SAN MIGUEL CORPORATION

November 14, 2012

The Philippine Stock Exchange, Inc.
Disclosure Department
3rd Floor, Tower One and 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,

MARY ROSE S. TAN
Assistant Corporate Secretary

COVER SHEET

P	W	-	2	7	7				

S. E. C. Registration Number

							S	A	N										
						M	I	G	U	E	L								
			C	O	R	P	O	R	A	T	I	O	N						

(Company's Full Name)

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M	a	n	d	a	l	u	y	o	n	g		C	i	t	Y				

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

Atty. Mary Rose S. Tan
Contact Person

(632) 632-3000
Company Telephone Number

17-Q (3rd quarter 2012)

1	2		3	1		S	E	C	-	F	O	R	M						
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

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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 **September 30, 2012**

2. Commission identification number **PW00000227**

3. BIR Tax Identification No **041-000-060-741**

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

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

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

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

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

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

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

	Number of shares of stock and Debt outstanding (as of September 30, 2012)
Common Shares	**2,371,418,147**
Preferred Shares – Series "1"	**970,506,353**
Preferred Shares – Series "2"	
Subseries "A"	**721,012,400**
Subseries "B"	**90,428,200**
Subseries "C"	**255,559,400**
Total Liabilities	**P638,781 million**

11. Are any or all of the securities listed on a Stock Exchange?
Yes [x] No [ ]

If yes, state name of such Stock Exchange and the class/es of securities listed herein.
Common Shares, Series "1" Preferred Shares and Series "2" Preferred Shares in three sub-series (2-A, 2-B and 2-C) - Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.
Yes [x] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [x] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") 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) and Selected Notes to Consolidated Financial Statements is hereto attached as **Annex "A"**.

Item 2. Management's Discussion and Analysis of Financial Position and Financial Performance.

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

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

NONE

SIGNATURES

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

Issuer	**SAN MIGUEL CORPORATION**
Signature and Title	**FERDINAND K. CONSTANTINO** Senior Vice President and Chief Finance Officer/Authorized Signatory
Date	November 14, 2012
Signature and Title	**BELLA O. NAVARRA** Comptrollership Manager/Authorized Signatory
Date	November 14, 2012

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2012 and December 31, 2011
(In Millions)

ANNEX "A"

ASSETS

	2012 Unaudited	2011 Audited
Current Assets		
Cash and cash equivalents (Notes 7 and 8)	₱ **185,747**	₱ 128,975
Trade and other receivables - net (Notes 3, 7 and 8)	**107,033**	84,472
Inventories	**93,153**	65,720
Current portion of biological assets - net	**4,406**	4,124
Prepaid expenses and other current assets (Notes 7 and 8)	**30,052**	22,620
	420,391	305,911
Assets held for sale	**10**	2,268
Total Current Assets	**420,401**	308,179
Noncurrent Assets		
Investments and advances - net	**172,476**	166,854
Available-for-sale financial assets (Notes 7 and 8)	**1,774**	2,068
Property, plant and equipment - net (Note 4)	**349,943**	319,626
Investment properties - net	**3,254**	2,850
Biological assets - net of current portion	**1,813**	1,812
Goodwill - net	**41,572**	30,990
Other intangible assets - net	**13,769**	11,407
Deferred tax assets	**9,017**	8,233
Other noncurrent assets - net (Notes 3, 7 and 8)	**31,433**	38,517
Total Noncurrent Assets	**625,051**	582,357
	₱ **1,045,452**	₱ 890,536

LIABILITIES AND EQUITY

	2012 Unaudited	2011 Audited
Current Liabilities		
Drafts and loans payable (Notes 7 and 8)	₱ **112,077**	₱ 82,588
Accounts payable and accrued expenses (Notes 3, 7 and 8)	**97,065**	61,629
Finance lease liabilities - current portion (Notes 7 and 8)	**15,444**	15,388
Income and other taxes payable	**9,535**	9,041
Dividends payable	**2,290**	2,153
Current maturities of long-term debt - net of debt issue costs (Notes 3, 7 and 8)	**1,463**	19,453
	237,874	190,252
Liabilities directly associated with assets held for sale	**-**	578
Total Current Liabilities	**237,874**	190,830
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 3, 7 and 8)	**201,240**	191,967
Deferred tax liabilities	**11,555**	11,257
Finance lease liabilities - net of current portion (Notes 7 and 8)	**182,869**	192,873
Other noncurrent liabilities (Notes 7 and 8)	**5,243**	4,509
Total Noncurrent Liabilities	**400,907**	400,606
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	**16,407**	16,397
Capital stock - preferred	**10,187**	4,852
Additional paid-in capital	**177,837**	103,511
Revaluation increment	**1,355**	1,443
Cumulative translation adjustments	**4,981**	5,264
Retained earnings:		
Appropriated	**24,715**	24,315
Unappropriated	**151,663**	141,126
Treasury stock	**(67,413)**	(67,441)
	319,732	229,467
Amounts recognized directly in equity relating to assets held for sale	**-**	(53)
	319,732	229,414
Non-controlling Interests	**86,939**	69,686
Total Equity	**406,671**	299,100
	₱ **1,045,452**	₱ 890,536

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Period Ended September 30, 2012 and 2011 (Unaudited)
(In Millions, Except Per Share Data)

	2012	2011	For the Quarter Ended 2012	For the Quarter Ended 2011
SALES (Note 2)	P 509,175	P 393,497	P 179,628	P 130,179
COST OF SALES	434,363	318,286	153,975	108,124
GROSS PROFIT	74,812	75,211	25,653	22,055
SELLING AND ADMINISTRATIVE EXPENSES	(37,003)	(33,676)	(12,934)	(11,724)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(22,539)	(20,296)	(7,127)	(6,849)
INTEREST INCOME	3,136	3,447	1,022	1,040
EQUITY IN NET EARNINGS OF ASSOCIATES	2,370	1,822	215	555
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	1,860	776	669	709
OTHER INCOME - Net	8,788	361	1,578	(555)
INCOME BEFORE INCOME TAX	31,424	27,645	9,076	5,231
INCOME TAX EXPENSE	5,016	7,423	1,271	1,635
NET INCOME	P 26,408	P 20,222	P 7,805	P 3,596
Net Income Attributable to :				
Equity Holders of the Parent Company	P 19,248	P 11,947	P 5,125	P 1,148
Non-controlling Interests	7,160	8,275	2,680	2,448
	P 26,408	P 20,222	P 7,805	P 3,596
Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 5):				
Basic	P 6.22	P 3.23	P 1.49	P (0.14)
Diluted	P 6.17	P 3.21	P 1.47	P (0.14)

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended September 30, 2012 and 2011 (Unaudited)
(In Millions)

			For the Quarter Ended	
	2012	2011	**2012**	2011
NET INCOME	₱ **26,408**	₱ 20,222	₱ **7,805**	₱ 3,596
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**(962)**	(160)	**753**	(77)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**(136)**	(1,517)	**23**	(279)
INCOME TAX EXPENSE	**-**	(1)	**-**	(7)
SHARE IN COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES	**484**	(1)	**40**	-
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	**(614)**	(1,679)	**816**	(363)
TOTAL COMPREHENSIVE INCOME - NET OF TAX	₱ **25,794**	₱ 18,543	₱ **8,621**	₱ 3,233
Comprehensive Income Attributable to :				
Equity Holders of the Parent Company	₱ **18,965**	₱ 10,393	₱ **5,659**	₱ 830
Non-controlling Interests	**6,829**	8,150	**2,962**	2,403
	₱ **25,794**	₱ 18,543	₱ **8,621**	₱ 3,233

