



May 15, 2012

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

Attention: **Ms. Janet A. Encarnacion**
Head-Disclosure Department

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period ended March 31, 2012, which we filed with the Securities and Exchange Commission today.

Very truly yours,


CONCHITA P. JAMORA
Assistant Corporate Secretary

GINEBRA SAN MIGUEL, INC.

3rd & 6th Floors, San Miguel Properties Centre, St. Francis Street, Mandaluyong City, Metro Manila, Philippines 1550 Telephone: (632) 689-9100 Fax: (632) 634-2211

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S. E. C. Registration Number

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(Company's Full Name)

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

Atty. Maila N. Pagsanhan

Contact Person

(632) 689-9100

Company Telephone Number

SEC FORM

1	2
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Month

3	1
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Day

17-Q (1st Qtr 2012)

FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

Total Amount of Borrowings

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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

1. For the quarterly period ended **March 31, 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**

7. Address of issuer's principal office **1550**
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 March 31, 2012	
COMMON SHARES	290,075,941
PREFERRED SHARES	<u>32,786,885</u>
	322,862,829
TOTAL LIABILITIES	Php 13,371,579,944

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 March 31, 2012 (with comparative figures as of December 31, 2011 and for the period ended March 31, 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

MAY 15, 2012

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

	<i>Note</i>	<u>2012</u> <i>Unaudited</i>	<u>2011</u> <i>Audited</i>
ASSETS			
Current Assets			
Cash and cash equivalents	8,9	P 171,768	P 366,116
Trade and other receivables - net	5,8,9	3,516,336	3,177,311
Inventories		6,392,093	6,782,788
Prepaid taxes and other current assets	8,9	868,558	891,850
Total Current Assets		<u>10,948,755</u>	<u>11,218,065</u>
Noncurrent Assets			
Property, plant and equipment - net	3	7,794,612	6,836,356
Investment properties - net	4	155,729	157,998
Intangible assets		300,076	58,834
Deferred tax assets - net		628,000	541,055
Other noncurrent assets - net	8	700,546	737,464
Total Noncurrent Assets		<u>9,578,963</u>	<u>8,331,707</u>
		P <u>20,527,718</u>	P <u>19,549,772</u>
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	8	P 8,507,376	P 7,931,093
Trade and other payables	5,8,9	2,131,324	2,274,044
Income and other taxes payable		116,571	118,484
Current maturities of long-term debt - net of debt issue costs	8,9	659,697	373,974
Total Current Liabilities		<u>11,414,968</u>	<u>10,697,595</u>
Noncurrent Liabilities			
Retirement liability		20,709	6,044
Long-term debt - net of current maturities and debt issue costs	8,9	1,843,638	1,416,847
Other noncurrent liabilities		92,265	91,203
Total Noncurrent Liabilities		<u>1,956,612</u>	<u>1,514,094</u>
Total Liabilities		<u>13,371,580</u>	<u>12,211,689</u>
Equity			
Capital stock		399,063	399,063
Additional paid-in capital		2,531,297	2,526,625
Cumulative translation adjustments		(36,170)	(35,936)
Retained earnings			
Appropriated		2,500,000	2,500,000
Unappropriated		4,341,357	4,527,740
Treasury stock		(2,579,409)	(2,579,409)
Total Equity		<u>7,156,138</u>	<u>7,338,083</u>
		P <u>20,527,718</u>	P <u>19,549,772</u>

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 PERIODS ENDED MARCH 31, 2012 AND 2011
(Amounts in Thousands, Except Loss Per Share)

