the 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 businesses 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 debts, return capital to shareholders or issue new shares.

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

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the 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.

The Group is not subject to externally imposed capital requirements.

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

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

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

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

Financial Assets

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or 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 "Hedging reserve" account in the consolidated statements of changes 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 at 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 P1,969, P2,573 and P315 as of September and June 30, 2012 and December 31, 2011, respectively.

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

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

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

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

The combined carrying amounts of financial assets under this category amounted to P4,926,804, P4,546,814 and P3,976,097 as of September and June 30, 2012 and December 31, 2011, respectively.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified 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 or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of September and June 30, 2012 and December 31, 2011, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in the consolidated statements of changes 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 has no financial assets classified under this category as of September and June 30, 2012 and December 31, 2011.

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 "Hedging reserve" account in the consolidated statements of changes in equity. Any interest expense incurred is 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 P322, P266 and P3,619 as of September and June 30, 2012 and December 31, 2011, respectively.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an 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 notes payable, trade and other payables, long-term debt, finance lease liabilities and other noncurrent liabilities.

The combined carrying amounts of financial liabilities under this category amounted to P14,477,355, P13,958,923 and P11,960,939 as of September and June 30, 2012 and December 31, 2011, respectively.

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

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

- the rights to receive cash flows from the asset have 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 repay.

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 profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

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 September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P 574,536**	**P 574,536**	P 366,116	P 366,116
Trade and other receivables - net	**4,041,969**	**4,041,969**	3,177,311	3,177,311
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**1,969**	**1,969**	315	315
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	**310,299**	**310,299**	432,670	432,670
Financial Liabilities				
Notes payable	**9,129,837**	**9,129,837**	7,931,093	7,931,093
Trade and other payables (excludes dividends payable)	**3,091,710**	**3,091,710**	2,147,431	2,147,431
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	**322**	**322**	3,619	3,619
Long-term debt (including current maturities)	**2,168,667**	**2,263,769**	1,790,821	1,956,436
Finance lease liabilities (including current portion recognized under "Trade and other payables" account in the consolidated statements of financial position)	**1,017**	**1,017**	391	391
Other noncurrent liabilities (excludes deferred tax liability)	**86,124**	**86,124**	91,203	91,203

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 and Deposits. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits, 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.

Notes Payable and Trade and Other Payables. The carrying amount of notes payable and trade and other payable approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loan 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 September 30, 2012 and December 31, 2011, discount rates used range from 1.02% to 3.55% and 1.72% to 4.06%, respectively. The carrying values of floating rate loans with annual and quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

The Group, through SMC, enters into various commodity derivative contracts to manage its exposure on commodity price risk covering the Group's requirements on fuel oil.

Other Derivative Instruments Not Designated as Hedges

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

Embedded Derivatives

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

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

Embedded Currency Forwards

As of September and June 30, 2012 and December 31, 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$3,3737, US$2,598 and US$7,502, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of September and June 30, 2012 and December 31, 2011, the net fair value of these embedded currency forwards amounted to P1,647, P2,307 and (P3,304), respectively.

For the periods ended September 30, 2012 and 2011 and June 30, 2012 and 2011, the Group recognized marked-to-market gains (losses) from embedded derivatives amounting to P6,220 and (P15,841), P5,939 and (P12,032), respectively.

Fair Value Hierarchy

Financial assets and 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 September 30, 2012 and December 31, 2011. The different levels have been defined as follows:

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

The Group's derivative assets and derivative liabilities amounting to P1,969 and P322, respectively, as of September 30, 2012 and P315 and P3,619, respectively, as of December 31, 2011, are valued based on Level 2. The Group has no financial instruments valued based on Level 1 and 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.

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11. Other Matters

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

b) There were no material changes in estimates of amounts reported in prior financial years.

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

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

e) There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual statements of financial position date. 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-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period September 30, 2012.

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

h) The Group's material commitments for capital expenditure projects have been approved during the year but are still ongoing and not yet completed as of September 30, 2012. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to next quarter until its completion. The fund to be used or these projects will come from available cash, short and long-term loans.

Annex "B"

GINEBRA SAN MIGUEL INC.

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. (the "Parent Company" or "GSMI") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2012 (with comparative figures as of December 31, 2011 and for the period ended September 30, 2011). All necessary adjustments to present fairly the Group's consolidated financial position, performance, and cash flows as at September 30, 2012, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS) have been omitted.

I. KEY TRANSACTION

On January 27, 2012, the Parent Company purchased 100% of the outstanding shares of East Pacific Star Bottlers Phils Inc. (EPSBPI) for P200 million.

II. FINANCIAL PERFORMANCE

2012 vs. 2011

The Group's sales revenues increased by 11% for the third quarter, brought about by the sustained growth momentum of the Group's flagship brand, Ginebra San Miguel. Consequently, sales revenue decline for the nine-month period was tempered to just 5%.

Cost of sales for the period decreased by 9% on account of lower distillery feedstock costs and improved distillery operations. As a result, gross profit for the period improved by 12% from 2011.