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended September 30, 2012 and 2011 (Unaudited)
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock	Total		
	Common	Preferred			Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated				
As of January 1, 2012 (Audited)	**₱ 16,397**	**₱ 4,852**	**₱ 103,511**	**₱ 1,443**	**₱ 5,662**	**₱ (451)**	**₱ 24,315**	**₱ 141,126**	**₱ (67,441)**	**₱ 229,414**	**₱ 69,686**	**₱ 299,100**
Foreign currency translation differences	-	-	-	-	(618)	-	-	-	-	(618)	(344)	(962)
Share in comprehensive income of associates	-	-	-	-	-	484	-	-	-	484	-	484
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	(149)	-	-	-	(149)	13	(136)
Other comprehensive income (loss)	-	-	-	-	(618)	335	-	-	-	(283)	(331)	(614)
Net income for the period	-	-	-	-	-	-	-	19,248	-	19,248	7,160	26,408
Total comprehensive income (loss) for the period	-	-	-	-	(618)	335	-	19,248	-	18,965	6,829	25,794
Issuance of capital stock	10	5,335	74,153	-	-	-	-	-	-	79,498	-	79,498
Reissuance of treasury stock	-	-	13	-	-	-	-	-	28	41	-	41
Stock options	-	-	160	-	-	-	-	-	-	160	-	160
Net addition to non-controlling interests and others	-	-	-	(88)	53	-	-	-	-	(35)	17,034	16,999
Appropriations - net	-	-	-	-	-	-	400	(400)	-	-	-	-
Cash dividends (Note 6):												
Common	-	-	-	-	-	-	-	(2,488)	-	(2,488)	(4,291)	(6,779)
Preferred	-	-	-	-	-	-	-	(5,823)	-	(5,823)	(2,319)	(8,142)
As of September 30, 2012 (Unaudited)	**₱ 16,407**	**₱ 10,187**	**₱ 177,837**	**₱ 1,355**	**₱ 5,097**	**₱ (116)**	**₱ 24,715**	**₱ 151,663**	**₱ (67,413)**	**₱ 319,732**	**₱ 86,939**	**₱ 406,671**
As of January 1, 2011 (Audited)	₱ 16,343	₱ 4,852	₱ 101,406	₱ 1,391	₱ 5,241	₱ 124	₱ 5,671	₱ 150,544	₱ (69,541)	₱ 216,031	₱ 50,794	₱ 266,825
Foreign currency translation differences	-	-	-	-	(49)	-	-	-	-	(49)	(111)	(160)
Share in comprehensive loss of associates	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	(1,504)	-	-	-	(1,504)	(14)	(1,518)
Other comprehensive loss	-	-	-	-	(49)	(1,505)	-	-	-	(1,554)	(125)	(1,679)
Net income for the period	-	-	-	-	-	-	-	11,947	-	11,947	8,275	20,222
Total comprehensive income (loss) for the period	-	-	-	-	(49)	(1,505)	-	11,947	-	10,393	8,150	18,543
Issuance of capital stock	20	-	268	-	-	-	-	-	-	288	-	288
Reissuance of treasury stock	-	-	929	-	-	-	-	-	2,043	2,972	-	2,972
Stock options	-	-	177	-	-	-	-	-	-	177	-	177
Addition to non-controlling interests	-	-	-	52	-	-	-	-	-	52	14,925	14,977
Appropriations - net	-	-	-	-	-	-	12,899	(12,899)	-	-	-	-
Cash dividends (Note 6):												
Common	-	-	-	-	-	-	-	(2,469)	-	(2,469)	(3,942)	(6,411)
Preferred	-	-	-	-	-	-	-	(4,367)	-	(4,367)	(1,315)	(5,682)
As of September 30, 2011 (Unaudited)	₱ 16,363	₱ 4,852	₱ 102,780	₱ 1,443	₱ 5,192	₱ (1,381)	₱ 18,570	₱ 142,756	₱ (67,498)	₱ 223,077	₱ 68,612	₱ 291,689

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended September 30, 2012 and 2011 (Unaudited)
(In Millions)

		2012		2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	P	**31,424**	P	27,645
Adjustments for :				
Depreciation, amortization and others - net		**3,892**		12,631
Interest expense and other financing charges		**22,539**		20,296
Interest income		**(3,136)**		(3,447)
Equity in net earnings of associates		**(2,370)**		(1,822)
Gain on sale of investments and property and equipment		**(1,860)**		(776)
Operating income before working capital changes		**50,489**		54,527
Changes in noncash current assets, certain current liabilities and others		**(13,287)**		(16,958)
Cash generated from operations		**37,202**		37,569
Interest and other financing charges paid		**(11,472)**		(9,864)
Income taxes paid		**(7,314)**		(9,815)
Net cash flows provided by operating activities		**18,416**		17,890
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired		**(19,909)**		(146)
Additions to investments and advances		**(21,960)**		(9,160)
Additions to property, plant and equipment		**(27,604)**		(18,237)
Payment of other liabilities		**(2,122)**		(24,485)
Payments by (advances to) related parties - net		**12,350**		(4,277)
Increase in other noncurrent assets and others		**(2,697)**		(1,711)
Proceeds from sale of investments and property and equipment		**17,202**		281
Interest received		**2,634**		3,441
Dividends received from associates		**4,593**		725
Net cash flows used in investing activities		**(37,513)**		(53,569)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from :				
Short-term borrowings		**476,453**		334,793
Long-term borrowings		**44,825**		48,488
Payments of:				
Short-term borrowings		**(450,856)**		(333,119)
Long-term borrowings		**(59,413)**		(13,353)
Payment of finance lease liabilities		**(13,075)**		(8,826)
Cash dividends paid		**(8,260)**		(4,532)
Dividends paid to non-controlling shareholders		**(6,522)**		(5,528)
Proceeds from issuance of Series "2" preferred shares of the Parent Company		**79,380**		-
Proceeds from issuance of capital stock		**118**		288
Proceeds from reissuance of treasury stock		**-**		2,977
Net proceeds from issuance of preferred shares of a subsidiary		**14,216**		14,828
Net cash flows provided by financing activities		**76,866**		36,016
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(997)**		409
NET INCREASE IN CASH AND CASH EQUIVALENTS		**56,772**		746
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**128,975**		125,188
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P	**185,747**	P	125,934

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION (Parent Only)
ACCOUNTS RECEIVABLE - NON-TRADE
SEPTEMBER 30, 2012
(AMOUNTS IN MILLIONS)

		TOTAL	OVER 90 DAYS
ACCOUNTS RECEIVABLE - NON-TRADE	₱	233	233
ALLOW. FOR DOUBTFUL ACCOUNTS		(233)	
NET	₱	0	

SAN MIGUEL CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data)

1. **Summary of Significant Accounting and Financial Reporting Policies**

The Group prepared its consolidated interim financial statements as of and for the period ended 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 million (₱000,000), except when otherwise indicated.

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

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

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

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

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

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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 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.

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate,* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The Philippine Securities and Exchange Commission (SEC) issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

2. Segment Information

Operating Segments

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

The Group's reportable segments are beverage, food, packaging, power generation and distribution, fuel and oil, infrastructure and telecommunications.

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

The food segment includes, among others, poultry, feeds production and selling, livestock farming, processing and selling of basic meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of flour products, premixes and flour-based products, dairy-based products, breadfill, desserts, cooking oil, importation and marketing coffee and coffee-related products and processed meats.

The packaging segment is involved in the production and marketing of the following packaging products, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The power generation and distribution segment is engaged in power generation and mining. The power generation assets supply electricity to a variety of customers, including the Manila Electric Corporation (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as roads, highways, toll roads, freeways, skyways, flyovers, viaducts and interchanges.

The telecommunications segment is engaged in rendering all types of domestic and international telecommunications services.

Inter-segment Transactions

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

Financial information about reportable segments follow:

	Beverage		Food		Packaging		Power Generation and Distribution		Fuel and Oil		Infra-structure		Telecommu-nications		Others		Eliminations		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Sales																				
External sales	**P64,708**	P63,750	**P69,351**	P64,265	**P13,316**	P14,318	**P56,789**	P53,006	**P304,012**	P198,104	**P85**	P13	**P914**	P41	**P–**	P–	**P–**	P–	**P509,175**	P393,497
Inter-segment sales	**85**	6	**3**	21	**4,611**	3,410	**562**	528	**3,329**	3,825	**–**	–	**–**	–	**–**	–	**(8,590)**	(7,790)	**–**	–
Total sales	**P64,793**	P63,756	**P69,354**	P64,286	**17,927**	P17,728	**P57,351**	P53,534	**P307,341**	P201,929	**P85**	P13	**P914**	P41	**P–**	P–	**(P8,590)**	(P7,790)	**P509,175**	P393,497
Results																				
Segment results	**P14,698**	P13,584	**P3,274**	P4,254	**P1,654**	P1,575	**P13,851**	P10,986	**P6,540**	P13,114	**(P39)**	(P37)	**(P325)**	(P541)	**(P2,341)**	P302	**P497**	(P1,702)	**P37,809**	P41,535

3. **Related Party Disclosures**

The Parent Company, certain subsidiaries and their shareholders and associates in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

	Relationship with Related Parties	Period	Amounts Owed by (Owed to) Related Parties	Revenue From Related Parties	Purchases From Related Parties
Petron Corporation Employee Retirement	Retirement	**September 30, 2012**	**P 10,912**	**P -**	**P -**
Plan (PCERP)	plan	December 31, 2011	23,247	-	-
Meralco	Associate	**September 30, 2012**	**5,930**	**34,001**	**146**
		December 31, 2011	4,106	32,871	494
SMC Retirement Plan	Retirement	**September 30, 2012**	**5,897**	-	-
(SMCRP)	plan	December 31, 2011	5,755	-	-
Top Frontier Investment	Associate	**September 30, 2012**	**2,465**	-	-
Holdings, Inc.		December 31, 2011	2,592	-	-
Liberty Telecoms	Associate	**September 30, 2012**	**925**	**19**	-
Holdings, Inc.		December 31, 2011	433	47	-
Philippine Airlines, Inc.	Afilliate	**September 30, 2012**	**623**	**6,636**	-
Atlantic Aurum	Associate	**September 30, 2012**	**457**	-	-
Investments BV		December 31, 2011	537	-	-
Petrochemical Asia (HK)	Associate	**September 30, 2012**	**500**	-	-
Limited		December 31, 2011	701	-	-
Thai San Miguel	JVC	**September 30, 2012**	**118**	-	-
Liquor Co. Ltd.		December 31, 2011	118	-	-
Ginebra San Miguel, Inc.	Retirement	**September 30, 2012**	**77**	-	-
Retirement Plan	plan	December 31, 2011	137	-	-
Hormel Netherlands, BV	Shareholder	**September 30, 2012**	**53**	-	-
	in a subsidiary	December 31, 2011	19	-	-
Limay Energen Corp.	Associate	December 31, 2011	-	-	1,393
Others	Others	**September 30, 2012**	**(219)**	**240**	**50**
		December 31, 2011	(226)	146	94
		September 30, 2012	**P27,738**	**P40,896**	**P196**
		December 31, 2011	P37,419	P33,064	P1,981

a. Amounts owed by (owed to) related parties consist of trade and non-trade receivables (payables), share in expenses and cash advances, which are unsecured and non-interest bearing, except as discussed in items b and c below.

b. The Parent Company has advances to SMCRP amounting to P5,897 and P5,755 as of September 30, 2012 and December 31, 2011, respectively, included as part of "Trade and other receivables" account in the consolidated statements of financial position. The advances are subject to interest.

c. Petron has outstanding interest bearing advances to PCERP, included as part of "Other noncurrent assets" account in the consolidated statements of financial position.

d. Golden Food and Dairy Creamery Corporation has an outstanding loan from BOC amounting to P185 and P204, as of September 30, 2012 and December 31, 2011, respectively, included as part of "Long-term debt" account in the consolidated statements of financial position.