	<i>Note</i>	<u>2012</u> <u>Unaudited</u>	<u>2011</u> <u>Unaudited</u>
SALES	2	P 3,658,690	P 4,551,763
COST OF SALES		<u>2,835,930</u>	<u>3,585,952</u>
GROSS PROFIT		822,760	965,811
SELLING AND MARKETING EXPENSES		(543,787)	(532,515)
GENERAL AND ADMINISTRATIVE EXPENSES		(430,543)	(372,931)
INTEREST EXPENSE		(139,228)	(109,836)
INTEREST INCOME		548	1,117
OTHER INCOME - NET		<u>41,144</u>	<u>15,773</u>
LOSS BEFORE INCOME TAX		(249,106)	(32,581)
INCOME TAX BENEFIT		<u>(62,723)</u>	<u>(2,971)</u>
NET LOSS		P <u><u>(186,383)</u></u>	P <u><u>(29,610)</u></u>
Basic and diluted loss per share		P <u><u>(0.68)</u></u>	P <u><u>(0.11)</u></u>

*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 PERIODS ENDED MARCH 31, 2012 AND 2011
(Amounts in Thousands)

	Note	Capital Stock		Additional Paid-in Capital		Cumulative Translation Adjustments	Retained Earnings		Treasury Stock		Total
		Common	Preferred				Appropriated	Unappropriated			
At December 31, 2011 (Audited)		P 345,625	P 53,438	P 2,526,625	P (35,936)	P	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		-	-	-	(234)	-	-	(186,383)	-	-	(234)
Net loss for the period		-	-	-	-	-	-	(186,383)	-	-	(186,383)
Total comprehensive loss for the period		-	-	-	(234)	-	-	(186,383)	-	-	(186,383)
Stock options		-	-	4,672	-	-	-	-	-	-	4,672
Cash dividends	6	-	-	-	-	-	-	-	-	-	-
As of March 31, 2012 (Unaudited)		P 345,625	P 53,438	P 2,531,297	P (36,170)	P	P 2,500,000	P 4,341,357	P (2,579,409)	P	7,156,138
At December 31, 2010 (Audited)		P 342,986	P 53,438	P 2,435,476	P (9,439)	P	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		-	-	-	(8,634)	-	-	(29,610)	-	-	(8,634)
Net loss for the period		-	-	-	-	-	-	(29,610)	-	-	(29,610)
Total comprehensive loss for the period		-	-	-	(8,634)	-	-	(29,610)	-	-	(38,244)
Issuances of capital stock		2,542	-	73,804	-	-	-	-	-	-	76,346
Cash dividends	6	-	-	-	-	-	-	(120,927)	-	-	(120,927)
As of March 31, 2011 (Unaudited)		P 345,528	P 53,438	P 2,509,280	P (18,073)	P	P 2,500,000	P 5,841,377	P (2,579,409)	P	8,652,141

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 PERIODS ENDED MARCH 31, 2012 AND 2011
(Amounts in Thousands)

	<u>2012</u> <u>Unaudited</u>	<u>2,011</u> <u>Unaudited</u>
NET LOSS	P <u>(186,383)</u>	P <u>(29,610)</u>
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	<u>(234)</u>	<u>(8,634)</u>
OTHER COMPREHENSIVE LOSS - NET OF TAX	<u>(234)</u>	<u>(8,634)</u>
TOTAL COMPREHENSIVE LOSS - NET OF TAX	P <u><u>(186,617)</u></u>	P <u><u>(38,244)</u></u>

*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 PERIODS ENDED MARCH 31, 2012 AND 2011
(Amounts in Thousands)

