



November 14, 2013

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

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

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period ended September 30, 2013, which we filed with the Securities and Exchange Commission today.

Very truly yours,

CONCHITA P. JAMORA
Assistant Corporate Secretary

GINEBRA SAN MIGUEL, INC.

3rd & 6th Floors, San Miguel Properties Centre St. Francis Street, Mandaluyong City, Metro Manila, Philippines 1550 Telephone: (632) 689-9100 Fax: (632) 643-2211



111142013002869

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

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Industry Classification

Company Type Stock Corporation

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Department CFD

Remarks

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(Company's Full Name)

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

Cynthia M. Baroy

Contact Person

(632) 689-9100

Company Telephone Number

SEC FORM

1	2
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Month
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17-Q (3 rd Qtr 2013)

FORM TYPE

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Month

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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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, 2013**
2. Commission identification number **142312** 3. BIR Tax Identification No. **000-083-856**
3. Exact name of issuer as specified in its charter: **GINEBRA SAN MIGUEL, INC.**

PHILIPPINES

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

6. Industry Classification Code: (SEC use only)

**3RD & 6TH FLOORS, SAN MIGUEL PROPERTIES CENTER,
ST. FRANCIS STREET, MANDALUYONG CITY**

7. Address of issuer's principal office **1550**
Postal Code

(632) 689-9100

8. Issuer's telephone number, including area code

N.A.

9. Former name, former address and former fiscal year, if changed since last report

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

**Outstanding Capital Stock and Amount of Debt
Outstanding as of September 30, 2013**

COMMON SHARES	290,075,941
PREFERRED SHARES	<u>32,786,885</u>
	322,862,829

TOTAL LIABILITIES **Php 14,990,400,752**

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

Yes ☒ No ☐

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

PHILIPPINE STOCK EXCHANGE - Common

12. Indicate by check mark whether the registrant:

- a.) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes ☒ No ☐

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

Yes ☒ No ☐

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Ginebra San Miguel, Inc. and its subsidiaries as of and for the period ended September 30, 2013 (with comparative figures as of December 31, 2012 and for the period ended September 30, 2012) and Selected Notes to Consolidated Financial Statements are attached hereto as **Annex "A"**.

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

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

PART II – OTHER INFORMATION

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

NONE

SIGNATURES

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

Issuer **GINEBRA SAN MIGUEL, INC.**

Signature and Title


Cynthia M. Baroy
Chief Finance Officer

Date **NOVEMBER 14, 2013**

GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND DECEMBER 31, 2012
(Amounts in Thousands)

			<u>2013</u>	<u>2012</u>
	<i>Note</i>		<u>Unaudited</u>	<u>As Restated</u> (Note 2)
ASSETS				
Current Assets				
Cash and cash equivalents	8, 9	P	164,302	P 497,503
Trade and other receivables - net	6, 8, 9		3,742,654	3,823,891
Inventories			4,919,530	5,962,766
Prepaid taxes and other current assets	8, 9		1,401,826	1,323,141
Total Current Assets			<u>10,228,312</u>	<u>11,607,301</u>
Noncurrent Assets				
Investment in joint venture			797,096	854,555
Property, plant and equipment - net	4		6,459,772	6,886,217
Investment properties - net	5		142,258	148,926
Goodwill			226,863	226,863
Deferred tax assets - net			1,456,849	1,015,735
Other noncurrent assets - net	8		1,308,869	1,016,570
Total Noncurrent Assets			<u>10,391,707</u>	<u>10,148,866</u>
			<u>P 20,620,019</u>	<u>P 21,756,167</u>
LIABILITIES AND EQUITY				
Current Liabilities				
Notes payable	8	P	10,267,398	P 9,432,200
Trade and other payables	6, 8, 9		2,879,225	3,409,911
Income and other taxes payable			138,180	78,877
Current maturities of long-term debt - net of debt issue costs	8, 9		541,286	541,286
Total Current Liabilities			<u>13,826,089</u>	<u>13,462,274</u>
Noncurrent Liabilities				
Retirement liabilities			250,595	250,595
Long-term debt - net of current maturities and debt issue costs	8, 9		913,298	1,383,548
Deferred tax liabilities			419	419
Total Noncurrent Liabilities			<u>1,164,312</u>	<u>1,634,562</u>
Total Liabilities			<u>14,990,401</u>	<u>15,096,836</u>
Equity				
Capital stock			399,063	399,063
Additional paid-in capital			2,539,454	2,539,447
Reserve for retirement plan			(130,530)	(130,530)
Retained earnings				
Appropriated			2,500,000	2,500,000
Unappropriated			2,901,040	3,930,760
Treasury stock			(2,579,409)	(2,579,409)
Total Equity			<u>5,629,618</u>	<u>6,659,331</u>
			<u>P 20,620,019</u>	<u>P 21,756,167</u>

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



GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIOD ENDED SEPTEMBER 30, 2013 AND 2012
(Amounts in Thousands, Except Per Share Data)

