



April 16, 2013

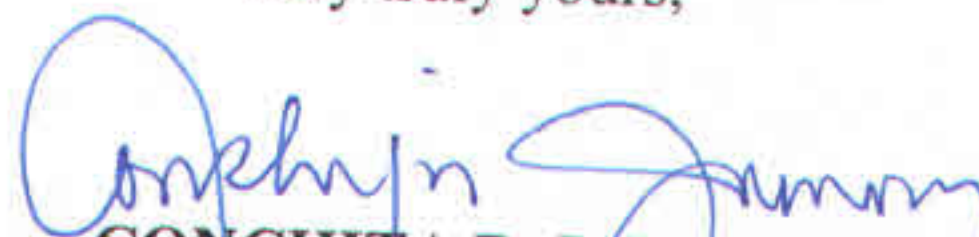
**The Philippine Stock Exchange, Inc.**  
Disclosure Department  
3<sup>rd</sup> Floor, Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

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

Gentlemen:

In compliance with Section 4.1 of the Revised Disclosure Rules of the Exchange, please be informed that we filed with the Securities and Exchange Commission (SEC) the Definitive Information Statement (SEC Form 20-IS) of Ginebra San Miguel Inc., which will be distributed to its Stockholders not later than fifteen (15) trading days prior to the Annual Stockholders' Meeting of the Company to be held on May 9, 2013. A copy of the SEC Form 20-IS, approved by SEC this afternoon, is transmitted herewith.

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

A Subsidiary of  **SAN MIGUEL CORPORATION**

# COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

3 <sup>rd</sup>	&	6 <sup>th</sup>		F	I	O	O	R		S	A	N		M	I	G	U	E	L
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(Business Address: No. Street City/Town/Province)

Conchita P. Jamora

Contact Person

(632) 689-9100

Company Telephone Number

1	2
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Month

3	1
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Day

SEC Form 20-IS  
Definitive Information Statement

FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

Total Amount of Borrowings

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To be accomplished by SEC Personnel concerned

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**GINEBRA SAN MIGUEL INC.**

**NOTICE OF REGULAR MEETING  
OF STOCKHOLDERS**

**May 9, 2013**

The Regular Meeting of the Stockholders of Ginebra San Miguel Inc. will be held on **Thursday, May 9, 2013, 2:00 P.M.** at the **Executive Dining Room, 2nd Floor, San Miguel Corporation (SMC) - Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.**

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Regular Stockholders' Meeting held on May 10, 2012
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Appointment of External Auditor
6. Election of the Board of Directors
7. Other Matters
8. Adjournment

Minutes of the last Regular Stockholders' Meeting and resolutions of the Board of Directors since the date of the 2012 Regular Stockholders' Meeting will be available for examination during office hours at the Office of the Corporate Secretary.

The deadline for submission of proxies is on April 22, 2013. For corporations, the proxy must be accompanied by a Secretary's Certificate setting out the authority of the corporate officer representing the corporation. A sample of the proxy form is included in this notice for your reference. Proxies need not be notarized. Validation of proxies is on May 2, 2013 at 10:00 A.M. at the SMC Stock Transfer Service Corporation Office, Second Floor, SMC-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City. For your convenience in registering your attendance in the meeting, please present some form of identification, such as passport, driver's license, or company I.D.. Registration will start at 12:30 P.M. and the registration booths will be closed at 2:00 P.M.



**Virgilio S. Jacinto**  
Corporate Secretary



## PROXY

The undersigned stockholder of GINEBRA SAN MIGUEL INC. (the "Company"), hereby appoints \_\_\_\_\_ or in his/her absence, the Chairman of the Meeting, as attorney and proxy, to represent and vote all shares registered in his/her/its name at the annual meeting of the stockholders of the Company scheduled on Thursday, May 09, 2013 at 2:00 P.M. at the Executive Dining Room, 2/F San Miguel Corporation-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines, and any of its adjournment(s), as fully as the undersigned could do if present and voting in person, ratifying all actions taken on matters that may properly come before such meeting or its adjournment(s). The undersigned directs the proxy to vote on the agenda items which have been expressly indicated with "X" below.