San Miguel Brewery Hong Kong has an outstanding loan from BOC amounting to US$30 as of September 30, 2012, included as part of "Long-term debt" account in the consolidated statements of financial position.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2012

	January 1, 2012	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	September 30, 2012
Cost:					
Land and land improvements	P16,408	P439	P4,638	(P151)	P21,334
Buildings and improvements	32,662	141	8,225	(789)	40,239
Power plants	214,319	-	-	-	214,319
Refinery and plant equipment	37,810	22	11,565	(319)	49,078
Service stations and other equipment	6,070	702	7,196	(201)	13,767
Machinery and equipment	86,664	1,190	(164)	(1,329)	86,361
Telecommunications equipment	7,394	180	-	-	7,574
Transportation equipment	10,880	645	7	(26)	11,506
Tools and small equipment	2,507	141	(100)	(13)	2,535
Office equipment, furniture and fixtures	4,806	185	304	(48)	5,247
Molds	809	182	(299)	(3)	689
Leasehold improvements	1,551	32	94	(2)	1,675
Construction in progress	21,009	23,745	(82)	(11)	44,661
	442,889	27,604	31,384	(2,892)	498,985
Accumulated depreciation and amortization:					
Land improvements	2,612	103	(38)	(10)	2,667
Buildings and improvements	12,100	973	3,837	(274)	16,636
Power plants	10,628	3,890	-	-	14,518
Refinery and plant equipment	18,579	1,692	7,818	(218)	27,871
Service stations and other equipment	4,221	649	4,176	(116)	8,930
Machinery and equipment	48,620	2,865	(1)	(549)	50,935
Telecommunications equipment	5,406	333	27	-	5,766
Transportation equipment	2,947	635	(23)	(22)	3,537
Tools and small equipment	1,810	143	(102)	(12)	1,839
Office equipment, furniture and fixtures	3,724	253	354	(40)	4,291
Molds	638	159	(185)	(3)	609
Leasehold improvements	655	70	(5)	(2)	718
	111,940	11,765	15,858	(1,246)	138,317
Accumulated impairment losses:					
Land improvements	P385	P -	P -	P -	P385
Buildings and improvements	3,812	-	(2)	(203)	3,607
Machinery and equipment	7,007	-	(49)	(340)	6,618
Telecommunications equipment	45	-	-	-	45
Transportation equipment	13	-	-	(1)	12
Tools and small equipment	20	-	-	(1)	19
Office equipment, furniture and fixtures	41	-	-	(2)	39
	11,323	-	(51)	(547)	10,725
Net book value	P319,626	P15,839	P15,577	(P1,099)	P349,943

September 30, 2011

	January 1, 2011	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	September 30, 2011
Cost:					
Land and land improvements	₱15,277	₱886	(₱426)	(₱54)	₱15,683
Buildings and improvements	32,224	793	5,706	93	38,816
Power plants	214,899	596	(1,175)	-	214,320
Refinery and plant equipment	37,286	89	6	-	37,381
Service stations and other equipment	5,319	230	26	-	5,575
Machinery and equipment	86,765	1,792	(4,024)	182	84,715
Transportation equipment	8,615	1,154	(339)	1	9,431
Tools and small equipment	2,327	168	(49)	(25)	2,421
Office equipment, furniture and fixtures	4,194	332	(1,253)	(5)	3,268
Molds	702	172	(55)	(2)	817
Leasehold improvements	1,237	38	252	-	1,527
Construction in progress	6,097	11,987	(1,282)	13	16,815
	414,942	18,237	(2,613)	203	430,769
Accumulated depreciation and amortization:					
Land improvements	2,462	106	4	(2)	2,570
Buildings and improvements	10,732	775	(3,975)	7	7,539
Power plants	5,611	4,130	(410)	-	9,331
Refinery and plant equipment	16,545	1,539	(8)	-	18,076
Service stations and other equipment	3,742	358	(3)	-	4,097
Machinery and equipment	47,330	2,926	1,611	(38)	51,829
Transportation equipment	2,389	464	263	2	3,118
Tools and small equipment	1,691	164	(56)	(26)	1,773
Office equipment, furniture and fixtures	3,585	215	1,305	(3)	5,102
Molds	510	146	(24)	-	632
Leasehold improvements	555	99	(17)	-	637
	95,152	10,922	(1,310)	(60)	104,704
Accumulated impairment losses:					
Land improvements	412	-	(28)	1	385
Buildings and improvements	3,829	6	(6)	90	3,919
Machinery and equipment	7,403	-	(62)	213	7,554
Transportation equipment	12	-	-	-	12
Tools and small equipment	20	-	-	-	20
Office equipment, furniture and fixtures	41	-	-	-	41
	11,717	6	(96)	304	11,931
Net book value	₱308,073	₱7,309	(₱1,207)	(₱41)	₱314,134

Depreciation and amortization charged to operations amounted to P11,765 and P10,922 in September 2012 and 2011, respectively.

5. Basic and Diluted Earnings Per Share (EPS)

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

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the Parent Company's ESPP and LTIP, respectively, which are assumed to be exercised at the date of grant.

Where the effect of the assumed conversion of shares issuable to employees and executives under the Parent Company's stock purchase and option plans would be anti-dilutive, diluted EPS is not presented.

Basic and Diluted EPS is computed as follows:

	September 30	
	2012	2011
Income attributable to equity holders of the Parent Company	**P19,248**	P11,947
Less dividends on preferred shares for the period ((a)	**4,520**	4,367
Net income attributable to common shareholders of the Parent Company (b)	**P14,728**	P7,580
Weighted average number of common shares outstanding (in millions) - basic (c)	**2,370**	2,348
Effect of dilution - common	**16**	14
Weighted average number of common shares outstanding (in millions) - diluted (d)	**2,386**	2,362
Common:		
Basic EPS (b/c)	**P6.22**	P3.23
Diluted EPS (b/d)	**P6.17**	P3.21

6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) and paid to common shareholders amounted to P1.05 per share both in September 2012 and 2011.

Cash dividends declared by the Parent Company's BOD and paid to preferred shareholders amounted to P6.00 per share in September 2012 and P4.50 per share in September 2011.

On October 11, 2012, the Parent Company's BOD declared cash dividend at P0.35 per share, payable on November 9, 2012 to all common shareholders as of October 26, 2012.

7. Financial Risk Management Objectives and Policies

Objectives and Policies

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

- Interest Rate Risk
- Foreign Currency Risk
- 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, available-for-sale (AFS) financial assets, financial assets at FVPL, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and 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, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The Group's outstanding derivative instruments such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the Group's operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the BOD on its activities.

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 BOD constituted the Group's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance processes relating to the: a) quality and integrity of the Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the Group's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance by the Group with legal and regulatory requirements, including the Group's disclosure controls and procedures; e) evaluation of management's process to assess and manage the Group's enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report.