	<i>Note</i>	2013		2012		<i>For the Quarter Ended</i>	
		<u>Unaudited</u>		<u>As Restated (Note 2)</u>		<u>Unaudited</u>	<u>Unaudited (Note 2)</u>
SALES	3	P 9,911,372	P	10,477,982	P	3,860,341	P 3,595,568
COST OF SALES		<u>7,885,768</u>		<u>7,856,228</u>		<u>2,922,659</u>	<u>2,679,075</u>
GROSS PROFIT		2,025,604		2,621,754		937,682	916,493
SELLING AND MARKETING EXPENSES		(1,794,477)		(1,846,222)		(642,933)	(692,051)
GENERAL AND ADMINISTRATIVE EXPENSES		(1,126,561)		(1,147,135)		(367,062)	(393,090)
SHARE IN THE LOSSES OF A JOINT VENTURE		(57,459)		(31,591)		(18,107)	(14,266)
INTEREST EXPENSE		(496,635)		(434,916)		(165,125)	(156,697)
INTEREST INCOME		2,172		2,581		744	1,395
OTHER INCOME - NET		<u>35,574</u>		<u>75,703</u>		<u>22,737</u>	<u>14,638</u>
LOSS BEFORE INCOME TAX		(1,411,782)		(759,826)		(232,064)	(323,578)
INCOME TAX BENEFIT		<u>(382,062)</u>		<u>(207,045)</u>		<u>(48,174)</u>	<u>(91,931)</u>
NET LOSS		P <u>(1,029,720)</u>	P	<u>(552,781)</u>	P	<u>(183,890)</u>	P <u>(231,647)</u>
Basic and diluted loss per share		P <u>(3.68)</u>	P	<u>(2.03)</u>	P	<u>(0.68)</u>	P <u>(0.84)</u>

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



GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED SEPTEMBER 30, 2013 AND 2012
(Amounts in Thousands)

		<u>2013</u>	<u>2012</u>	<u>For the Quarter Ended</u>	<u>2013</u>	<u>2012</u>
	<i>Note</i>	<u>Unaudited</u>	<u>As Restated</u> <u>(Note 2)</u>	<u>Unaudited</u>	<u>As Restated</u> <u>(Note 2)</u>	
NET LOSS		P <u>(1,029,720)</u>	P <u>(552,781)</u>	P <u>(183,890)</u>	P <u>(231,647)</u>	
EQUITY RESERVE FOR RETIREMENT PLAN	2	-	(26,828)	-	(8,943)	
INCOME TAX BENEFIT		<u>-</u>	<u>8,048</u>	<u>-</u>	<u>2,683</u>	
OTHER COMPREHENSIVE LOSS - NET OF TAX		<u>-</u>	<u>(18,780)</u>	<u>-</u>	<u>(6,260)</u>	
TOTAL COMPREHENSIVE LOSS - NET OF TAX		P <u><u>(1,029,720)</u></u>	P <u><u>(571,561)</u></u>	P <u><u>(183,890)</u></u>	P <u><u>(237,907)</u></u>	

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



GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2013 AND 2012
(Amounts in Thousands)

	Capital Stock			Additional Paid-in Capital		Reserve for Retirement Plan		Cumulative Translation Adjustments	Retained Earnings			Treasury Stock	Total
	Common	Preferred							Appropriated	Unappropriated			
At December 31, 2012 (Audited)	P	P	P	P	P	P	P	P	P	P	P	P	P
Adjustment due to PAS 19 and PFRS 11 (Note 2)	-	-	-	-	-	(130,530)	-	(54,721)	2,500,000	-	3,678,540	(2,579,409)	176,411
At December 31, 2012 (As Restated)	345,625	53,438	2,539,447	(130,530)	-	-	-	-	2,500,000	(1,029,720)	3,930,760	(2,579,409)	6,659,331
Net loss for the period	-	-	-	-	-	-	-	-	-	-	(1,029,720)	-	(1,029,720)
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	-	-	(1,029,720)	-	(1,029,720)
Stock options	-	-	7	-	-	-	-	-	-	-	-	-	7
As of September 30, 2013 (Unaudited)	P	P	P	P	P	P	P	P	P	P	P	P	P
At December 31, 2011 (Audited)	P	P	P	P	P	P	P	P	P	P	P	P	P
Adjustment due to PAS 19 and PFRS 11 (Note 2)	-	-	-	-	-	(105,491)	35,936	-	2,500,000	-	240,189	-	170,634
At December 31, 2011 (As Restated)	345,625	53,438	2,526,625	(105,491)	-	(105,491)	-	-	2,500,000	-	4,767,929	(2,579,409)	7,508,717
Equity reserve for retirement plan - net of tax (Note 2)	-	-	-	(18,780)	-	(18,780)	-	-	-	-	-	-	(18,780)
Other comprehensive loss	-	-	-	(18,780)	-	(18,780)	-	-	-	-	-	-	(18,780)
Net loss for the period	-	-	-	-	-	-	-	-	-	-	(552,781)	-	(552,781)
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	-	-	(552,781)	-	(552,781)
Stock options	-	-	11,308	-	-	-	-	-	-	-	-	-	11,308
As of September 30, 2012 (Unaudited)	P	P	P	P	P	P	P	P	P	P	P	P	P
	345,625	53,438	2,537,933	(124,271)	-	(124,271)	-	-	2,500,000	4,215,148	(2,579,409)	-	6,948,464

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



GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED SEPTEMBER 30, 2013 AND 2012
(Amounts in Thousands)