PROPOSAL	ACTION			
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION	FULL DESCRIPTION PROXY
1. Election of Directors				
Nominees are: Eduardo M. Cojuangco, Jr. Ramon S. Ang Bernard D. Marquez Ferdinand K. Constantino Leo S. Alvez Gabriel S. Claudio Joseph N. Pineda Minita V. Chico-Nazario* Angelina S. Gutierrez* <i>*Independent Director</i>  <b>INSTRUCTIONS:</b> <i>To withhold authority to vote for any individual nominee(s), please mark Exception box and list the name(s) under.</i>				
	FOR	AGAINST	ABSTAIN	
2. Approval of the Minutes of the 2012 Annual Stockholders' Meeting				
3. Presentation of the Annual Report				
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers				
5. Appointment of External Auditor				

Signed this \_\_\_\_ day of \_\_\_\_\_, 2013 at \_\_\_\_\_.

\_\_\_\_\_  
PRINTED NAME OF STOCKHOLDER

\_\_\_\_\_  
SIGNATURE OF STOCKHOLDER/  
AUTHORIZED SIGNATORY

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 22, 2013**. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON. NOTARIZATION OF THIS PROXY IS NOT REQUIRED.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:  
☐ Preliminary Information Sheet  
☒ Definitive Information Sheet
2. Name of Registrant as specified in its Charter:

**GINEBRA SAN MIGUEL INC.**

3. Province, country and other jurisdiction of incorporation or organization:

**Metro Manila, Philippines**

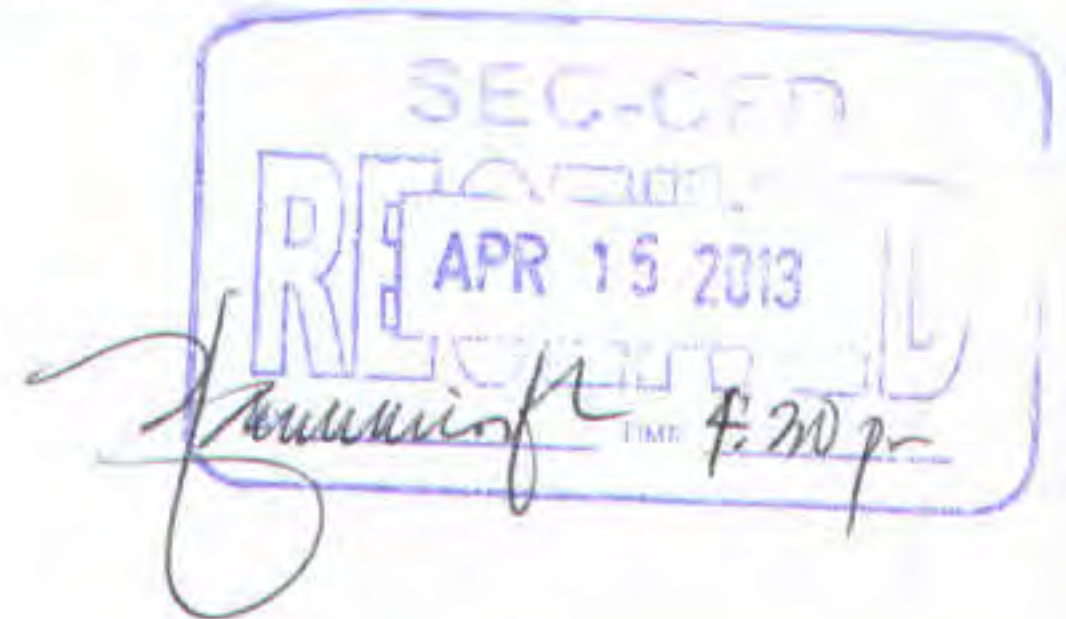
4. SEC Identification Number: **142312**
5. BIR Tax Identification Code: **000-083-856-000**

6. Address of principal office: Postal Code:  
**3<sup>rd</sup> and 6<sup>th</sup> Floors, San Miguel Properties Centre,** **1550**  
**St. Francis Street, Mandaluyong City**

7. Registrant's telephone number, including area code: **(632) 689-9100**

8. Date, time and place of the meeting of stockholders:

Date: **May 9, 2013, Thursday**  
Time: **2:00 P.M.**  
Place: **Executive Dining Room, 2<sup>nd</sup> Floor**  
**San Miguel Corporation-Head Office Complex,**  
**No. 40 San Miguel Avenue, Mandaluyong City**