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

Interest Rate Risk

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

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the Group's operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;
- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

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 P841 and P962 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 observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

September 30, 2012	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed rate							
Philippine peso-denominated	**P513**	**P29,284**	**P513**	**P6,848**	**P3,036**	**P43,230**	**P83,424**
Interest rate	**6.3212% - 9.33%**	**6.3212% - 9.33%**	**6.3212% - 9.33%**	**5.4885% - 9.33%**	**6.05% - 7.2%**	**5.93% - 10.5%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**24,895**	**-**	**12,510**	**-**	**-**	**37,405**
Interest rate		**2%**		**7%**			
Floating rate							
Philippine peso-denominated	**539**	**674**	**714**	**11,664**	**115**	**143**	**13,849**
Interest rate	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**	**PDST-F + margin**	
Foreign currency-denominated (expressed in Philippine peso)	**428**	**9,024**	**52,199**	**5,719**	**2,859**	**-**	**70,229**
Interest rate	**LIBOR and THBFIX + margin**	**LIBOR and THBFIX + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**		
	P1,480	**P63,877**	**P53,426**	**P36,741**	**P6,010**	**P43,373**	**P204,907**

December 31, 2011	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed rate							
Philippine peso-denominated	P15,040	P513	P29,284	P1,270	P6,048	P26,230	P78,385
Interest rate	6.3212% - 9.33%	6.3212% - 9.33%	6.3212% - 9.33%	5.4885% - 9.33%	6.145% - 9.33%	6.3212% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	-	-	26,216	-	13,152	-	39,368
Interest rate			2%		7%		
Floating rate							
Philippine peso-denominated	1,025	875	1,104	11,550	-	-	14,554
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin			
Foreign currency-denominated (expressed in Philippine peso)	3,577	4,115	13,323	59,656	997	-	81,668
Interest rate	LIBOR and THBFIX + margin	LIBOR and THBFIX + margin	LIBOR and THBFIX + margin	LIBOR + margin	LIBOR + margin		
	P19,642	P5,503	P69,927	P72,476	P20,197	P26,230	P213,975

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.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

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

	September 30, 2012		December 31, 2011	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,037**	**P43,269**	US$1,386	P60,759
Trade and other receivables	**1,264**	**52,686**	567	24,879
AFS financial assets	**16**	**654**	20	862
Noncurrent receivables	**80**	**3,348**	44	1,918
	2,397	**99,957**	2,017	88,418
Liabilities				
Drafts and loans payable	**565**	**23,567**	88	3,878
Accounts payable and accrued expenses	**1,403**	**58,460**	661	28,990
Long-term debt (including current maturities)	**2,581**	**107,635**	2,761	121,036
Finance lease liabilities	**2,499**	**104,172**	2,574	112,751
Other noncurrent liabilities	**130**	**5,417**	10	434
	7,178	**299,251**	6,094	267,089
Net foreign currency-denominated monetary liabilities	**(US$4,781)**	**(P199,294)**	(US$4,077)	(P178,671)

The Group reported net foreign exchange gains (losses) amounting to P9,192 and (P234) in 2012 and 2011, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine 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 management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses;
- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income; and
- hedging reserves arising from increases or decreases in foreign exchange gains or losses of the hedged item and the hedging instrument.

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	**(P769)**	**(P808)**	**P769**	**P808**
Trade and other receivables	**(173)**	**(1,213)**	**173**	**1,213**
AFS financial assets	**-**	**(16)**	**-**	**16**
Noncurrent receivables	**(55)**	**(64)**	**55**	**64**
	(997)	**(2,101)**	**997**	**2,101**
Drafts and loans payable	**6**	**563**	**(6)**	**(563)**
Accounts payable and accrued expenses	**389**	**1,286**	**(389)**	**(1,286)**
Long-term debt (including current maturities)	**2,551**	**1,816**	**(2,551)**	**(1,816)**
Finance lease liabilities	**2,498**	**1,749**	**(2,498)**	**(1,749)**
Other noncurrent liabilities	**93**	**102**	**(93)**	**(102)**
	5,537	**5,516**	**(5,537)**	**(5,516)**
	P4,540	**P3,415**	**(P4,540)**	**(P3,415)**

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	(P1,219)	(P1,020)	P1,219	P1,020
Trade and other receivables	(199)	(508)	199	508
AFS financial assets	-	(20)	-	20
Noncurrent receivables	(25)	(36)	25	36
	(1,443)	(1,584)	1,443	1,584
Drafts and loans payable	6	86	(6)	(86)
Accounts payable and accrued expenses	322	563	(322)	(563)
Long-term debt (including current maturities)	2,761	1,933	(2,761)	(1,933)
Finance lease liabilities	2,572	1,800	(2,572)	(1,800)
Other noncurrent liabilities	7	8	(7)	(8)
	5,668	4,390	(5,668)	(4,390)
	P4,225	P2,806	(P4,225)	(P2,806)

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 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.

The Parent Company enters into commodity derivative transactions on behalf of its subsidiaries and affiliates to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the 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	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P185,747**	**P185,747**	**P185,747**	**P -**	**P -**	**P -**
Trade and other receivables - net	**107,033**	**107,033**	**107,033**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**229**	**229**	**229**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**119**	**119**	**119**	**-**	**-**	**-**
AFS financial assets	**1,774**	**1,774**	**-**	**1,774**	**-**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**15,099**	**15,099**	**-**	**15,099**	**-**	**-**

(forward)

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Drafts and loans payable	**P 112,077**	**P 112,613**	**P 112,613**	**P -**	**P -**	**P -**
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**96,406**	**96,406**	**96,406**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**153**	**153**	**153**	**-**	**-**	**-**
Long-term debt (including current maturities)	**202,703**	**243,815**	**11,909**	**73,034**	**110,872**	**48,000**
Finance lease liabilities (including current portion)	**198,313**	**282,959**	**18,550**	**19,383**	**65,699**	**179,327**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**2,301**	**2,301**	**-**	**2,301**	**-**	**-**

December 31, 2011

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P128,975	P128,975	P128,975	P -	P -	P -
Trade and other receivables - net	84,472	84,472	84,472	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	121	121	121	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	194	194	194	-	-	-
AFS financial assets	2,068	2,068	-	2,068	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	27,471	27,471	-	27,471	-	-

(forward)

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Drafts and loans payable	P82,588	P83,078	P83,078	P -	P -	P -
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	61,424	61,424	61,424	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	118	118	118	-	-	-
Long-term debt (including current maturities)	211,420	252,614	30,092	15,206	177,748	29,568
Finance lease liabilities (including current portion)	208,261	295,587	17,675	28,483	48,443	200,986
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	2,348	2,348		2,348	-	-

Credit Risk

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

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

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.

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

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

	September 30, 2	December 31,
Cash and cash equivalents	**P185,747**	P128,975
Trade and other receivables - net	**107,033**	84,472
Derivative assets	**229**	121
Financial assets at FVPL	**119**	194
AFS financial assets	**1,774**	2,068
Noncurrent receivables and deposits - net	**15,099**	27,471
	P310,001	P243,301

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

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

Financial and Other Risks Relating to Livestock
The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below.

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken in all dressing plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk
The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

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, except for BOC which is subject to certain capitalization requirements by the BSP, is not subject to externally imposed capital requirements.

8. Financial Assets and Financial Liabilities

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

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

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

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

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

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

<u>*Financial Assets*</u>

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

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

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains 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 and financial assets at FVPL are classified under this category.

The combined carrying amounts of financial assets under this category amounted to P348, P470 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 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 P307,879, P226,635 and P240,918 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's investments in equity and debt securities included under "Available-for-sale financial assets" account are classified under this category.

The carrying amounts of financial assets under this category amounted to P1,774, P3,310 and P2,068 as of September and June 30, 2012 and December 31, 2011, respectively.

<u>*Financial Liabilities*</u>

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented under the "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 P153, P138 and P118 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 drafts and loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities.

The combined carrying amounts of financial liabilities under this category amounted to P611,800, P606,767 and P566,041 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 the 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	**P185,747**	**P185,747**	P128,975	P128,975
Trade and other receivables - net	**107,033**	**107,033**	84,472	84,472
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**229**	**229**	121	121
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**119**	**119**	194	194
AFS financial assets	**1,774**	**1,774**	2,068	2,068
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**15,099**	**15,099**	27,471	27,471
Financial Liabilities				
Drafts and loans payable	**112,077**	**112,077**	82,588	82,588
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**96,406**	**96,406**	61,424	61,424
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**153**	**153**	118	118
Long-term debt (including current maturities)	**202,703**	**216,053**	211,420	228,523
Finance lease liabilities (including current portion)	**198,313**	**198,313**	208,261	208,261
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**2,301**	**2,301**	2,348	2,348

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 long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of September 30, 2012 and December 31, 2011, discount rates used for Philippine peso-denominated loans range from 0.9% to 4.9% and 1.7% to 5.4%, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 0.9% and 0.3% to 1.0% as of September 30, 2012 and December 31, 2011, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments Accounted for as Hedges

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in profit or loss. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if the hedging instrument expired, sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

As of September and June 30, 2012 and December 31, 2011, the Group has no outstanding derivatives accounted for as fair value hedges.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented under the "Hedging reserve" account in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is recognized in profit or loss.

As of September and June 30, 2012 and December 31, 2011, the Group has no outstanding derivatives accounted for as cash flow hedge.

Net Investment Hedge. As of September and June 30, 2012 and December 31, 2011, the Group has no hedge of a net investment in a foreign operation.

Other Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and 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:

Freestanding Derivatives

Freestanding derivatives consist of commodity and currency derivatives entered into by the Group.

Currency Forwards

As of September and June 30, 2012 and December 31, 2011, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$614, US$157 and US$220, respectively, and with various maturities in 2012. As of September and June 30, 2012 and December 31, 2011, the net positive (negative) fair value of these currency forwards amounted to (P73), (P63) and P40, respectively.

Currency Options

The Group entered into short-term currency options with an aggregate notional amount as of September and June 30, 2012 of US$545 and US$716, respectively. The net negative fair value of these currency options as of September and June 30, 2012 amounted to P43 and P52, respectively. The Group has no outstanding currency option agreements as of December 31, 2011.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of September and June 30, 2012 and December 31, 2011 is 560, 1,520 and 845 metric tons, respectively. As of September and June 30, 2012 and December 31, 2011, the net negative fair value of these swaps amounted to P1, P11 and P13, respectively.