	2013	2012
	Unaudited	As Restated (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	P (1,411,782)	P (759,826)
Adjustments for:		
Depreciation and amortization	529,572	483,091
Interest expense	496,635	434,916
Net derivative gain	(1,609)	(6,220)
Loss (gain) on sale of property and equipment	(706)	21
Net unrealized foreign exchange gain	(6,942)	(157)
Interest income	(2,172)	(2,581)
Share in the losses of a joint venture	57,459	31,591
Operating income (loss) before working capital changes	(339,545)	180,835
Decrease (increase) in:		
Trade and other receivables	(60,337)	(1,492,841)
Inventories	1,045,477	688,870
Prepaid taxes and other current assets	(217,629)	31,733
Increase (decrease) in:		
Trade and other payables	(517,426)	930,542
Other taxes payable	59,303	(53,121)
Retirement liabilities	47,985	17,183
Cash provided by operations	17,828	303,201
Interest received	2,172	2,581
Income taxes paid	(366)	(368)
Net cash flows provided by operating activities	19,634	305,414
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(135,005)	(203,895)
Increase in other noncurrent assets	(81,015)	(139,430)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(142,672)
Net cash flows used in investing activities	(216,020)	(485,997)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	80,719,073	94,542,272
Issuance of capital stock	15,210	22,907
Payments of:		
Short-term borrowings	(79,883,875)	(93,336,859)
Long-term borrowings	(471,429)	(300,000)
Interest	(519,289)	(460,220)
Cash dividends	(440)	(117,970)
Net cash flows provided by (used in) financing activities	(140,750)	350,130
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,935	(4,341)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(333,201)	165,206
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (As Restated - Note 2)	497,503	255,249
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 164,302	P 420,455

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



GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLES
SEPTEMBER 30, 2013 (UNAUDITED)
(Amounts in Thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	Current	< 30 days past due	30 - 60 days past due	60 - 90 days past due	Over 90 days past due
a) Trade Receivables	P	3,242,811	1,794,255	430,647	159,933	275,284	582,692
		Less: Allowance for Doubtful Accounts	-	-	-	-	108,194
		NET TRADE RECEIVABLES	3,134,617	430,647	159,933	275,284	474,498
b) Non-Trade Receivables		608,037	84,201	16,335	47,077	24,011	436,413
NET RECEIVABLES	P	3,742,654	1,878,456	446,982	207,010	299,295	910,911



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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated interim financial statements as of and for the period ended September 30, 2013 and comparative financial statements for the same period in 2012 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

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

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

Adopted Effective 2013

The Group has adopted the following PFRS starting January 1, 2013 and accordingly, changed its accounting policies in the following areas.

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments: (a) require that an entity presents 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 consolidated statement of comprehensive income to consolidated 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 amendments are effective for annual periods beginning on or after January 1, 2013.

The presentation of other comprehensive income in the consolidated statements of comprehensive income, to present separately items that would be reclassified to profit or loss from those that would never be, will be modified in the Group's 2013 annual financial statements. Comparative information will be re-presented accordingly.

- Disclosures: Offsetting Financial Assets and Financial Liabilities (*Amendments to PFRS 7, Financial Instruments: Disclosures*). These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are: (a) offset in the consolidated statements of financial position; or (b) subject to enforceable master netting

arrangements or similar agreements. They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the consolidated statements of financial position. The amendments are applied retrospectively and are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have a significant effect on the consolidated financial statements.

- 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 (2008), *Consolidated and Separate Financial Statements*, and Philippine Interpretation Standards Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. The new standard is effective for annual periods beginning on or after January 1, 2013.

In accordance with the transitional provision of PFRS 10, the Group reassessed control over its investees effective January 1, 2013 based on the new control model. The adoption of the new standard did not result to changes in consolidation conclusion in respect of the Group's investees and in the current accounting for these investees.

- PFRS 11, *Joint Arrangements*, focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). The new standard: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) eliminates the option of using the equity method or proportionate consolidation for jointly controlled entities that are now called joint ventures as it always requires the use of equity method. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures*, 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.

As a result of the adoption of PFRS 11, the Group assessed that it has rights only to the net assets of the arrangement based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement and has classified the arrangement as a joint venture. The Group eliminated the use of proportionate consolidation and is now applying the equity method.

The quantitative impact of the change in the Group's financial statements is shown in Note 2.

- 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. The new standard provides information that enables users to evaluate: (a) the nature of, and risks associated with, an entity's interests in other entities; and (b) 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.

The disclosures required by PFRS 12, as applicable, will be disclosed in the Group's 2013 annual financial statements.

- 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. The adoption of the new standard did not have a significant effect on the measurement of the Group's assets and liabilities.
- 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 of entities to recognize all changes in the defined benefit retirement 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 retirement obligation. The amendments are applied retrospectively and are effective for annual periods beginning on or after January 1, 2013.

As a result of the adoption of the amendments to PAS 19, the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit retirement plan. Actuarial gains and losses are recognized immediately in other comprehensive income and the corridor method was eliminated. Also, the expected return on plan assets recognized in profit or loss is now calculated based on the rate used to discount the defined benefit retirement obligation.

The quantitative impact of the change in the Group's financial statements is shown in Note 2.

- 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 amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.
- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:
 - *Comparative Information beyond Minimum Requirements (Amendments to PAS 1)*. These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting

notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required. The amendments are effective for annual periods beginning on or after January 1, 2013.