9. Approximate date of which the Information Statement is to be first sent or given to security holders:

**April 17, 2013**

10. Securities registered pursuant to Sections 8 and 12 of the SRC:

<u>Title of Each Class</u>	<u>Authorized</u>	<u>Outstanding</u>
(As of March 31, 2013)		
Common	460,000,000	290,075,941
Preferred	<u>100,000,000</u>	<u>32,786,885</u>
	560,000,000	322,862,826

11. Are any or all the registrant's securities listed on a Stock Exchange?

  √   Yes

       No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**Philippine Stock Exchange, Inc. - Common Shares**

# INFORMATION STATEMENT

## GENERAL INFORMATION

### **Date, Time and Place of Annual Meeting**

Date: **May 9, 2013, Thursday**  
Time: **2:00 P.M.**  
Place: **Executive Dining Room, 2<sup>nd</sup> Floor**  
**San Miguel Corporation (SMC)-Head Office Complex,**  
**No. 40 San Miguel Avenue, Mandaluyong City**

Mailing address of the principal office of the Registrant: 3<sup>rd</sup> and 6<sup>th</sup> Floors, San Miguel Properties Centre, St. Francis Street, Mandaluyong City.

The information statement is to be first sent to security holders approximately on **April 17, 2013**.

### **WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

Should you be unable to attend the meeting but would like to be represented thereat, please submit your proxies to the Office of the Corporate Secretary, at SMC-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City. A sample proxy form is attached to this Information Statement for your reference. For stockholders that are partnerships, corporations or associations, please submit with the proxy a sworn certification of your resolutions evidencing authority of your designated proxy and signatories.

The deadline for submission of proxies is on April 22, 2013. Validation of proxies will be on May 2, 2013 at 10:00 A.M. at the SMC Stock Transfer Service Corporation Office, 2<sup>nd</sup> Floor, SMC-Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.

### **Dissenters' Right of Appraisal**

Under Title X of the Corporation Code, stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporate action: amendment to the corporation's articles and by-laws which has the effect of changing and restricting the rights of any shareholder or class of shares; or of authorizing preferences in any respect superior to those of outstanding shares of any class; or of extending or shortening the term of corporate existence; sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporation's property and assets; merger or consolidation; and investment of corporate funds in another corporation or business for any purpose other than its primary purpose. The stockholders' right of appraisal may be exercised within a period of thirty (30) days from the date on which the vote on the corporate action was taken.

There are no corporate matters or actions at the 2013 Regular Stockholders' Meeting that will entitle dissenting stockholders to exercise their right of appraisal as provided in Title X of the Corporation Code.

#### **Interest of Certain Persons in Matters to be Acted Upon**

No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

### **CONTROL AND COMPENSATION INFORMATION**

#### **Voting Securities and Principal Holders Thereof**

Number of shares outstanding as of March 31, 2013:

Common Shares:	290,075,941
Preferred Shares:	<u>32,786,885</u>
Total shares issued and outstanding:	322,862,826

All stockholders as of April 8, 2013 are entitled to vote at the Regular Stockholders' Meeting.

Every stockholder entitled to vote shall be entitled to one (1) vote for each share of stock in his name in the books of the Company. However, in electing members to the Board of Directors, every stockholder is entitled to accumulate his votes in accordance with the provisions of law.<sup>1</sup>

#### **Security Ownership of Certain Record and Beneficial Owners**

Owners of record of more than 5% of the Company's voting securities as of March 31, 2013 were as follows:

<b>Title of Class</b>	<b>Name, Address of Record Owner and Relationship</b>	<b>Name of Beneficial Owner and Relationship with Record</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent</b>
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<sup>1</sup> In accordance with Section 24 of the Corporation Code of the Philippines ("Code"), a stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.



	<b>with Issuer</b>	<b>Owner</b>			
Common	San Miguel Corporation <sup>2</sup> No. 40 San Miguel Avenue, Mandaluyong City, parent of the issuer	San Miguel Corporation	Filipino	216,972,000	77.36%
Preferred <sup>3</sup>				32,786,885	
Common	PCD Nominee Corporation (Filipino) Ground Floor, Makati Stock Exchange Ayala, Ave., Makati City <sup>4</sup>	various <sup>5</sup>	Filipino	30,431,566	9.43%

As of March 31, 2012, there are 7,994,762 common shares which are owned by foreigners, which is only 2.48 % of the Company's total outstanding shares.