As of September 30, 2012, the Group has outstanding swap agreements covering its wheat requirements with notional quantity of 2,177 metric tons and positive fair value of P2. The Group has no outstanding swap on the purchase of wheat as of June 30, 2012 and December 31, 2011.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2012. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps as of September and June 30, 2012 and December 31, 2011 is 2.0, 0.9 and 1.8 million barrels, respectively. As of September and June 30, 2012 and December 31, 2011, the positive (negative) fair value of these swaps amounted to (P68), P125 and P147, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of September and June 30, 2012 and December 31, 2011 of 47,627, 103,963 and 47,083 metric tons, respectively. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of September and June 30, 2012 and December 31, 2011, the net positive (negative) fair value of these options amounted to P65, P59 and (P5), respectively.

As of December 31, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 7,439 metric tons. These options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. As of December 31, 2011, the negative fair value of these options amounted to P5. The Group has no outstanding options on the purchase of soybean meal as of September and June 30, 2012.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 0.8 million barrels as of September 30, 2012 and 1.3 million barrels as of June 30, 2012 and December 31, 2011. These call and put options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. The net positive (negative) fair value of these options as of September and June 30, 2012 and December 31, 2011 amounted to (P283), (P155) and P47, respectively.

Embedded Derivatives

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

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

The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

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$185, US$202 and US$201, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of September and June 30, 2012 and December 31, 2011, the net positive (negative) fair value of these embedded currency forwards amounted to P132, P180 and (P2), respectively.

Embedded Currency Options

As of September and June 30, 2012 and December 31, 2011, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$14, US$19 and US$24, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. The net negative fair value of these embedded currency options amounted to P6, P8 and P11 as of September and June 30, 2012 and December 31, 2011, respectively.

For the periods ended September 30, 2012 and 2011 and June 30, 2012 and 2011, the Group recognized marked-to-market losses from freestanding and embedded derivatives amounting to P953, P133, P435 and P883, respectively.

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of 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.

September 30, 2012

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P -**	**P229**	**P229**
Financial assets at FVPL	**119**	**-**	**119**
AFS financial assets	**881**	**893**	**1,774**
Financial Liabilities			
Derivative liabilities	**-**	**153**	**153**

December 31, 2011

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P2	P119	P121
Financial assets at FVPL	194	-	194
AFS financial assets	1,069	999	2,068
Financial Liabilities			
Derivative liabilities	10	108	118

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

9. Event After the Reporting Date

- *Redemption of the Series "1" Preferred Shares*

On October 5, 2012, the Parent Company redeemed the Series "1" Preferred Shares at a redemption price of P75.00 per share, in accordance with the terms and conditions of the issuance of the Shares. The redemption of the Shares was approved by the BOD of the Parent Company on August 13, 2012.

The redemption proceeds of the Shares amounting to P72,788 and all accumulated unpaid cash dividends amounting to P1,458 were paid on October 5, 2012 to the stockholders of record as of September 11, 2012.

10. **Other Matters**

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

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

c. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

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

e. 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.

f. 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, except for Note 26 (c-1) of the 2011 Audited Consolidated Financial Statements that remain outstanding as of September 30, 2012. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

g. 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 ended September 30, 2012.

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

i. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end 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 the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

ANNEX "B"

SAN MIGUEL CORPORATION

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or the "Parent Company" or the "Corporation") and its subsidiaries (collectively referred to as 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 consolidated financial position, financial performance and cash flows of the Group 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 have been omitted.

I. 2012 TRANSACTIONS

A. INVESTMENTS

- On March 28, 2012, the Board of Directors (BOD) of the Parent Company approved its investment, through San Miguel Equity Investments Inc. (SMEII), in Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (Air Phil). On April 3, 2012, the Parent Company, through SMEII, and the Lucio Tan Group signed investment agreements whereby SMEII agreed to subscribe to unissued common shares constituting 49% of the outstanding capital stock of Trustmark and Zuma, the holding companies of PAL and Air Phil, respectively, for a total consideration of ₱21,400 million. The investment resulted in the Parent Company indirectly owning a minority stake in PAL and Air Phil.

- On March 30, 2012, Petron Corporation's (Petron) indirect offshore subsidiary, Petron Oil & Gas International Sdn Bhd (POGI), completed the acquisition of 65% of Esso Malaysia Berhad (EMB), and 100% of ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) for an aggregate purchase price of US$577.3 million. POGI, EMB, EMMSB and EMBSB are collectively hereinafter referred to as "Petron Malaysia". POGI also served the notice of mandatory general offer (MGO) to acquire the remaining 94,500,000 shares representing 35% of the total voting shares of EMB for RM3.59 per share from the public. The Unconditional Mandatory Take-Over Offer was closed on May 14, 2012. As a result of the MGO, POGI was able to acquire an additional 22,679,063 shares from the public and increased its interest in EMB to 73.4%.

  The acquisition resulted to the consolidation of EMB, EMMSB and EMBSB and the recognition of goodwill amounting to ₱10,704 million as of September 30, 2012.

  On April 23, 2012, the Companies Commission of Malaysia (CCM) approved the change of name of EMMSB to Petron Fuel International Sdn Bhd and of EMBSB to Petron Oil (M) Sdn Bhd. Thereafter, on July 11, 2012, CCM approved the change of name of EMB to Petron Malaysia Refining & Marketing Bhd.

- In June 2012, following the approval of its BOD, San Miguel Mills, Inc. (SMMI), acquired Cobertson Realty Corporation's (CRC) subscribed capital stock equivalent to 25,000 shares with a par value of ₱1,000.00 per share from CRC's individual stockholders. SMMI paid ₱358 million as consideration. As such, CRC became a subsidiary of SMMI and was consolidated into San Miguel Pure Foods Company, Inc. (SMPFC) through SMMI. CRC is a Philippine company engaged in the purchase, acquisition, development or use for investment, among others, of real and personal property, to the extent permitted by law.

- On January 27, 2012, Ginebra San Miguel, Inc. (GSMI) acquired 100% of the outstanding capital stock of East Pacific Star Bottlers Phils Inc. (EPSBPI) for ₱200 million.

- On May 14, 2012, the Group received 1,042,801,676 common shares of stock of Rockwell Land Corporation (Rockwell Land Shares), with a book value of ₱1,522 million, as property dividend from the Manila Electric Company (Meralco).

  On July 27, 2012, the Group sold thru the Exchange its Rockwell Land Shares at ₱2.01 per share and recognized a gain of ₱571 million.

- On June 18, 2012, Top Frontier Holdings, Inc. (Top Frontier) redeemed a total of 693,500 preferred shares out of the 2,598,040 preferred shares issued to the Parent Company, at the total redemption price of ₱12,899 million, corresponding to the original issue price of the said preferred shares.

  The Group recognized a gain of ₱945 million from the transaction.

B. FINANCING

- On April 18, 2012, the BOD of the Parent Company approved the amendment of its Articles of Incorporation to increase the authorized capital stock from ₱22,500 million to ₱30,000 million as follows:

  a. the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and
  b. creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value ₱5.00 per share.

  The amendment of the Articles of Incorporation of the Corporation to increase the capital stock was approved by the stockholders of the Corporation in its meeting on June 14, 2012.

  On June 26, 2012, the Parent Company filed with the Securities and Exchange Commission (SEC) a Notice of Filing of Registration Statement for the registration of up to 1,067,000,000 Series "2" Preferred Shares with par value of ₱5.00 per share, to be offered by way of public offering, inclusive of shares for oversubscription.

On September 21, 2012, the SEC approved the amendment of the Article of Incorporation of the Parent Company to increase the capital stock, and consequently, creating the Series "2" Preferred Shares, thus all subscribers to the Offering have become stockholders of record of the Series"2" Preferred Shares as of September 21, 2012.

On September 28, 2012, the Parent Company listed the ₱80,025 million worth of Series "2" Preferred Shares, at the Philippine Stock Exchange (PSE).

The primary offering of Series "2" Preferred Shares consists of 1,067,000,000 which was fully subscribed at the issue price of ₱75.00 per share. These Series "2" Preferred Shares were issued in three sub-series (2-A, 2-B and 2-C) and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting the 3rd, 5th and 7th year and every dividend payment thereafter. There will be a "step-up" rate effective at the 5th, 7th and 10th year, respectively, if shares are unredeemed. Dividend rates per annum for sub-series 2-A is 7.5%, sub-series 2-B at 7.625% and sub-series 2-C at 8%.

Bulk of the proceeds from the Series "2" Preferred Shares issuance were used by the Parent Company for the redemption of its outstanding Series "1" Preferred Shares with the balance to be utilized for general corporate purposes, including short-term debt repayment.

- Pursuant to the approvals of the BOD of San Miguel Brewery Inc. (SMB) on October 11, 2011, February 7, 2012 and March 13, 2012, SMB offered for subscription fixed rate peso-denominated bonds with an aggregate principal amount of ₱20,000 million (the "₱20 billion Bonds") on March 19 to 23, 2012 (the "Offer"). The Bonds were issued on April 2, 2012 ("Issue Date") at the issue price of 100.00% of face value in three series: Series D, E and F Bonds.