A third statement of financial position, as a result of the retrospective application of the change in accounting policy, will be presented in the Group's 2013 annual financial statements.

- Presentation of the Opening Statement of Financial Position and Related Notes (*Amendments to PAS 1*). The amendments clarify that: (a) the opening consolidated statement of financial position is required only if there is: (i) a change in accounting policy; (ii) a retrospective restatement; or (iii) a reclassification which has a material effect upon the information in that consolidated statement of financial position; (b) except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, notes related to the opening consolidated statement of financial position are no longer required; and (c) the appropriate date for the opening consolidated statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements. The amendments explain that the requirements for the presentation of notes related to additional comparative information and those related to the opening consolidated statement of financial position are different, because the underlying objectives are different. Consequential amendments have been made to PAS 34, *Interim Financial Reporting*. The amendments are effective for annual periods beginning on or after January 1, 2013.

A third statement of financial position, as a result of the retrospective application of the change in accounting policy, will be presented in the Group's 2013 annual financial statements.

- Classification of Servicing Equipment (*Amendments to PAS 16, Property, Plant and Equipment*). The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under this standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.
- Income Tax Consequences of Distributions (*Amendments to PAS 32, Financial Instruments Presentation*). The amendments clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments*. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.

- *Segment Assets and Liabilities (Amendments to PAS 34)*. This is amended to align the disclosure requirements for segment assets and segment liabilities in interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a) the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.

Amendments to PFRS 1, *Government Loans*, and PAS 27 (Amended), *Separate Financial Statements*, are amendments to PFRS that are effective for financial statements for the annual period beginning on or after January 1, 2013 but are not applicable to the Group.

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, 2013, and have not been applied in preparing the consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

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

- *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to PAS 36, Impairment of Assets)*. The amendments clarify that the recoverable amount disclosure only applies to impaired assets (or cash-generating unit) and require additional disclosures to be made on fair value measurement on impaired assets when the recoverable amount is based on fair value less costs of disposal. The amendments harmonize the disclosure requirement for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not plan to adopt these amendments early.
- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32)*. The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not plan to adopt these amendments early.
- *PFRS 9, Financial Instruments (2010) and (2009)*. PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active

project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. PFRS 9 (2010 and 2009) is effective for annual periods beginning on or after January 1, 2015.

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.

2. Adoption of PFRS 11 and Amendments to PAS 19

The table below summarizes the impact of the adoption of new standards and amendments to standards on the consolidated financial position and financial performance. The impact relates to the application of equity method on the Group's interest in joint venture and the changes related to defined benefit retirement plan.

Increase (decrease) in:

Consolidated Statements of Financial Position

	December 31, 2012			January 1, 2012		
	As Previously Reported	Restatement	As Restated	As Previously Reported	Restatement	As Restated
Total current assets	P11,944,884	(P337,583)	P11,607,301	P11,218,065	(P549,642)	P10,668,423
Total noncurrent assets	9,861,885	286,981	10,148,866	8,331,707	256,738	8,588,445
Total current liabilities	13,797,429	(335,155)	13,462,274	10,697,595	(402,048)	10,295,547
Total noncurrent liabilities	1,526,420	108,142	1,634,562	1,514,094	(61,490)	1,452,604
Total Equity	6,482,920	176,411	6,659,331	7,338,083	170,634	7,508,717

Consolidated Statement of Income

	For the Period Ended September 30, 2012		
	As Previously Reported	Restatement	As Restated
Sales	P10,922,983	(P445,001)	P10,477,982
Loss from operations	(321,115)	(18,858)	(302,257)
Net loss	(562,145)	(9,364)	(552,781)

Consolidated Statement of Comprehensive Income

	For the Period Ended September 30, 2012		
	As Previously Reported	Restatement	As Restated
Equity reserve for retirement plan	P-	(P26,828)	(P26,828)
Income tax benefit	-	8,048	8,048
	P-	(P18,780)	(P18,780)

3. Segment Information

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

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

The alcoholic segment produces and markets alcoholic beverages.

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

Financial information about operating segments follow:

	Alcoholic		Nonalcoholic		Consolidated	
	2013	2012*	2013	2012*	2013	2012*
REVENUES						
Net Sales	P 9,365,155	P 10,000,310	P 546,217	P 477,672	P 9,911,372	P 10,477,982
RESULT						
Segment Result **	(754,945)	(212,099)	(114,174)	(90,157)	(869,119)	(302,256)