The following are the number of shares of the Company's capital stock (all of which are voting shares) owned of record by the Chairman and Chief Executive Officer, key officers and directors of the Company as of March 31, 2013:

<b>(1) Title of Class</b>	<b>(2) Name of Record Owner</b>	<b>(3) Amount and Nature of Ownership</b>	<b>(4) Citizenship</b>	<b>(5) Percent of Class</b>
Common	Eduardo M. Cojuangco, Jr.	5,000 (D) <sup>6</sup>	Filipino	0.00%
Common	Ramon S. Ang	5,000 (D)	Filipino	0.00%
Common	Ferdinand K. Constantino	5,000 (D)	Filipino	0.00%
Common	Angelina S. Gutierrez	5,000 (D)	Filipino	0.00%
Common	Gabriel L. Claudio	5,000 (D)	Filipino	0.00%
Common	Bernard D. Marquez	30,000 (D)	Filipino	0.00%
Common	Leo S. Alvez	5,000 (D)	Filipino	0.00%
Common	Minita V. Chico Nazario	5,000 (D)	Filipino	0.00%
Common	Roberto V. Ongpin	5,000 (D)	Filipino	0.00%

<sup>2</sup> The Board of Directors of San Miguel Corporation ("SMC") authorizes any Group A signatory, singly, or any two Group B signatories, jointly, to act and vote in person or by proxy, shares held by SMC in other corporations. The Group A signatories of SMC are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Ma. Belen C. Buensuceso, Joseph N. Pineda and Aurora T. Calderon. The Group B signatories of SMC are Maria Cristina M. Menorca, Bella O. Navarra, Cecile Caroline U. de Ocampo, Manuel M. Agustin, Virgilio S. de Guzman and Lorenzo G. Formoso III.

<sup>3</sup> The Preferred Shareholders shall be entitled to vote in the same manner as Common Shareholders in accordance with the provisions of the Code.

<sup>4</sup> Registered owner of shares held by participants in the Philippine Depository & Trust Corp., a private company organized to implement an automated book entry of handling securities in the Philippines.

<sup>5</sup> None of the holders of the Company's common shares registered under the name of PCD Nominee Corporation owns more than 5% of the Company's common shares.

<sup>6</sup> (D)-Direct



The aggregate number of shares owned of record by the Chairman and Chief Executive Officer, key officers and directors of the Company as a group, as of March 31, 2013, is 70,000 shares or approximately 0.0217% of the Company's outstanding capital stock.

The aggregate number of shares owned of record by all officers and directors as a group as of March 31, 2013 is 584,500 shares or approximately 0.2015% of the Company's outstanding capital stock.

The foregoing beneficial or record owners have no right to acquire additional shares within thirty (30) days from options, warrants, conversion privileges or similar obligations or otherwise.

## **DIRECTORS AND EXECUTIVE OFFICERS**

### **Directors, Including Independent Directors and Nominees, and Executive Officers**

The names of the incumbent directors, nominees for election as directors for 2013, and key executive officers of the Company, and their respective ages, periods of service, directorships in other reporting companies and positions in the last five (5) years, are as follows:

**Eduardo M. Cojuangco, Jr.**, Filipino, 77, is the Chairman and Chief Executive Officer of the Company, a position he has held since October 21, 1998. He is also the Chairman of the Company's Executive Committee. He also holds positions in the following listed companies: Chairman and Chief Executive Officer of San Miguel Corporation; Chairman of San Miguel Pure Foods Company, Inc. and Director of Petron Corporation. He is also the Chairman of ECJ and Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc.; and Director of Caiñaman Farms, Inc.. He was previously a director of Manila Electric Company (February 2009-May 2009). He attended the University of the Philippines – Los Baños College of Agriculture and California Polytechnic College in San Luis, Obispo, U.S.A..