	<u>2012</u>		<u>2011</u>
	<u>Unaudited</u>		<u>Unaudited</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	P (249,106)	P	(32,581)
Adjustments for:			
Depreciation and amortization	169,883		120,288
Interest expense and financing charges	139,228		109,005
Net derivative loss (gain)	(6,448)		9,972
Loss on sale of property, plant and equipment	240		-
Net unrealized foreign exchange loss (gain)	1,393		(1,160)
Interest income	(548)		(1,117)
Operating income before working capital changes	54,642		204,407
Decrease (increase) in:			
Trade and other receivables	(830,517)		38,084
Inventories	394,995		(1,034,318)
Prepaid taxes and other current assets	54,918		(61,818)
Increase (decrease) in:			
Trade and other payables	(13,860)		(590,479)
Other taxes payable	(1,913)		41,278
Retirement liability	14,665		13,241
Cash used in operations	(327,070)		(1,389,605)
Income taxes paid	(95)		(196)
Net cash flows used in operating activities	(327,165)		(1,389,801)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(66,683)		(214,289)
Decrease in other noncurrent assets	124,140		1,117
Interest received	548		4,702
Acquisition of subsidiary, net of cash and cash equivalents acquired	(142,670)		-
Net cash flows used in investing activities	(84,665)		(208,470)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term borrowings	19,777,069		17,631,211
Issuance of capital stocks	7,572		11,343
Other noncurrent liabilities	-		48,320
Payments of:			
Short-term borrowings	(19,200,804)		(16,011,370)
Interest	(158,818)		(112,938)
Cash dividends	(117,967)		(3,007)
Long-term borrowings	(87,831)		(61,205)
Finance lease liability	(390)		(1,416)
Net cash flows provided by financing activities	218,831		1,500,938
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,439)		212
NET DECREASE IN CASH AND CASH EQUIVALENTS	(194,438)		(97,121)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	366,116		422,630
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 171,678	P	325,509

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
AS OF MARCH 31, 2012
(Unaudited)

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	2,868,352,545	2,092,248,703	449,886,229	43,634,915	30,459,221	252,123,477
Less: Allowance for Doubtful Accounts		108,291,760	-	-	-	-	108,291,760
NET TRADE RECEIVABLES		2,760,060,785	2,092,248,703	449,886,229	43,634,915	30,459,221	143,831,717
b) Non-Trade Receivables		756,275,017	137,540,691	20,389,554	10,573,230	7,623,596	580,147,946
NET NON-TRADE RECEIVABLES		756,275,017	137,540,691	20,389,554	10,573,230	7,623,596	580,147,946
NET RECEIVABLES	P	3,516,335,802	2,229,789,394	470,275,783	54,208,145	38,082,817	723,979,663




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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as of and for the period ended March 31, 2012 and comparative financial statements for the same period in 2011 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest thousand (P000), 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.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

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

Amendments to Standard and Interpretations Adopted in 2012

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are not 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.

2. Segment Information

The reporting format of the Group's operating segments is determined by the Group's risk 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.

	Alcoholic		Nonalcoholic		Consolidated	
	2012	2011	2012	2011	2012	2011
REVENUES						
Net Sales	P 3,491,038	P 4,417,728	P 167,652	P 134,035	P 3,658,690	P 4,551,763
RESULT						
Segment Result *	(84,903)	157,092	(30,337)	(72,141)	(115,240)	84,951

* Includes rental income and sale of scrap.

3. Property, Plant and Equipment

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

March 31, 2012												
		Beginning Balance		Additions		Disposals/ Retirement		Reclassification		Cumulative Translation Adjustments		Ending Balance
Cost:												
Land and Improvements	P	928,560	P	-	P	-	P	99,602	P	14	P	1,028,176
Buildings and Improvements		1,471,653		-		-		145,350		10		1,617,013
Machinery and Equipment		8,540,977		-		-		922,697		50		9,463,724
Transportation Equipment		241,948		-		(51)		(905)		(7)		240,985
Furniture & Office Equipment		117,995		-		(737)		9,469		-		126,727
Other Equipment		702,096		-		-		10,167		1		712,264
Construction in Progress		232,994		66,683		-		20,145		(3)		319,819
	P	12,236,223	P	66,683	P	(788)	P	1,206,525	P	65	P	13,508,708
Accumulated Depreciation:												
Land and Improvements	P	184,983	P	3,025	P	-	P	11,734	P	4	P	199,746
Buildings and Improvements		540,493		13,167		-		17,608		6		571,274
Machinery and Equipment		3,937,615		116,728		-		129,747		38		4,184,128
Transportation Equipment		132,575		7,524		(10)		(2,130)		(5)		137,954
Furniture & Office Equipment		73,586		6,207		(459)		2,448		-		81,782
Other Equipment		530,615		11,060		-		(2,465)		2		539,212
	P	5,399,867	P	157,711	P	(469)	P	156,942	P	45	P	5,714,096
Net Book Value	P	6,836,356	P	(91,028)	P	(319)	P	1,049,583	P	20	P	7,794,612