* As Restated - Note 2

** Includes rental income and sale of scrap.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2013

	December 31, 2012 (As Restated - Note 2)		Additions	Retirements	Reclassification	September 30, 2013
Cost:						
Land and Improvements	P	708,069	P -	P -	P 1,975	P 710,044
Buildings and Improvements		1,756,967	-	-	4,584	1,761,551
Machinery and Equipment		8,552,085	-	(1,679)	54,257	8,604,663
Transportation Equipment		241,287	-	(2,715)	13,221	251,793
Furniture and Office Equipment		111,331	-	(1,794)	12,357	121,894
Other Equipment		705,170	-	-	74,943	780,113
Leasehold Improvements		138,684	-	(8)	3,048	141,724
Construction in Progress		333,931	135,005	-	(267,603)	201,333
	P	12,547,524	P 135,005	P (6,196)	P (103,218)	P 12,573,115
Accumulated Depreciation:						
Land and Improvements	P	150,129	P 3,960	P -	P -	154,089
Buildings and Improvements		712,902	40,180	-	(802)	752,280
Machinery and Equipment		3,995,873	339,516	(1,679)	453	4,334,163
Transportation Equipment		151,507	24,748	(2,715)	299	173,839
Furniture and Office Equipment		82,346	12,017	(1,794)	-	92,569
Other Equipment		556,845	44,722	-	(11,761)	589,806
Leasehold Improvements		11,705	4,900	(8)	-	16,597
	P	5,661,307	P 470,043	P (6,196)	P (11,811)	P 6,113,343
Net Book Value	P	6,886,217	P (335,038)	P -	P (91,407)	P 6,459,772

September 30, 2012

	December 31, 2011 (As Restated)		Additions		Retirements		Reclassification		September 30, 2012 (As Restated)	
Cost:										
Land and Improvements	P	716,827	P	-	P	(43)	P	(8,715)	P	708,069
Buildings and Improvements		1,333,745		-		-		447,145		1,780,890
Machinery and Equipment		7,930,435		-		-		733,015		8,663,450
Transportation Equipment		232,513		-		(2,051)		5,529		235,991
Furniture and Office Equipment		108,417		-		-		10,746		119,163
Other Equipment		689,175		-		-		10,852		700,027
Leasehold Improvements		16,421		-		-		108,820		125,241
Construction in Progress		230,949		203,895		-		(100,619)		334,225
	P	11,258,482	P	203,895	P	(2,094)	P	1,206,773	P	12,667,056
Accumulated Depreciation:										
Land and Improvements	P	148,251	P	3,497	P	-	P	(2,642)	P	149,106
Buildings and Improvements		514,433		37,685		-		165,359		717,477
Machinery and Equipment		3,782,540		329,628		-		(15,363)		4,096,805
Transportation Equipment		124,850		22,054		(2,010)		1,043		145,937
Furniture and Office Equipment		65,536		16,741		-		2,335		84,612
Other Equipment		525,295		30,925		-		(7,399)		548,821
Leasehold Improvements		5,771		3,725		-		11,779		21,275
	P	5,166,676	P	444,255	P	(2,010)	P	155,112	P	5,764,033
Net Book Value	P	6,091,806	P	(240,360)	P	(84)	P	1,051,661	P	6,903,023

Depreciation and amortization charged to operations amounted to P470,043 and P444,255 in September 30, 2013 and 2012, respectively.

5. Investment Properties

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

The movements in investment properties are as follows:

September 30, 2013

		Land and Land Improvements		Buildings and Building Improvements		Machinery and Equipment		Other Equipment		Total
Cost:										
December 31, 2012	P	49,297	P	116,300	P	633,837	P	9,247	P	808,681
September 30, 2013		49,297		116,300		633,837		9,247		808,681
Accumulated depreciation and amortization:										
December 31, 2012		17,589		74,126		558,793		9,247		659,755
Additions		49		2,197		4,422		-		6,668
September 30, 2013		17,638		76,323		563,215		9,247		666,423
Net Book Value:										
December 31, 2012	P	31,708	P	42,174	P	75,044	P	-	P	148,926
September 30, 2013	P	31,659	P	39,977	P	70,622	P	-	P	142,258

September 30, 2012

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

6. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products to related parties. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial period by examining the financial position of the related party and the market in which the related party operates.

	Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	September 30, 2013	P 12,787	P 145,691	P 28,566	P 82,280	On demand;	Unsecured;
	December 31, 2012	28,059	189,355	27,306	81,714	Non-interest bearing	No impairment
Under Common Control	September 30, 2013	291,441	2,040,404	77,598	871,945	On demand;	Unsecured;
	December 31, 2012	118,852	3,749,977	132,932	1,082,247	Non-interest bearing	No impairment
Joint Venture	September 30, 2013	-	-	316,778	-	On demand;	Unsecured;
	December 31, 2012*	-	-	214,870	-	Non-interest bearing	No impairment
Retirement Plan	September 30, 2013	-	-	13,028	-	On demand;	Unsecured;
	December 31, 2012	-	-	77,025	-	Non-interest bearing	No impairment
Associates of the Ultimate Parent Company	September 30, 2013	-	13,040	-	-	On demand;	Unsecured;
	December 31, 2012	-	21,837	-	-	Non-interest bearing	No impairment
	September 30, 2013	-	-	-	1,780,100	3 months;	Unsecured;
	December 31, 2012	-	-	-	2,600,000	Interest bearing	No impairment
	September 30, 2013	P 304,228	P 2,199,135	P 435,970	P 2,734,325		
	December 31, 2012*	P 146,911	P 3,961,169	P 452,133	P 3,763,961		

* As Restated - Note 2

7. Basic and Diluted Loss Per Share

Basic and Diluted Loss Per Share is computed as follows:

	September 30	
	2013	2012 (As Restated - Note 2)
Net loss	P (1,029,720)	P (552,781)
Less: Dividends on preferred shares for the period	36,885	36,885
Net loss available to common shares (a)	(1,066,605)	(589,666)
Weighted average number of common shares outstanding (b)	290,076	290,076
Basic and Diluted Loss Per Share (a/b)	P (3.68)	P (2.03)

8. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

The BOD constituted the Group's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process 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 derivatives are set out in Note 9 to the consolidated financial statements.