  The ₱20 billion Bonds consisted of the following: Series D Bonds with the aggregate principal amount of ₱3,000 million having a term of 5 years and 1 day beginning on April 2, 2012 ("Issue Date") and ending on April 3, 2017, with a fixed interest rate of 6.05% per annum; Series E Bonds with an aggregate principal amount of ₱10,000 million having a term of 7 years beginning on Issue Date and ending on April 2, 2019, with a fixed interest rate of 5.93% per annum; and Series F Bonds with an aggregate principal amount of ₱7,000 million having a term of 10 years beginning on Issue Date and ending on April 2, 2022, with a fixed interest rate of 6.60% per annum. The Series E Bonds and Series F Bonds of the ₱20 billion Bonds were listed on the Philippine Dealing & Exchange Corp. (PDEx) on the same date.

  On April 3, 2012, SMB completed the payment of the aggregate principal amount of the Series A fixed rate bonds ("Series A Bonds") of ₱13,590 million, which matured on the same day. The Series A Bonds form part of the ₱38,800 million fixed rate bonds that were issued by SMB in 2009. Part of the proceeds of SMB's ₱20 billion Bonds offering was used for the said payments.

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

On September 25, 2012, the PDEx approved SMB's application to list its Fixed Rate Series D bonds in the aggregate principal amount of ₱3 billion due in 2017 for trading on the PDEx effective October 3, 2012.

- On March 14, 2012, Petron Global Limited (BVI) (Petron Global), a wholly-owned subsidiary of Petron, issued 150,000,000 cumulative, non-voting, non-participating and non-convertible Series A preferred shares and 200,000,000 cumulative, non-voting, non-participating and non-convertible Series B preferred shares at an issue price equal to the par value of US$1.00 per share.

- On February 15, 2012, Petron availed of the remaining US$400 million of the US$480 million term loan facility which was signed and executed on September 30, 2011.

- On March 27, 2012, San Miguel Brewery Hong Kong Limited (SMBHK) availed a US$30 million long-term loan from Bank of Commerce (BOC) for working capital requirements.

C. DIVESTMENTS

- In 2011, the Parent Company through San Miguel Yamamura Packaging International Limited (SMYPIL) and Nihon Yamamura Glass Co., Ltd. (NYG), entered into a non-binding Memorandum of Understanding (MOU), wherein NYG offered to buy 51% equity interest in PT San Miguel Yamamura Utama Indoplas (SMYUI). On December 2, 2011, the BOD unanimously accepted NYG's offer and approved the share sale transaction as contemplated in the MOU. The transaction was completed on January 31, 2012.

  The Group recognized a net gain of ₱22 million from the sale.

- On February 15, 2012, the sale of San Miguel (Thailand) Co. Ltd. (SMTCL) was completed. This is pursuant to the share sale and purchase agreement signed on December 7, 2011, between San Miguel Foods and Beverage International Limited (SMFBIL) and Pepsi Thai Trading Co. for the sale of all of the outstanding shares of SMFBIL in SMTCL.

  The Group recognized a net gain of ₱62 million from the sale.

- On February 23, 2012, the Parent Company through San Miguel (Vietnam) Co. Ltd. (SMVCL) completed the sale of its building and land use rights located in the Amata Industrial Zone, Vietnam to PepsiCo International-Vietnam Company for US$12 million and recognized a gain amounting to ₱256 million.

  SMVCL was dissolved by virtue of the Certificate of Dissolution issued by the State Securities Commission of Vietnam on May 31, 2012.

- On May 8, 2012, the Parent Company through San Miguel Properties, Inc. (SMPI), together with the other stockholders of BOC, namely, San Miguel Corporation Retirement Plan (SMCRP) and Q-Tech Alliance Holdings, Inc. (Q-Tech), have executed a share purchase agreement with CIMB for the sale of up to 65,083,087 fully paid ordinary shares, equivalent to a 58% equity interest in BOC for a total consideration of up to approximately ₱12 billion. Under the provisions of the agreement, the completion of the sale is subject to certain closing conditions, inclusive of the mandatory approvals from the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) and the Bank of Negara Malaysia. On November 7, 2012, the Bank of Negara

Malaysia approved CIMB's proposed acquisition of BOC subject to the attainment of the relevant approvals from the BSP. The application for the BSP approval is pending to date. In the meantime, SMPI, SMCRP, Q-Tech and CIMB have agreed to extend the period of compliance of the closing conditions for the completion of the sale until December 8, 2012.

CIMB is a 99.99% subsidiary of CIMB Group Sdn Bhd. of Malaysia while the Parent Company owns 98.45% of the outstanding stock of SMPI.

D. OTHERS

- On March 16, 2012, the SEC approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company to extend the corporate term of the Parent Company for another fifty (50) years from August 21, 2013, and the change of the date of the annual regular meeting of the stockholders from second Tuesday of May to second Tuesday of June, as approved on the March 14, 2011 and June 7, 2011 meeting of the Parent Company's BOD and stockholders, respectively.

- On June 29, 2012, Top Frontier and Master Year Limited (MYL) purchased 125,234,667 common shares and 368,140,516 common shares of the Parent Company, respectively. The sale was transacted at the PSE thru a special block sale at the price of ₱75.00 per share.

  As of September 30, 2012, Top Frontier and MYL own approximately 66.34% and 15.52%, respectively, of the outstanding common stock of the Parent Company.

- As of September 30, 2012, Golden Bay Grain Terminal Corporation (GBGTC) incurred ₱769 million for the construction of its grains terminal in Batangas. GBGTC is a wholly-owned subsidiary of SMMI, incorporated in November 2011.

II. FINANCIAL PERFORMANCE

2012 vs. 2011

San Miguel Corporation's consolidated sales revenue for the nine months period ended September 2012 amounted to about ₱509,175 million, 29% higher than last year. Most of the businesses continued to post revenue growth versus last year with increased volumes and selling prices.

The corresponding September 2012 year-to-date consolidated operating income is ₱37,809 million, 9% lower than last year. This already showed an improvement from the Group's first semester's performance with Petron's margin improvement that started to recover in August. San Miguel Pure Foods Group also sustained improvements in profitability in the third quarter.

Equity in net earnings of associates increased in 2012 mainly due to the increase in the Group's share in net income of Meralco, net of the equity in net losses of other associates.

Net financing charges increased to ₱19,403 million from ₱16,849 million mainly due to higher debt balance in 2012.

With higher gains in other investments and favorable foreign exchange rates, partially offset by higher financing charges, the Group's resulting September 2012 year-to-date net income attributable to the equity holders of the Parent Company amounted to ₱ 19,248 million. Excluding foreign exchange gains, net income is ₱11,851 million.

2011 vs. 2010

San Miguel Corporation's consolidated sales revenue as of September 2011 amounted to ₱393,497 million, 143% over 2010's level. The corresponding September 2011 consolidated operating income is ₱41,535 million, 110% over 2010.

The Group's revenue and operating income growths for the third quarter of 2011 were, however, more moderate compared with the 2011 first semester results.

Equity in net earnings of associates increased in 2011 mainly due to the increase in the Group's share in net income of Meralco, net of the equity in net losses of Top Frontier, Liberty Telecoms Holdings, Inc. (LTHI) and Petrochemical Asia (HK) Limited (PAHL).

Net financing charges increased to ₱16,849 million from ₱8,679 million mainly due to higher debt balance in 2011 and the interest expense on finance lease liabilities of SMC Global Power Holdings Corp. and subsidiaries (SMC Global).

Gain on sale of investments and property and equipment and others decreased on account of the gain on acquisition of SMC Global and the foreign exchange gains of SMC Global from its foreign currency denominated finance lease liability and of SMB and the Parent Company from their foreign currency denominated debts in 2010.

With higher interest expense and non-controlling interests' share in the consolidated subsidiaries, the Group reported September 2011 consolidated net income attributable to equity holders of the Parent Company of ₱11,947 million, 6% lower than 2010. Excluding non-recurring gains on investments, September 2011 recurring net income at ₱ 11,587 million is 41% higher than 2010.

The following are the highlights of the performance of the individual business segments:

1. BEVERAGES

2012 vs. 2011

a. SMB

SMB and subsidiaries' September 2012 year-to-date consolidated revenues reached ₱53,849 million, 3% higher than last year. This was achieved on sales volumes of about 164 million cases.

With continued domestic beer's management of fixed costs and beer international's managing to maintain its improved operating performance, consolidated operating income for the September 2012 year-to-date ended at ₱15,439 million, 5% higher than last year's performance.

b. GSMI

GSMI's third quarter performance exhibited much improvement quarter-on-quarter as volumes grew 14% above same period last year. This resulted to revenue growth of 11% for the quarter reducing the September year-to-date decline from last year to just 5%. GSMI's September 2012 year-to-date sales revenue reached ₱10,923 million.

Lower molasses and alcohol costs, along with better efficiencies at the distillery, significantly contributed to improving margins. Gross contribution for the quarter is a strong 26% driving year-to-date figures to 25%. With better margins and managed fixed costs, September 2012 year-to-date operating loss was reduced by 26% to ₱393 million.