March 31, 2011

	Beginning Balance	Additions	Disposals / Retirement	Reclassification	Cumulative Translation Adjustments	Ending Balance
Cost:						
Land and Improvements	P 665,119	P -	P -	P 246,368	P (2,465)	P 909,022
Buildings and Improvements	1,229,042	-	-	110,016	(1,750)	1,337,308
Machinery and Equipment	7,192,673	-	-	10,655	(7,754)	7,195,574
Transportation Equipment	224,757	-	(2,231)	14,475	(538)	236,463
Furniture & Office Equipment	86,321	-	-	10,423	(125)	96,619
Other Equipment	597,214	-	-	87,038	(141)	684,111
Construction in Progress	1,089,434	214,289	-	(483,918)	-	819,805
	P 11,084,560	P 214,289	P (2,231)	P (4,943)	P (12,773)	P 11,278,902
Accumulated Depreciation:						
Land and Improvements	P 178,202	P 4,134	P -	P (2,231)	P (353)	P 179,752
Buildings and Improvements	500,939	8,541	-	(337)	(244)	508,899
Machinery and Equipment	3,603,943	74,965	-	1,665	(1,445)	3,679,128
Transportation Equipment	154,370	7,114	(2,231)	175	(379)	159,049
Furniture & Office Equipment	54,116	4,235	-	247	(86)	58,512
Other Equipment	507,352	9,281	-	(2,050)	(41)	514,542
	P 4,998,922	P 108,270	P (2,231)	P (2,531)	P (2,548)	P 5,099,882
Net Book Value	P 6,085,638	P 106,019	P -	P (2,412)	P (10,225)	P 6,179,020

Depreciation and amortization charged to operations amounted to 157,711 and P108,270 in March 31, 2012 and 2011, respectively.

4. Investment Property

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.

	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
March 31, 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	8	780	1,481	-	2,269
March 31, 2012	17,566	71,788	554,351	9,247	652,952
Net Book Value:					
December 31, 2011	P 31,739	P 45,292	P 80,967	P -	P 157,998
March 31, 2012	P 31,731	P 44,512	P 79,486	P -	P 155,729

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 price:

March 31, 2012

	Sales to Related Parties		Purchases from Related Parties		Amounts Owed by Related Parties		Amounts Owed to Related Parties	
GSMI Retirement Plan	P	-	P	-	P	137,025	P	-
Thai San Miguel Liquor Co. Ltd.		-		-		118,393		-
San Miguel Yamamura Asia Corporation		19,080		309,419		54,779		177,003
SMBI		-		-		36,927		-
San Miguel Pure Foods Company, Inc. and subsidiaries		358		45,695		35,288		32,282
SMC		1,794		-		17,219		29,533
SMC Shipping and Lighterage Corporation		-		257,484		8,575		123,472
San Miguel Yamamura Packaging Corp. and a subsidiary		7,384		33,531		2,857		58,119
Petron Corporation and subsidiaries		187		234,118		3,630		19,080
SMC Global Power Holdings Corp. and subsidiaries		720		-		540		-
San Miguel Brewery, Inc.		125		4,220		150		514
SMITS, Inc.		-		7,577		-		5,323
Manila Electric Company		-		4,487		-		-
Archen Technologies		-		133		-		609
Others		117		737		539		634
	P	29,765	P	897,399	P	415,922	P	446,569