Interest Rate Risk

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P4,905 and P6,506 for the period ending September 30, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, the terms and maturity profile of the interest-bearing financial instruments, together with the gross amounts, are shown in the following tables:

September 30, 2013	<1 year	1-2 years	>2-3 years	>3-4 years	>4-5 years	>5 years	Total
Fixed Rate							
Philippine peso-denominated	P 428,571	P 428,572	P -	P -	P -	P -	P 857,143
Interest rate	7.25% - 7.89%	7.25% - 7.89%					
Floating rate							
Philippine peso-denominated	114,286	114,286	114,286	114,286	142,856	-	600,000
Interest rate	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%		
	P 542,857	P 542,858	P 114,286	P 114,286	P 142,856	P -	P 1,457,143

December 31, 2012	<1year	1-2 years	>2-3 years	>3-4 years	>4-5 years	>5 years	Total
Fixed Rate							
Philippine peso-denominated	P 428,571	P 428,571	P 385,715	-	-	-	1,242,857
Interest rate	7.25% - 7.89%	7.25% - 7.89%	7.25% - 7.89%				
Floating rate							
Philippine peso-denominated	114,286	114,286	114,286	114,286	114,286	114,285	685,715
Interest rate	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	
	P 542,857	P 542,857	P 500,001	P 114,286	P 114,286	P 114,285	1,928,572

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 to manage its foreign currency risk exposure.

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

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

	September 30, 2013		December 31, 2012 (As Restated - Note 2)	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$ 888	P 38,678	US\$ 1,635	P 67,126
Trade and other receivables	359	15,618	347	14,241
Foreign currency-denominated monetary assets	US\$ 1,247	P 54,296	US\$ 1,982	P 81,367

The Group reported net foreign exchange gain amounting to P6,942 and P157 on September 30, 2013 and 2012, respectively, with the translation of its foreign currency-denominated assets. 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, 2011	43.84
September 30, 2012	41.70
December 31, 2012	41.05
September 30, 2013	43.54

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, 2013 and December 31, 2012:

September 30, 2013	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P 888)	(P 622)	P 888	P 622
Trade and other receivables	(359)	(251)	359	359
	(P 1,247)	(P 873)	P 1,247	P 873

December 31, 2012 (As Restated - Note 2)	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P 1,635)	(P 1,145)	P 1,635	P 1,145
Trade and other receivables	(347)	(243)	347	243
	(P 1,982)	(P 1,388)	P 1,982	P 1,388

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

Commodity Price Risk

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

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

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of 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, 2013 and December 31, 2012.

September 30, 2013	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	P 164,302	P 164,302	P 164,302	P -	P -	P -
Trade and other receivables - net	3,742,654	3,742,654	3,742,654	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	3,375	3,375	3,375	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	453,404	453,404	-	136,626	316,778	-
Financial Liabilities						
Notes payable	10,267,398	10,327,006	10,327,006	-	-	-
Trade and other payables (excluding dividends payable)	2,873,139	2,873,139	2,873,139	-	-	-
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	737	737	737	-	-	-
Long-term debt (including current maturities)	1,454,584	1,590,474	618,268	579,392	392,814	-

December 31, 2012 (As Restated - Note 2)	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	P 497,503	P 497,503	P 497,503	P -	P -	P -
Trade and other receivables - net	3,823,891	3,823,891	3,823,891	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,288	1,288	1,288	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	404,381	404,381	-	189,511	214,870	-
Financial Liabilities						
Notes payable	9,432,200	9,487,236	9,487,236	-	-	-
Trade and other payables (excluding dividends payable)	3,404,704	3,404,704	3,404,704	-	-	-
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	413	413	413	-	-	-
Long-term debt (including current maturities)	1,924,834	2,156,878	649,948	613,829	776,910	116,191

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

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

Trade and Other Receivables

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

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

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit

approval requirements before engaging a particular customer or counterparty. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

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

Financial information on the Group's maximum exposure to credit risk as of September 30, 2013 and December 31, 2012, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	September 30, 2013	December 31, 2012 (As Restated - Note 2)
Cash and cash equivalents	P 164,302	P 497,503
Trade and other receivables - net	3,742,654	3,823,891
Derivative assets	3,375	1,288
Noncurrent receivables and deposits	453,404	404,381
	P 4,363,735	P 4,727,063

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

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

Capital Management

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

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

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

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

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

The Group is not subject to externally imposed capital requirements.

9. Financial Assets and Financial Liabilities

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

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

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

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

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

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

Financial Assets

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains 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 in the consolidated statements of changes in equity. Any interest earned shall be recognized as part of "Interest income" in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL shall be recognized in profit or loss when the right to receive payment has been established.

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

The carrying amounts of financial assets under this category amounted to P3,375, P1,385 and P1,288 as of September and June 30, 2013 and December 31, 2012, 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 P4,360,360, P4,476,120 and P4,725,775 as of September and June 30, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend Income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group has no financial assets classified under this category as of September and June 30, 2013 and December 31, 2012.

Financial Liabilities

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an

effective accounting hedge are recognized in other comprehensive income and presented 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 P737, P2,015 and P413 as of September and June 30, 2013 and December 31, 2012, 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.