2011 vs. 2010

a. SMB

SMB and subsidiaries generated September 2011 revenues of₱52,084 million, 7% higher than 2010. This was on volumes of about 166 million cases, above 2010 level by 3%. Though volume slowed down a bit during the third quarter of 2011, increased selling prices and managed fixed costs improved consolidated operating income to ₱14,654 million, 9% above 2010.

b. GSMI

GSMI's September 2011 consolidated sales revenues amounted to ₱11,509 million, 31% below 2010's level. Demand for GSMI's hard liquor products remained soft amidst the intense competitive environment. Though volume improved in the start of the third quarter, successive weather disturbances in the month of September dampened sales performance for the quarter. This resulted to a consolidated operating loss of ₱532 million for September 2011.

2. PACKAGING

2012 vs. 2011

San Miguel Yamamura Packaging Group's (SMYPG) September 2012 year-to-date sales revenue amounted to ₱17,927 million, 1% higher than last year's level. Metal cans, PET products, composites and plastic businesses continued to deliver higher sales while weak international markets started to improve in August.

With the continuing efficiency initiatives to lower fixed costs, consolidated operating income for the period reached ₱1,654 million, 5% above last year.

2011 vs. 2010

SMYPG's September 2011 sales revenue reached ₱17,728 million, 4% higher than 2010. The business maintained its moderate growth trend with higher sales from glass, plastic, paper and international operations. This, coupled with glass business margin improvement resulted to a 24% increase in packaging business' third quarter operating results versus the same period in 2010. Consolidated September 2011 operating income ended at ₱1,575 million, 8% above 2010.

3. FOOD

2012 vs. 2011

San Miguel Pure Foods Group's September 2012 year-to-date sales revenue amounted to ₱69,354 million, 8% higher than last year. Most domestic food cluster sustained their volume growth performance, and benefitted from better selling prices. Increased usage of raw materials substitute in the third quarter drove improvement in the Agro Cluster's profitability and the Food Group's operating income for the quarter reached ₱1,412 million, 12% higher than last year. September 2012 year-to-date consolidated operating income ended at ₱3,274 million. This is lower than previous year's level with the low first quarter income contribution due to the high costs of feeds particularly wheat and corn and lower supply of cassava during the period. Raw materials prices and profitability, however, started to improve in the second quarter and was sustained in the third quarter.

2011 vs. 2010

As of September 2011, San Miguel Pure Foods Group achieved consolidated revenues of ₱64,286 million, 11% higher than 2010. This was due to sustained volume growth and better selling prices. In addition, value added meats business posted an 8% increase in sales revenue for the third quarter.

However, income was tempered by the high costs of raw materials which intensified in the third quarter particularly for poultry, basic meats, feeds and flour. This resulted to September 2011 consolidated operating income of ₱4,254 million, a 2% improvement over 2010. Product reformulation, focus on higher-margin products and other cost-efficiency efforts were put in place to mitigate the effect of higher costs.

4. POWER

2012 vs. 2011

SMC Global's net generation increased by 9% to reach 11.7 million megawatt hours as of September 2012. Despite some forced outages throughout the year, sustained growth in bilateral nominations drove overall capacity factor to 72% from last year's 66%. The business thus continues to generate healthy returns with consolidated revenues of ₱57,351 million and operating income of ₱13,851 million, 7% and 26% higher than last year, respectively.

2011 vs. 2010

The four power plants – Sual, Limay, San Roque and Ilijan dispatched energy totaling 10.7 million megawatt hours as of September 2011. This is 45% higher than 2010 with the addition of the Ilijan plant in the portfolio beginning July 2010. However, on a quarter to quarter basis, the power plants' net generation for the third quarter of 2011 suffered a decline due to lower generation in Sual as a result of major maintenance activities done during the quarter and lower demand in the spot market. September 2011 consolidated revenue was 18% greater than 2010 at ₱53,534 million. Corresponding consolidated operating income amounted to ₱10,986 million.

5. FUEL AND OIL

2012 vs. 2011

Petron delivered September 2012 year-to-date volumes of about 53.2 million barrels, 55% above last year with the contribution of Petron Malaysia of almost 18 million barrels. Petron Philippines' domestic volumes, on the other hand, grew by 4% contributing about 36 million barrels. With these, nine months' consolidated revenue amounted to more than ₱307,341 million, 52% higher than last year. However, with the volatility in global oil markets that led to substantial margin contraction particularly in April to July, consolidated operating income as of September 2012 amounted to ₱6,540 million, significantly lower than last year.

For Petron Philippines, slight increases in crude oil prices and finished products started in the second week of July and margin started to improve in August. This resulted to operating income of ₱5,417 million in the nine-month period. Petron Malaysia, on the other hand, posted a turn-around positive performance on the third quarter reporting a September year-to-date operating income of ₱1,122 million from the first semester operating loss of ₱1,173 million.

2011 vs. 2010

Petron delivered September 2011 revenues of ₱201,929 million, 19% higher than 2010. The business' sales revenue for the period increased due to higher product prices, increase in exports and sales of higher-margin petrochemicals. However, the third quarter growth in revenue and margin were tempered by lower domestic sales volume and higher inventory cost of oil being used in its operations. September 2011 income from operations ended at 47% more than 2010's level.

III. FINANCIAL POSITION

2012 vs. 2011

The Group's consolidated total assets as of September 30, 2012 amounted to ₱1,045,452 million, ₱154,916 million higher than 2011. This is mainly due to the consolidation of the total assets of Petron Malaysia and the net proceeds from the issuance of Series "2" preferred shares of the Parent Company.

Cash and cash equivalents increased by 44% to ₱185,747 million in 2012 mainly due to the proceeds from the: a) issuance of Series "2" preferred shares of the Parent Company; b) issuance of preferred shares by Petron Global; c) net availment of short-term loans; d) redemption of Top Frontier's preferred shares; e) net collection of noncurrent receivables from Petron Corporation Employee Retirement Plan (PCERP); and f) cash provided by operations, net of the a) investments made in Trustmark and Zuma and the acquisition of Petron Malaysia by Petron; b) major capital expenditures such as the Refinery Master Plan Phase 2 and Refinery Solid Fuel Fired Power Plant; c) net payment of long-term debt, dividends and finance lease liabilities.

Trade and other receivables increased by 27% to ₱107,033 million in 2012 mainly due to the consolidation of Petron Malaysia's balance and increase in receivables of: a) SMC Global from Meralco on the sale of electricity and b) trade receivables of GSMI on account of extension of longer credit terms to dealers to support volume generation.

Inventories increased by 42% to ₱93,153 million in 2012 mainly on account of higher price and volume of crude and finished products of Petron, consolidation of Petron Malaysia's balance and the purposive buying by SMPFC of corn, feed wheat and coco oil to take advantage of breaks in raw material costs, and the seasonal build-up of meat materials in preparation for the Christmas season.

Biological assets increased by 5% to ₱6,219 million in 2012 due to higher feed costs and increase in volume of growing poultry livestock and hogs in anticipation of demand surge come Christmas season.

Prepaid expenses and other current assets increased by 33% to ₱30,052 million in 2012 mainly due to the excess input tax over Value-added Tax (VAT) payable of SMC Global and Petron, consolidation of Petron Malaysia's prepaid expenses and other current assets balance and increase in prepaid taxes of SMC Global, Petron, SMPFC and the Parent Company.

Assets held for sale decreased by ₱2,258 million mainly due to the completion of the sale of SMTCL and SMYUI on February 15 and January 31, 2012, respectively, and of SMVCL's building and land use rights in Amata Industrial Zone in Vietnam on February 23, 2012.

Available-for-sale (AFS) financial assets decreased by 14% to ₱1,774 million in 2012 mainly due to the fair value and translation adjustments on the investment in shares of stock of Indophil Resources NL (Indophil).

Property, plant and equipment increased by 9% to ₱349,943 million in 2012 mainly due to the consolidation of Petron Malaysia’s balance, major capital projects of Petron such as the Refinery Master Plan Phase 2 and Refinery Solid Fuel Fired Power Plant, net of the depreciation for the period.

Investment properties increased by 14% to ₱3,254 million in 2012 mainly due to the acquisition of a property in Alabang, Muntinlupa City by SMPI.

Goodwill increased by 34% to ₱41,572 million in 2012 mainly due to the recognition of goodwill upon the consolidation of Petron Malaysia with Petron.

Other intangible assets increased by 21% to ₱13,769 million in 2012 mainly due to the consolidation of Petron Malaysia's leasehold rights balance.

Deferred tax assets increased by 10% to ₱9,017 million in 2012 mainly due to the recognition of Net Operating Loss Carry Over by the Parent Company and GSMI, net of the effect of recognition of deferred tax on unrealized foreign exchange gains of the Parent Company and SMC Global.

Other noncurrent assets decreased by 18% to ₱31,433 million in 2012 mainly due to the net payments made by PCERP, net of the consolidation of Petron Malaysia's balance.

Drafts and loans payable increased by 36% to ₱112,077 million in 2012 mainly due to the consolidation of Petron Malaysia's balance and the net availments made during the period for the Group's working capital requirements.

Accounts payable and accrued expenses increased by 57% to ₱97,065 million mainly due to the consolidation of Petron Malaysia's balance, higher liabilities of Petron on account of its crude and petroleum products importations, increase in trade payables and other current liabilities of SMPFC and SMB due to purposive buying of raw materials in anticipation of higher production and sales requirements for the last quarter of 2012.

Income and other taxes payable increased by 5% to ₱9,535 million in 2012 mainly due to the increase in output VAT payable of mainly SMC Global, net of the lower income tax expense as compared with the same period in 2011 of SMB.