December 31, 2011

	Sales to Related Parties		Purchases from Related Parties		Amounts Owed by Related Parties		Amounts Owed to Related Parties	
GSMI Retirement Plan	P	-	P	-	P	137,025	P	-
Thai San Miguel Liquor Co. Ltd.		-		-		118,393		-
SMBI		-		-		36,927		-
San Miguel Pure Foods Company, Inc. and subsidiaries		34,471		-		32,344		35,954
SMC		21,371		440,686		29,613		118,987
SMC Shipping and Lighterage Corporation		93,967		1,763,671		16,206		140,186
San Miguel Yamamura Packaging Corp. and a subsidiary		7,716		327,575		11,755		31,727
San Miguel Brewery, Inc.		752		17,137		6,643		2,932
San Miguel Yamamura Asia Corporation		516		650,827		888		137,332
Petron Corporation and subsidiaries		11,224		673,865		4,831		147,023
SMC Global Power Holdings Corp. and subsidiaries		1,170		-		3,119		-
SMITS, Inc.		-		45,497		-		6,349
Manila Electric Company		-		23,789		-		-
Archen Technologies		-		11,872		-		2,353
Others		356		817		2,523		400
	P	171,543	P	3,955,736	P	400,267	P	623,243

6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common and preferred shareholders amounted to P0.375 per share as of March 31, 2011.

7. Basic and Diluted Loss Per Share

Basic and diluted loss per share is computed as follows:

	March 31, 2012		March 31, 2011	
Net Loss	P	(186,383)	P	(29,610)
(a) Less: dividends on preferred shares		(12,295)		(12,295)
(b) Net loss available to common shares		(198,678)		(41,905)
Common shares outstanding at beginning of year		290,076		365,327
Weighted average number of shares issued during the year		-		-
(c) Weighted average number of common shares outstanding - basic and diluted		290,076		365,327
Basic and Diluted Loss Per Share	P	(0.68)	P	(0.11)

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 and financial liabilities such as trade and other receivables, noncurrent receivables and deposits presented under other noncurrent assets, 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 P691 and P1,020 in March 31, 2012 and 2011, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. There is no impact on the Group's other comprehensive income.

As at March 31, 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:

March 31, 2012	<1year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Total
Fixed Rate						
Philippine peso-denominated	P 542,857	P 542,857	P 542,857	P 328,571	P 314,286	P 2,271,428
Interest rate	4.25%, 7.25% - 7.89%	4.25%, 7.25% - 7.89%	4.25%, 7.25% - 7.89%	4.25%, 7.25% - 7.89%	4.25%	-
Floating rate						
Foreign currency - denominated (expressed in Philippine peso)	118,837	118,837	-	-	-	237,674
Interest rate	THBFIX +1.75%	THBFIX +1.75%	-	-	-	-
	P 661,694	P 661,694	P 542,857	P 328,571	P 314,286	P 2,509,102

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%	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 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:

	March 31, 2012		December 31, 2011	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$ 3,540	P 151,951	US\$ 3,802	P 166,658
Trade and other receivables	1,990	85,424	4,150	181,943
	5,530	237,375	7,952	348,601
Liabilities				
Trade and other payables	560	24,027	785	34,421
Notes payable	5,741	246,424	5,621	246,406
Long-term debt (including current maturities)	5,538	237,674	6,776	297,071
Finance lease liabilities (including current portion)	-	-	9	391
Other noncurrent liabilities	2,125	91,217	2,080	91,203
	13,964	599,342	15,271	669,492
Net foreign currency-denominated monetary liabilities	(US\$ 8,434)	(P 361,967)	(US\$ 7,319)	(P 320,891)

The Group reported net foreign exchange gain (loss) amounting to (P1,393) and P1,160 in March 31, 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
March 31, 2011	43.39
December 31, 2011	43.84
March 31, 2012	42.92

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of March 31, 2012 and December 31, 2011:

March 31, 2012

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P 3,540)	(P 2,478)	P 3,540	P 2,478
Trade and other receivables	(1,990)	(1,393)	1,990	1,393
	(5,530)	(3,871)	5,530	3,871
Trade and other payables	560	392	(560)	(392)
Notes payable	5,741	4,019	(5,741)	(4,019)
Long-term debt				
(including current maturities)	5,538	3,876	(5,538)	(3,876)
Other noncurrent liabilities	2,125	1,488	(2,125)	(1,488)
	13,964	9,775	(13,964)	(9,775)
	P 8,434	P 5,904	(P 8,434)	(P5,904)

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 year 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 of Companies 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 March 31, 2012 and December 31, 2011.