Selling and marketing expenses increased by 12% for the third quarter and 4% for the nine-month period from 2011 on account of the implementation of sales and marketing programs that facilitated volume recovery.

General and administrative expenses rose by 6% for the third quarter due to higher spending on corporate programs and rentals, as well as higher normal depreciation charges. Spending for the nine-month period was at par with 2011.

Interest expense, net of interest income, significantly increased by 35% for the nine-month period, on account of increase in short-term borrowings to fund the Group's working capital requirements, and the Group's consolidation of EPSBPI's long-term debt.

Other income-net for the third quarter increased by 66% on account of higher scrap sales, foreign exchange gain and recognition of gain in embedded derivatives. This led other income-net for the nine-month period to increase by 93% from 2011.

Increased gross profit resulted in a lower third quarter loss before income tax, by 32% versus 2011. Consequently, loss before income tax for the nine-month period decreased by 13% from 2011.

Recognition of income tax benefit from Net Operating Loss Carryover (NOLCO) led to a net loss of only P235 million for the third quarter. Consolidated net loss for the nine-month period stood at P562 million, lower by 33% from 2011.

The Group has launched sales and marketing initiatives to address the decline in business volume and profitability. New liquor products were introduced and currently being pipelined to the trade to revitalize the white spirits category, such as GSM Blue Light, GSM Blue Flavors, Antonov Vodka Schnapps and new variants of Antonov Mixed Drink. Improvements in pricing and distribution are also being pursued to regain trade competitiveness. Operating gains are expected to be reaped from improvements in distillery operations and second-hand bottle retrieval. The Group expects operating cash requirements to be funded by short-term credit facilities until revenue streams stabilize.

2011 vs. 2010

The Group's consolidated revenues for the nine-month period in 2011 decreased by 31% due to a highly competitive market situation resulting to a decline in demand for its liquor products. Third quarter sales were further dampened by the adverse weather conditions, particularly in the month of September, which hampered selling activities in most sales areas predominantly in North Luzon.

Decrease in the consolidated cost of sales of 29% was largely attributable to decline in production requirements due to weaker consumer demand. Gross profit margin decreased by 38% due to lower sales coupled by increase in excise tax and bottle cost.

Implementation of advertising and promotional programs increased particularly in the third quarter.

General and administrative expenses increased by 9% due to increases in depreciation, labor and personnel–related costs, rentals and taxes.

Interest expense net of interest income rose by 58% as the Parent Company entered into a long-term loan agreement in the fourth quarter of 2010 in the amount of P1.5 billion and increased its short-term borrowing to fund the increase in working capital and other investment requirements.

Other income, net of charges, declined by 75% as the Group recognized marked-to-market losses on embedded derivatives amounting to P12 million in 2011.

All these resulted to a consolidated net loss of P841 million for the nine-month period.

III. FINANCIAL POSITION

2012 vs. 2011

Cash and cash equivalents increased by 57%, on account of improved cash flow from operations and decline in net working capital levels for the period.

Trade and other receivables-net increased by 27% as credit terms were extended to support volume generation activities for the Group's domestic liquor business.

Inventories decreased by 11%, largely due to the decline in distillery feedstock purchases.

Property, plant and equipment-net increased by 11% mainly due to the consolidation of EPSBPI's property, plant and equipment balance.

Intangible assets significantly increased by P241 million in 2012 on account of recognition of goodwill upon the consolidation of EPSBPI.

Deferred tax assets increased by 51% mainly on account of recognition of income tax benefit from NOLCO.

Other noncurrent assets-net increased by 28% on account of the increase in deferred container charges, arising from purchases of returnable bottles and crates.

Notes payable increased by 15% to fund the Group's working capital requirements.

Trade and other payables increased by 36% on account of increased purchases of packaging materials and returnable bottles and crates.

Income and other taxes payable decreased by 47% on account of lower value-added tax payable and taxes withheld.

Retirement liability increased to P13 million in 2012 due to the accrual of the Group's retirement provision for the period.

Finance lease liabilities, net of current portion, of P834 thousand represents the Group's proportionate share on the lease obligation for transportation equipment used by Thai San Miguel Liquor, Co. Ltd. (TSML).

Other noncurrent liabilities of P87 million relate chiefly to the Group's proportionate share on the loan of TSML from its shareholder, which is denominated in Thai Baht (THB). The 5% decline from 2011 was due to the translation adjustment of the said liability.

Long-term debt increased by 21% on account of the Group's consolidation of EPSBPI's long-term debt balance.

The debit balance of cumulative translation adjustment increased by P15 million due to the translation of foreign subsidiaries' net assets. The exchange rates are P1.3552 to THB1 as of September 30, 2012 (P1.3929 as of December 31, 2011) for net assets and P1.36481 to THB1 on September 30, 2012 (P1.4280 on September 30, 2011) for income and expense items.

2011 vs. 2010

Cash and cash equivalents decreased by 23%, due to payment used in capital expenditure, trade payables, interest, dividends and long-term borrowings.