Dividends payable increased by 6% to ₱2,290 million in 2012 mainly due mainly due to the dividends payable of Petron to its preferred shareholders.

Liabilities directly associated with assets held for sale were reversed as a result of the completion of the sale of SMTCL and SMYUI on February 15 and January 31, 2012, respectively.

Finance lease liabilities decreased by 5% to ₱198,313 million in 2012 mainly due to payments and the effect of favorable foreign exchange rates, net of the recognition of effective interest for the period.

Other noncurrent liabilities increased by 16% to ₱5,243 million in 2012 mainly due to the consolidation of Petron Malaysia's balance.

The increase in capital stock - preferred pertains to the issuance of Series "2" preferred shares by the Parent Company on September 21, 2012.

Additional paid - in capital increased by 72% to ₱177,837 million in 2012 mainly due to the difference between the offer price and par value of the Series "2" preferred shares issued by the Parent Company, net of transaction costs.

Cumulative translation adjustments decreased by 5% to ₱4,981 million in 2012 mainly due to the fair value adjustment on the investment in shares of stock of Indophil. The exchange rates used are ₱47.10 to US$1 in Sept. 30, 2012 (₱43.84 in December 31, 2011) for net assets and ₱42.57 to US$1 as of Sept. 30, 2012 (₱43.26 as of Sept. 30, 2011) for income and expense items.

Amounts recognized directly in equity relating to assets held for sale were reversed as a result of the completion of the sale of SMTCL and SMYUI on February 15 and January 31, 2012, respectively.

Non-controlling interests (NCI) increased by 25% to ₱86,939 million in 2012 mainly due to the recognition of NCI upon the consolidation of Petron Malaysia, issuance of preferred shares by Petron Global and the share of NCI in the net income of mainly SMB, Petron and SMPFC, net of dividends declared and translation adjustments during the period.

2011 vs. 2010

The Group's consolidated total assets as of September 30, 2011 amounted to ₱875,457 million, ₱45,657 million higher than 2010, mainly due to:

Trade and other receivables increased by 7% to ₱81,053 million in 2011 due to SMC Global's higher receivable balance and SMC's advances to a related party, net of the lower government receivables of Petron.

Inventories increased by 34% to ₱77,102 million in 2011 mainly due to: a) increase in volume and price of crude oil inventory of Petron; b) inventory build up for the coming peak season of SMPFC and SMB; c) increase in prices of feeds costs, wheat and meat materials of SMPFC; and d) increase in molasses inventory of GSMI, net of the decrease in fuel inventory of SMC Global due to deconsolidation of Panasia Energy Holdings, Inc.'s (PanAsia) balance and lesser shipment of coal for the period.

Biological assets increased by 28% to ₱6,079 million in 2011 due to the increase in volume of growing poultry livestock and hogs as a result of expected increase in sales volume and purchase of additional cattle breeding stocks coupled with higher feed costs.

Prepaid expenses and other current assets increased by 29% to ₱21,785 million in 2011 mainly due to the excess input tax over VAT payable of Petron and SMC Global.

Assets held for sale decreased due to the sale of the 32nd floor and 10 parking lots of Petron Mega Plaza and the reclassification to "Investment properties" account of its remaining carrying amount.

Investments and advances increased by 5% from ₱152,814 million in 2010 mainly due to the advances made for investments in a telecommunications company, additional investment in: a) BOC shares of stock by SMPI and b) Private Infra Dev Corp. shares by Rapid Thoroughfares Inc.; the investment of Petron in 35% stake of Manila North Harbour Port Inc. and equity in net income of Meralco, net of the equity in net loss of Top Frontier, LTHI and PAHL and dividends from Meralco and Top Frontier.

Available-for-sale financial assets decreased by 49% from ₱3,597 million in 2010 mainly due to the fair value adjustment on the investment in shares of stock of Indophil.

Investment properties increased by 38% due to reclassification of Petron Mega Plaza's remaining carrying amount from assets held for sale and the construction costs of SMPI's Makati Diamond Hotel Project, net of the disposal of SMBIL's investment property in Thailand.

Other noncurrent assets increased by 5% to ₱35,430 million in 2011 due to the advances made by Petron to PAHL and SMC Global's receivable from Millenium Holdings, Inc. on the sale of PanAsia.

Income and other taxes payable decreased by 6% mainly due to payment of annual income tax in April 2011 and lower income tax expense as compared to the same period in 2010 of SMB and SMC Global, net of the increase in Petron's balance due to higher taxable income during the 9-month period.

Dividends payable increased by ₱2,032 million mainly due to the dividends payable of the Parent Company to its preferred and common shareholders which were paid on November 2 and 8, 2011, respectively.

Long-term debt increased by 21% from ₱168,927 million in 2010 mainly due to the issuance of bonds by the Parent Company and SMC Global and of corporate notes by SMC Global and SMC Shipping and Lighterage Corporation (SMCSL), net of payments made by Petron, the Parent Company, SMFBIL and GSMI.

Deferred tax liabilities decreased by 12% from ₱13,752 million in 2010 mainly due to the effect of recognition of deferred income tax on the lower undistributed net earnings of foreign subsidiaries during the period and on the depreciation treated as temporary difference, previously treated as permanent difference by SMC Global.

Finance lease liabilities decreased by ₱390 million mainly due to payments made and foreign currency translation adjustments, net of the recognition of effective interest for the period.

Other noncurrent liabilities decreased by 81% in 2011 mainly due to the payment made by SMC in August 2011 and the reclassification to current liabilities of the amount due from SMC Global next year related to the acquisition of Meralco shares of stock.

Cumulative translation adjustments decreased by 29% from ₱5,365 million in 2010 mainly due to the translation of foreign subsidiaries' net assets and decrease in the fair value adjustment of the investment in shares of stock of Indophil. The exchange rates used are ₱43.72 to US$1 in Sept. 30, 2011 (₱43.84 in December 31, 2010) for net assets and ₱43.26 to US$1 as of Sept. 30, 2011 (₱45.60 as of Sept. 30, 2010) for income and expense items.

Appropriated retained earnings increased by ₱ 12,899 million mainly due to additional appropriations made by Petron, SMPI, GSMI and SMCSL.

Non-controlling interests increased by 35% in 2011 mainly due to the recognition of NCI on the preferred shares issued by SMPFC and the share of NCI in the net income of SMB and Petron, net of dividends declared.

Equity

The increase (decrease) in equity is due to:

(In millions)	**September 30**	
	2012	2011
Issuance of capital stock	**₱79,699**	₱3,437
Income during the period	**26,408**	20,222
Addition to non-controlling interest and others	**16,999**	14,977
Effect of translation adjustments	**(614)**	(1,679)
Cash dividends	**(14,921)**	(12,093)
	₱107,571	₱24,864

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	September 30	
	2012	2011
Net cash flows provided by operating activities	**₱18,416**	₱17,890
Net cash flows used in investing activities	**(37,513)**	(53,569)
Net cash flows provided by financing activities	**76,866**	36,016

Net cash flows provided by operations for the period basically consist of changes in noncash current assets (mainly inventories), certain current liabilities and others, less income for the period.

Net cash flows used in investing activities included the following:

(In millions)	September 30	
	2012	2011
Proceeds from sale of investments and property and equipment	**₱17,202**	₱281
Payment by (advances to) related parties	**12,350**	(4,277)
Dividends received from associates	**4,593**	725
Interest received	**2,634**	3,441
Payment of other liabilities	**(2,122)**	(24,485)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(19,909)**	(146)
Additions to investments and advances	**(21,960)**	(9,160)
Additions to property, plant and equipment	**(27,604)**	(18,237)
Increase in other noncurrent assets and others	**(2,697)**	(1,711)

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

(In millions)	September 30	
	2012	2011
Net proceeds from issuance of preferred shares	**₱93,596**	₱14,828
Proceeds from short-term loans - net	**25,597**	1,674
Proceeds from issuance of capital stock	**118**	288
Proceeds from reissuance of treasury stock	**-**	2,977
Payment of finance lease liabilities	**(13,075)**	(8,826)
Proceeds from (payment of) long-term debt - net	**(14,588)**	35,135
Payments of dividends	**(14,782)**	(10,060)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱997 million) and ₱409 million in 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 certain computed Key Performance Indicators.

	September 2012	December 2011
Liquidity:		
Current Ratio	**1.77**	1.61
Solvency:		
Debt to Equity Ratio	**1.57**	1.98
Asset to Equity Ratio	**2.57**	2.98
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**8.28%**	7.87%
Interest Rate Coverage Ratio	**2.46**	2.81

	Period Ended September 30	
	2012	2011
Operating Efficiency:		
Volume Growth	**30%**	139%*
Revenue Growth	**29%**	143%*
Operating Margin	**7.43%**	10.56%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\frac{\text{Net Income**}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$

Interest Rate Coverage Ratio	$\dfrac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\dfrac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior period Net Sales}}\right)-1$
Revenue Growth	$\left(\dfrac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right)-1$
Operating Margin	$\dfrac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Volume and revenue growth in 2011 mainly represent the three-quarter results of the new businesses consolidated in 2011.*

** *Annualized for quarterly reporting*