March 31, 2012

	Carrying Amount	Contractual Cash Flow	1year or less	>1year - 2 years	>2 years - 5 years
Financial Assets					
Cash and cash equivalents	P 171,768	P 171,768	P 171,768	P -	P -
Trade and other receivables - net	3,516,336	3,516,336	3,516,336	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	3,045	3,045	3,045	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	312,179	312,179	-	193,786	118,393
Financial Liabilities					
Notes payable	8,507,376	8,550,794	8,550,794	-	-
Trade and other payables (excludes dividends payable)	2,126,314	2,126,314	2,126,314	-	-
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	208	208	208	-	-
Long-term debt (including current maturities)	2,503,335	2,858,578	805,397	764,043	1,289,138
Other noncurrent liabilities	91,217	97,283	2,487	2,727	92,069

December 31, 2011

	Carrying Amount	Contractual Cash Flow	1year or less	>1year - 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 March 31, 2012 and December 31, 2011, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	March 31, 2012	December 31, 2011
Cash and cash equivalents	P 171,768	P 366,116
Trade and other receivables - net	3,516,336	3,177,311
Derivative assets	3,045	315
Noncurrent receivables and deposits	312,179	432,670
	P 4,003,328	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 its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its 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 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 for 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 of collection has been established.

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

The carrying amounts of financial assets under this category amounted to P3,045 and P315 as of March 31, 2012 and December 31, 2011, respectively.

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

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

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

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

The combined carrying amounts of financial assets under this category amounted to P4,000,283 and P3,976,097 as of March 31, 2012 and December 31, 2011, respectively.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of

HTM investments, the entire category would be tainted and 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 March 31, 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 March 31, 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 P208 and P3,619 as of March 31, 2012 and December 31, 2011, respectively.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered 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 P13,228,242 and P11,960,939 as of March 31, 2012 and December 31, 2011, respectively.

Debt Issue Costs

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset 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 March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P 171,768	P 171,768	P 366,116	P 366,116
Trade and other receivables - net	3,516,336	3,516,336	3,177,311	3,177,311
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	3,045	3,045	315	315
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	312,179	312,179	432,670	432,670
Financial Liabilities				
Notes payable	8,507,376	8,507,376	7,931,093	7,931,093
Trade and other payables (excludes dividends payable)	2,126,314	2,126,314	2,147,431	2,147,431
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	208	208	3,619	3,619
Long-term debt (including current maturities)	2,503,335	2,602,865	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)	-	-	391	391
Other noncurrent liabilities	91,217	91,217	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 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 March 31, 2012 and December 31, 2011, discount rates used range from 2.52% to 5.08% and 1.72% to 4.06%, respectively. The carrying values of floating rate loans with annual 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 March 31, 2012 and December 31, 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$7,464 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 March 31, 2012 and December 31, 2011, the net fair value of these embedded currency forwards amounted to P2,837 and (P3,304), respectively.

For the periods ended March 31, 2012 and March 31, 2011, the Group recognized marked-to-market gains (losses) from embedded derivatives amounting to P6,448 and (P9,972), 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 March 31, 2012 and December 31, 2011. The different levels have been defined as follows:

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

The Group's derivative assets and derivative liabilities amounting to P3,045 and P208, respectively, as of March 31, 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.

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 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 March 31, 2012.
- g) The effects of seasonality or cyclicity 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 March 31, 2012. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to next quarter until its completion. The fund to be used or these projects will come from available cash, short and long-term loans.



GINEBRA SAN MIGUEL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND PERFORMANCE

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. (the "Parent Company" or "GSMI") and its subsidiaries (collectively, the "Group") as of and for the period ended March 31, 2012 (with comparative figures as of December 31, 2011 and for the period ended March 31, 2011). All necessary adjustments to present fairly the Group's consolidated financial position, performance, and cash flows as at March 31, 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 acquired 100% of the total outstanding shares of East Pacific Star Bottlers Phils Inc. (EPSBPI) for P200 million.