**Ramon S. Ang**, Filipino, 59, Vice Chairman of the Company has been a Director of the Company since April 4, 2000 and a Member of the Company's Executive Committee. He also holds positions in the following listed companies: Vice Chairman, President and Chief Operating Officer of San Miguel Corporation; Chairman and Chief Executive Officer of Petron Corporation; Vice Chairman of Manila Electric Company and San Miguel Pure Foods Company, Inc.; and President and Chief Operating Officer of PAL Holdings, Inc. His other current positions, include among others, the following: Chairman and Chief Executive Officer of Petron Marketing Corporation and SMC Global Power Holdings Corp.; Vice Chairman of San Miguel Yamamura Haiphong Glass Co. Limited (Vietnam); Chairman and President of San Miguel Properties, Inc., San Miguel Consolidated Power Corporation, Rapid Thoroughfares Inc., Atea Tierra Corporation, Cyber Bay Corporation, Philippine Oriental Realty Development Inc. and Bell Telecommunications Company, Inc.; Chairman of San Miguel Brewery Inc., San Miguel Brewery Hongkong Limited, Distileria Bago, Inc., San Miguel Foods, Inc., The Pure Foods Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Liberty Telecoms Holdings, Inc., Anchor Insurance Brokerage Corp., Sea Refinery Corporation and Philippine Diamond Hotel & Resort Inc.; President and Chief Operating Officer of Philippine Airlines, Inc.; President and Chief Executive Officer of Trustmark Holdings Corporation and Zuma Holdings and Management Corporation; and Director of Air Philippines Corporation, Top Frontier Investment Holdings Inc. and Philweb Corporation. Mr. Ang is the former President of San Miguel Brewery Inc. (2007-April 2009) and has held directorships in



various subsidiaries of San Miguel Corporation in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far East University.

**Bernard D. Marquez**, Filipino, 44, is the President of the Company since May 12, 2011 and is a Member of the Company's Executive Committee and Nomination and Hearing Committee. He is currently a Director of Thai San Miguel Liquor Co., Ltd. (TSML), and President of Distileria Bago, Inc., and East Pacific Star Bottlers Phils Inc.. He previously held the following positions: General Manager of TSML (January 2010-April 2011); Business Manager of the non-alcoholic beverage business of the Company (July-December 2009); Assistant Vice President and Business Manager of San Miguel Beverages, Inc. (March 2007-June 2009); and Assistant Vice President and Business Planning and Development Manager of Coca-Cola Bottlers Philippines, Inc. (August 2004-February 2007). He holds a degree in B.A. Economics from Ateneo de Manila University.

**Ferdinand K. Constantino**, Filipino, 61, has been a Director of the Company since May 10, 2012 and is the Chairman of the Company's Executive Compensation Committee and a Member of the Company's Executive Committee and Audit Committee. He holds, among others, the following positions: Senior Vice President, Chief Finance Officer and Treasurer of San Miguel Corporation; Director of San Miguel Corporation, San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, Magnolia, Inc., San Miguel Global Power Corp. and Bank of Commerce; and President of Anchor Insurance Brokerage Corporation. Mr. Constantino previously served as Chief Finance Officer of San Miguel Brewery Inc. (2007-2009); Chief Finance Officer of Manila Electric Company (February 2009- May 2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009) and San Miguel Properties, Inc. (2001-2009); and has held directorships in various subsidiaries of San Miguel Corporation during the last five years. He holds a degree in AB Economic from the University of the Philippines and completed academic requirements for an MA Economic degree.

**Leo S. Alvez**, Filipino, 70, has been a Director of the Company since April 24, 2002. He is also the Chairman of the Company's Nomination and Hearing Committee and a Member of the Company's Audit Committee and Executive Compensation Committee. He is also a Director of San Miguel Corporation. He earned his Bachelor of Science Degree at the Philippine Military Academy and Masters in Business Administration at the University of the Philippines.

**Gabriel S. Claudio**, Filipino, 58, has been a Director of the Company since November 11, 2010 and a Member of the Company's Nomination and Hearing Committee. He has served as political advisor to two Philippine Presidents. He occupied several cabinet positions: Presidential Political Adviser, Presidential Legislative Adviser, Head of the Presidential Legislative Liaison Office, Acting Executive Secretary and Cabinet Coordinating Officer for Regional Development. He is presently Chairman of the Conflict Resolution Group Foundation, Inc., Risks and Opportunities Assessment Management, and Toby's Sports Foundation. He was Chairman of the Board of Trustees of the Metropolitan Waterworks & Sewerage System (MWSS) and Member of the Board of Directors of the Development Bank of the Philippines (DBP) and the Philippine Charity Sweepstakes Office (PCSO). He earned his AB Communications Arts degree from the Ateneo de Manila University.