The Group's liabilities arising from its trade or borrowings such as notes payable, trade and other payables and long-term debt are included in this category.

The combined carrying amounts of financial liabilities under this category amounted to P14,595,121, P14,867,852 and P14,761,738 as of September and June 30, 2013 and December 31, 2012, respectively.

Debt Issue Costs

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
(a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the

original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses at reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012 (As Restated - Note 2)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P 164,302	P 164,302	P 497,503	P 497,503
Trade and other receivables - net	3,742,654	3,742,654	3,823,891	3,823,891
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	3,375	3,375	1,288	1,288
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	453,404	453,404	404,381	404,381
Financial Liabilities				
Notes payable	10,267,398	10,267,398	9,432,200	9,432,200
Trade and other payables (excluding dividends payable)	2,873,139	2,873,139	3,404,704	3,404,704
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	737	737	413	413
Long-term debt (including current maturities)	1,454,584	1,505,359	1,924,834	2,008,891

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

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

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. 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.

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

Long-term Debt. The fair value of interest-bearing fixed-rate loan is based on the discounted value of expected future cashflows using the applicable market rates for similar types of instruments as of reporting date. As of September 30, 2013 and December 31, 2012, discount rates used range from 0.72% to 2.43% and 0.68% to 3.40%, respectively. The carrying amounts of floating rate loans with annually interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Embedded Derivatives

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

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

Embedded Currency Forwards

As of September and June 30, 2013 and December 31, 2012, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$3,827, US\$2,032 and US\$1,830, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of September and June 30, 2013 and December 31, 2012, the net fair value of these embedded currency forwards amounted to P2,638, (P630) and P875, respectively.

For the periods ended September 30, 2013 and 2012 and June 30, 2013 and 2012, the Group recognized marked-to-market loss (gains) from embedded derivatives amounting to (P1,609), (P6,220), P1,346 and (P5,939), 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 financial instruments carried at fair value, by valuation method as of September 30, 2013 and December 31, 2012 are presented below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

The Group's derivative assets and derivative liabilities amounting to P3,375 and P737, respectively, as of September 30, 2013 and P1,288 and P413, respectively, as of December 31, 2012, are valued based on Level 2. The Group has no financial instruments valued based on Level 1 and Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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 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. 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 September 30, 2013.
- (h) The effects of seasonality or cyclicity 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 year but are still ongoing and not yet completed as of September 30, 2013. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.



GINEBRA SAN MIGUEL INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND PERFORMANCE

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. (the Parent Company or GSMI) and its subsidiaries (collectively referred to as the Group) as of and for the period ended September 30, 2013 (with comparative figures as of December 31, 2012 and for the period ended September 30, 2012). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at September 30, 2013, 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. FINANCIAL PERFORMANCE

2013 vs. 2012

Third quarter revenues, which was the highest among previous quarters brought about by the continuous improvement in volume, grew by 7% over year-ago mainly due to price moves. As a result, revenues for the nine-month period decreased by only 5% versus last year.

Despite the increase in excise tax, cost efficiency programs undertaken this year to trim-down major cost components, resulting cost of sales to be at par with last year.

Gross profit stood at P2,026 million for the nine-month period, lower than last year by 23% owing to lower business volumes but tempered by cost improvements.

Significant volume shortfall and higher fixed operating costs of Thai San Miguel Liquor Co. Ltd. (TSML) led to higher share in the losses of a joint venture by 82% than last year.

Interest expense, net of interest income, grew by 14% on account of the increased short-term borrowings to cover operational requirements.

Lower scrap sales impacted to a 53% decline in other income, net of other charges.

Income tax benefit reached P382 million, higher than last year by 85% on account of higher recognized income tax benefit from Net Operating Loss Carry-Over (NOLCO).

All these resulted to net loss for the nine-month period to surge to P1,030 million, 86% above last year’s level.

Programs launched during the first semester particularly the consumer promo “Lahing Ginebra, Gandang Porma”, with a high gift certificate redemption rate of 81%, resulted the Group’s flagship brand Ginebra San Miguel to surge in the third quarter and maintain its market share at 20%, based on Retail Trade Audit results as of August 2013.

Promotional activities focusing on gin brands are in place to induce consumption in the fourth quarter. The 2014 GSMI calendar promo, which features Ms. Marian Rivera, was launched and is expected to draw sales volume for the last quarter. Continuous improvement in distribution channel to ensure product availability and penetration will be made through development of wholesaler selling system. Sustained efforts to improve efficiency and reduce cost will contribute to improved profitability. All these efforts are expected to result in operating gains in the fourth quarter. Expected improved profitability in the fourth quarter will reduce reliance on short-term credit for operations requirements.

2012 vs. 2011

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

Cost of sales for the period decreased by 10% on account of lower distillery feedstock costs and improved distillery operations. As a result, gross profit for the period improved by 13% from 2011.

Selling and marketing expenses increased by 7% for the nine-month period from 2011 on account of the implementation of sales and marketing programs that facilitated volume recovery.

Share in the losses of a joint venture decreased by 7% on account of volume improvement particularly sale of crude alcohol.