II. FINANCIAL PERFORMANCE

2012 vs. 2011

Domestic liquor sales volume declined by 24% due to aggressive competition, though year-ago levels were also unusually high on account of a general price increase implemented in April 2011. However, it should be noted that sales volume for the months of January to March 2012 showed a month-on-month upward trend towards recovery, led by the Group's flagship brand, Ginebra San Miguel.

Said decline in sales volume decreased Group sales revenues by 20% and cost of sales by 21% from 2011 levels. Gross profit decline, however, was tempered to only 15%, on account of higher selling prices relative to first quarter of 2011.

General and administrative expenses rose by 15%, chiefly on account of payout of retirement benefits to employees under the Group's Early Retirement Program.

Interest expense and financing charges, net of interest income, increased by 28% on account of higher short-term borrowings for funding of working capital requirements and acquisition of EPSBPI.

Other income-net increased by 161% on account of higher miscellaneous sales and recognition of gain on embedded derivatives.

Lower business volume and higher financing charges led to a higher loss before income tax of P249 million. Recognition of income tax benefit from Net Operating Loss Carryover (NOLCO), however, led to a net loss of only P186 million.

2011 vs. 2010

Domestic liquor volumes declined by 22% from 2010, as the Group witnessed a slowdown in consumer demand in early 2011, as well as sustained aggressive moves by competition. It should be noted that the elevated volume level in 2010 is largely attributed to election year spending. Flagship Ginebra San Miguel was at par with 2010 level as it sustained consumer patronage. Gran Matador and GSM Blue volumes saw significant declines as competitive moves veered consumer preference towards light liquor products. These resulted to an 18% decline in sales revenues.

Decrease in consumer demand resulted in a decline in production requirements, resulting to a 16% decrease in cost of sales. With the said movements in revenues and cost of sales, gross profit decreased by 25%.

General and administrative expenses increased by 15%, on account of increased personnel and insurance expenses.

Interest expense, net of interest income, rose by 130% as the Parent Company entered into a long-term credit agreement in the fourth quarter of 2010 in the amount of P1,500 million and increased its short-term borrowings to fund the increase in working capital requirements.

Other income-net declined by 70%, as the Group recognized marked-to-market losses on embedded derivatives in 2011, amounting to P10 million.

Volume decline and higher interest expenses led to a consolidated net loss of P30 million.

III. FINANCIAL POSITION

2012 vs. 2011

Cash and cash equivalents decreased by 53%, on account of slower revenue flows, acquisition of EPSBPI and capital expenditures.

Trade and other receivables-net increased by 11% as credit terms were extended to aid volume generation for the Group's domestic liquor business.

Inventories decreased by 6%, consistent with the Group's program to manage production schedules and accelerate inventory movement.

Property, plant and equipment-net increased by 14% chiefly on account of the Group's acquisition of EPSBPI.

Intangible assets increased to P300 million from December 2011 on account of recognition of goodwill from the Group's acquisition of EPSBPI.

Deferred tax assets increased by 16% mainly on account of recognition of income tax benefit from NOLCO.

Other noncurrent assets-net declined by 5% on account of elimination of intragroup accounts related to EPSBPI for the purpose of consolidated reporting.

Notes payable increased by 7% to fund aforementioned working capital requirements and acquisition.

Trade and other payables decreased by 6%, as the 2011 balance included dividends payable of P118 million, majority of which were fully paid as of March 2012.

Retirement liability increased to P21 million on account of higher pension cost accruals.

Long-term debt, inclusive of current maturities but net of debt issue costs, increased by 40% on account of the Group's consolidation of EPSBPI's long-term debt with a local bank, upon the former's acquisition of the latter.

2011 vs. 2010

Cash and cash equivalents decreased by 23%, as the Group used cash to increase alcohol and distillery feedstock inventories, reduce trade payables, purchase property, plant and equipment and pay interest on long-term and short-term debt.