Trade and other receivables rose by 7% on account of an extension in credit terms to customers in the light of current competitive environment.

Inventories grew by 8% as the Group increased its alcohol and distillery feedstock inventories to take advantage of lower molasses cost in 2011.

Prepaid expenses and other current assets decreased by 13% due to input tax claims, amortization of prepaid insurance and decrease in derivative assets.

Property, plant and equipment increased by 13% on account of capital expenditures related to the Group's distillery operations.

Investment properties increased by 6% due to reclassifications made from property, plant and equipment during the year.

Deferred tax assets increased by 89%, since the Group is subjected to a Minimum Corporate Income Tax for the third quarter of 2011 instead of the regular income tax. However tax gains on foreign exchange transactions was incurred in 2010.

The increase in other noncurrent assets by 6% relates to the advances from TSML amounting to THB 150 million.

Notes payable increased by 61% to fund additional working capital and other inventory requirements.

Trade payables were reduced by 16% during the period as part of the settlement of trade payables.

Income and other taxes payable decreased by 28%, on account of lower value-added tax payable, and a lower income base current maturity.

Current maturities of long-term debt increased by 169% as a portion of the long-term loan drawn down by the Parent Company from a local bank became current as of September 30, 2011.

Long-term debt, net of current maturities, decreased by 19% on account reclassification of a portion of this to current liabilities as they became current within the period.

Retirement liability significantly increased due to the accrual of the Group's retirement provision for the period.

Finance lease liabilities represent the Group's proportionate share on the lease obligation for transportation equipment used by Thai Ginebra Trading Co., Ltd. (TGT). The 100% decline from 2010 was due to the reclassification of an amount of these liabilities to trade and other payables as they became current during the period, part of which were fully paid.

Other noncurrent liabilities of P94 million represent the Group's proportionate share on the loan of TSML from its shareholders.

Cumulative translation adjustment balance increased by P21 million due to translation of foreign subsidiaries' net assets. The exchange rates used are P1.4083 to THB1 in September 30, 2011 (P1.4536 in December 31, 2010) for net assets and P1.4280 to THB1 as of September 30, 2011 (P1.4481 as of September 30, 2010) for income and expense items.

Equity

The decrease in equity for the nine-month period ended September 30, 2012 and 2011 are due to:

	September 30	
	2012	**2011**
	(In Millions)	
Net loss for the period	**(P562)**	(P841)
Stock options	**11**	-
Effect of translation adjustments	**(15)**	(21)
Cash dividends	**-**	(362)
Issuance of capital stock	**-**	88
	(P566)	(P1,136)

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	September 30	
	2012	2011
	(In Millions)	
Net cash flows provided by (used in) operating activities	**P482**	(P1,382)
Net cash flows used in investing activities	**(480)**	(1,189)
Net cash flows provided by financing activities	**214**	2,479

Net cash used in operations consists of income for the period less changes in non-cash current assets, certain current liabilities and others.

Net cash flows used in investing activities included the following:

	September 30	
	2012	2011
	(In Millions)	
Additions to property, plant and equipment	**(P204)**	(P1,060)
Increase in other noncurrent assets	**(136)**	(133)
Interest received	**3**	3
Acquisition of subsidiary, net of cash and cash equivalents acquired	**(143)**	-

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

	September 30	
	2012	2011
	(In Millions)	
Proceeds from:		
Short-term borrowings	**P94,542**	P69,431
Issuance of capital stocks	**23**	30
Finance lease liabilities	**1**	-
Other noncurrent liabilities	**-**	96
Payments of:		
Short-term borrowings	**(93,337)**	(66,346)
Interest	**(481)**	(373)
Cash dividends	**(118)**	(235)
Long-term borrowings	**(416)**	(121)
Finance lease liabilities	**(0)**	(2)

The effect of exchange rate changes on cash and cash equivalents amounted to P(7) million and P(5) million for the nine-month period ended September 30, 2012 and 2011, respectively.

V. KEY PERFORMANCE INDICATORS

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

KPI	As of	
	September 30, 2012	December 31, 2011
Liquidity: **Current Ratio**	0.89	1.05
Solvency: **Debt-to-Equity Ratio**	2.15	1.66
Profitability: **Return on Average Stockholders' Equity**	(11%)	(12%)
Leverage: **Asset-to-Equity Ratio**	3.15	2.66

KPI	For the Period Ended September 30	
	2012	2011
Operating Efficiency: **Volume Growth/(Decline)** **Revenue Growth/(Decline)** **Operating Margin**	 (7%) (5%) (4%)	 (34%) (31%) (5%)
Interest Rate Coverage Ratio	0.46	(0.50)

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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Stockholders' Equity}}$
Return on Average Stockholders' Equity	$\frac{\text{Net Income*}}{\text{Average Stockholders' Equity}}$
Asset-to-Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$
Volume Growth	$\left(\frac{\text{Sum of All Business' Volume}}{\text{Prior Period Volume}}\right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interest, Taxes, Depreciation and Amortization}}{\text{Interest Expense}}$

**Annualized for quarterly reporting*