Interest expense, net of interest income, significantly increased by 38% for the nine-month period, on account of increase in short-term borrowings to fund the Group's working capital requirements, and the Group's consolidation of East Pacific Star Bottlers Phils Inc.'s long-term debt.

Other income - net of other charges significantly increased by 94% on account of higher scrap sales, foreign exchange gain and recognition of gain on embedded derivatives.

Recognition of higher income tax benefit from NOLCO led to a P553 million consolidated net loss for the nine-month period, lower by 30% from 2011.

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

II. FINANCIAL POSITION

2013 vs. 2012

Cash and cash equivalents declined by 67% as these were used to fund operational requirements.

Continuous depletion of finished goods and reduced purchases of alcohol and molasses trimmed inventories by 17%.

Prepaid taxes and other current assets increased by 6% chiefly on account of increase in excise tax on products.

Investment in joint venture decreased by 7% due to the recognition of the Group's share in net loss of TSML amounting to P57 million.

Deferred tax assets – net grew by 43% owing mainly to the increase in recognized income tax benefit from NOLCO.

Other noncurrent assets – net grew by 29%, on account mainly of the deconsolidation of TSML and Thai Ginebra Trading as a result of the adoption of PFRS 11, Joint Arrangements.

Notes payable grew by 9% on account of the increase in short-term borrowings used to fund operations.

Reduced purchases of raw materials particularly alcohol resulted in a 16% decline in trade and other payables.

Annex “B”

Income and other taxes payable rose by 75% owing mainly to higher value-added tax payable brought about by lower input taxes on purchases made for the period.

Long-term debt - net of current maturities and debt issue costs decreased by 34% on account of payment of amortization.

2012 vs. 2011

Cash and cash equivalents increased by 65%, on account of improved cash flow from operations and decline in net working capital levels for the period.

Trade and other receivables-net increased by 32% as credit terms were extended to support volume generation activities for the Group's domestic liquor business.

Inventories decreased by 10%, largely due to decline in distillery feedstock purchases.

Property, plant and equipment-net increased by 13% mainly due to the consolidation of EPSBPI's property, plant and equipment balance.

Goodwill amounting to P243 million was recognized in 2012 on account of the Group's consolidation of EPSBPI.

Deferred tax assets - net increased by 48% mainly on account of recognition of income tax benefit from NOLCO.

Other noncurrent assets-net increased by 25% on account of the increase in deferred container charges, arising from purchases of returnable bottles and crates.

Notes payable increased by 16% to fund the Group's working capital requirements.

Trade and other payables increased by 35% on account of increased purchases of packaging materials and returnable bottles and crates.

Income and other taxes payable decreased by 46% on account of lower value-added tax payable and taxes withheld.

Retirement liabilities increased by 21% due to the accrual of the Group's retirement provision for the period.

Long-term debt increased by 17% on account of the Group's consolidation of EPSBPI's long-term debt balance.

Other noncurrent liabilities of P629 thousand pertains to the recognition of deferred tax liabilities from the acquisition of EPSBPI.

Reserve for retirement plan grew by 18% on account of the adoption of PAS 19, Employee Benefits.

Equity

The decrease in equity for the nine-month period ended September 30, 2013 and 2012 are due to:

	September 30	
	2013	2012
	(As Restated)	
	(In Millions)	
Net loss for the period	(P1,030)	(P553)
Equity reserve for retirement plan	-	(19)
Stock Options	-	11
	(P1,030)	(P560)

III. Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	September 30	
	2013	2012
	(As Restated)	
	<i>(In Millions)</i>	
Net cash flows provided by operating activities	P20	P305
Net cash flows used in investing activities	(216)	(486)
Net cash flows provided by (used in) financing activities	(141)	350

Net cash flows provided by operating activities consist of loss before income tax for the period and the effect of non-cash transactions and changes in non-cash current assets and certain current liabilities including net movement in inventory level.

Net cash flows used in investing activities include the following:

	September 30	
	2013	2012
	(As Restated)	
	<i>(In Millions)</i>	
Additions to property, plant and equipment	(P135)	(P204)
Increase in other noncurrent assets	(81)	(139)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(143)

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

	September 30	
	2013	2012
	(As Restated)	
	<i>(In Millions)</i>	
Proceeds from:		
Short-term borrowings	P80,719	P94,542
Issuance of capital stock	15	23
Payments of:		
Short-term borrowings	(79,884)	(93,337)
Long-term borrowings	(471)	(300)
Interest	(519)	(460)
Cash dividends	-	(118)

The effect of exchange rate changes on cash and cash equivalents amounted to P3.9 million and (P4.3) million for the nine-month period ended September 30, 2013 and 2012, respectively.

IV. KEY PERFORMANCE INDICATORS

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

KPI	September 30, 2013	December 31, 2012 (As Restated)
Liquidity: Current Ratio	0.74	0.86
Solvency: Bank Debt-to-Equity Ratio	2.08	1.71
Profitability: Return on Average Stockholders' Equity	(22%)	(10%)
Asset to Equity Ratio	3.66	3.27

KPI	Period Ended September 30	
	2013	2012 (As Restated)
Operating Efficiency: Volume Growth	(17%)	(7%)
Revenue Growth	(5%)	(5%)
Operating Margin	(9%)	(3%)
Interest Rate Coverage Ratio	(0.80)	(0.36)

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

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

*Annualized for quarterly reporting