Inventories were raised by 14% 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 increased by 5% on account of higher prepaid excise tax, caused by higher alcohol inventories.

Deferred tax assets-net increased by 33%, since the Group is subject to minimum corporate income tax for the first quarter of 2011 instead of the regular income tax, due to dampened profitability, as well as the taxation of gains on foreign exchange transactions that transpired in 2010.

Other noncurrent assets-net decreased by 11% due to reclassification of accounts from current to noncurrent.

Notes payable increased by 32% to support aforementioned increases in working capital and property, plant and equipment, amid decline in operating cash flow.

Purposive reduction in trade payables resulted to a 17% decline in 2011.

Income and other taxes payable increased by 66%, on account of higher VAT payable as a result of lower input taxes from purchases during the period.

Retirement liability significantly increased on account of retirement expense accruals made during the first quarter of 2011.

Finance lease liability-net of current portion of P336 thousand represents the Group's proportionate share on the lease obligation for transportation equipment used by Thai Ginebra Trading Co., Ltd. (TGT). TGT functions as the selling and distribution arm of Thai San Miguel Liquor Co., Ltd. (TSML). The 81% 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 repaid.

Other noncurrent liabilities of P48 million represent the Group's proportionate share on the loan of TSML from its shareholder.

The debit balance of cumulative translation adjustment increased by P9 million due to translation of foreign subsidiaries' net assets. The exchange rates used for net assets in March 31, 2011 is P1.4359 to THB1 (P1.4536 in December 31, 2010).

Equity

The decrease in equity for the three-month period ended March 31, 2012 and 2011 are due to:

	March 31	
	2012	2011
	<i>(In Millions)</i>	
Net loss for the period	(P186)	(P30)
Stock options	4	-
Effect of translation adjustments	-	(9)
Cash dividends	-	(121)
Issuances of capital stock	-	76
	(P182)	(P83)

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	March 31	
	2012	2011
	<i>(In Millions)</i>	
Net cash flows used in operating activities	(P327)	(P1,390)
Net cash flows used in investing activities	(85)	(208)
Net cash flows provided by financing activities	219	1,501

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

Net cash flows used in investing activities included the following:

	March 31	
	2012	2011
	<i>(In Millions)</i>	
Additions to property, plant and equipment	(P67)	(P214)
Decrease in other noncurrent assets	124	1
Interest received	1	5
Acquisition of subsidiary, net of cash and cash equivalents acquired	(143)	-

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

	March 31	
	2012	2011
	<i>(In Millions)</i>	
Proceeds from:		
Short-term borrowings	P19,777	P17,631
Issuance of capital stocks	8	11
Other noncurrent liabilities	-	48
Payments of:		
Short-term borrowings	(19,201)	(16,011)
Interest	(159)	(113)
Cash dividends	(118)	(3)
Long-term borrowings	(88)	(61)
Finance lease liability	(0)	(1)

The effect of exchange rate changes on cash and cash equivalents amounted to P(1) million and P0.2 million for the three-month period ended March 31, 2012 and 2011, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data 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	
	March 31, 2012	December 31, 2011
Liquidity: Current Ratio	0.96	1.05
Solvency: Debt-to-Equity Ratio	1.87	1.66
Profitability: Return on Average Stockholders' Equity	(10%)	(12%)
Leverage: Asset-to-Equity Ratio	2.87	2.66

KPI	For the Period Ended March 31	
	2012	2011
Operating Efficiency: Volume Growth	(24%)	(22%)
Revenue Growth	(20%)	(18%)
Operating Margin	(7%)	(1%)

Interest Rate Coverage Ratio	0.44	1.78
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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	$\frac{\text{Income from Continuing Operations Before Tax}}{\text{Net Sales}}$
Interest Rate Coverage Ratio	$\frac{\text{EBITDA}}{\text{Interest Expense and Other Financing Charges}}$

**Annualized for quarterly reporting*