**Minita V. Chico-Nazario**, Filipino, 73, is an Independent Director of the Company since March 9, 2012, Chairperson of the Company's Audit Committee and Member of the Company's Executive Compensation Committee. She is also an Independent Director of San Miguel Properties, Inc. since May 9, 2012. She is currently a Director of Banco San Juan (Rural Bank) and Legal Consultant of Union Bank of the Philippines. She is also the incumbent Dean of the



College of Law of the University of Perpetual Help in Las Piñas City. She has previously held the following positions: Legal Consultant of Philippine Amusement and Gaming Corporation (January 2010-June 2010) and Metro Manila Development Authority (March 2010-June 2010); and Chairman of the Board of Directors (June 2010-August 2010) and Director (September 2010-September 2011) of PNOG Exploration Corporation. She has served the judiciary in various capacities for forty-seven years, as Presiding Justice of the Sandiganbayan (February 2003-February 2004) and Associate Justice of the Supreme Court (February 10, 2004-December 5, 2009). She is a graduate of the University of the Philippines and a member of the New York State Bar.

**Angelina S. Gutierrez**, Filipino, 75, is an Independent Director of the Company since May 10, 2012 and is a Member of the Company's Audit Committee and Nomination and Hearing Committee. She is currently the Dean of the Graduate School of Law of Pamantasan ng Lunsod ng Maynila. She has served the judiciary in various capacities, as Judge of the Metropolitan Trial Court of Manila, Branch 19, Judge of the Regional Trial Court of Manila, Branch 37, Justice of the Court of Appeals and Associate Justice of the Supreme Court (December 2000-February 2008). She is a graduate of the University of Sto. Tomas and has attended legal and judicial courses abroad: Harvard Law School, University of Texas, University of Nevada and University of Southern California.

**Roberto V. Ongpin**, Filipino, 75, has been a Director of the Company since August 9, 2010 and a Member of the Company's Nomination and Hearing Committee. He is currently the Chairman of Philweb Corporation, ISM Communications Corporation, Alphaland Corporation, Atok-Big Wedge Co., Inc., and Acentic GmbH (Germany). He is also a Director of San Miguel Corporation and Petron Corporation and a non-executive Director of Shangri-la Asia Limited (Hongkong) and Forum Energy plc (London). Mr. Ongpin is also the Deputy Chairman of South China Morning Post (Hong Kong). He is a graduate of Ateneo de Manila University with a degree in BS Business Administration *cum laude* and is a certified public accountant. He also holds a Masters in Business Administration degree from Harvard Business School.

**Joseph N. Pineda**, is the Senior Vice President and Deputy Chief Finance Officer of San Miguel Corporation. He is currently the Chairman of SMC Shipping and Lighterage Corporation and Process Synergy, Inc. He also holds, among others, the following positions: Director and Treasurer of San Miguel Holdings Corp., San Miguel Energy Corporation, SMC Stock Transfer Service Corporation and SMITS, Inc.; and Director of Sea Refinery Corporation, Anchor Insurance Brokerage Corp., A.G.N. Philippines, Inc. and Rapid Thororoughfares Inc.. He holds directorships in various domestic and international subsidiaries of San Miguel Corporation. He is a graduate of San Beda College with a degree in AB- Economics and has earned MBA units at De La Salle University.

**Virgilio S. Jacinto**, Filipino, 56, is the Company's Corporate Secretary and Compliance Officer since November 11, 2010. He also holds, among others, the following positions: Senior Vice-President, General Counsel, Corporate Secretary and Compliance Officer of San Miguel Corporation; and Director of San Miguel Brewery Inc., and Petron Corporation. He was a Director and Corporate Secretary of United Coconut Planters Bank; Partner at Villareal Law Offices; and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. He is also an Associate Professor at the College of Law of the University of the Philippines. Atty. Jacinto obtained his law degree from the University of the Philippines where he was class salutatorian and placed sixth in the 1981 Bar Examinations. He holds a Master of Laws degree from Harvard University. In addition, Atty. Jacinto holds directorships in various domestic and international subsidiaries of San Miguel Corporation.

**Cynthia M. Baroy**, Filipino, 49, is Assistant Vice President and Chief Finance Officer of the Company. She previously held the following positions: Financial Planning and Analysis Manager of San Miguel Yamamura Packaging Corporation; Finance Manager of Metal Closures & Lithography Business; and, Finance Manager of San Miguel Rengo Packaging Corporation.

**Nelson S. Elises**, Filipino, 54, is Vice President and Marketing Manager of the Company. Mr. Elises' work experience includes: Assistant Vice President and National Sales Manager and Area Sales Manager of the Company; Sales and Sales Services Manager of Philippine Beverage Partners, Inc.; and General Manager for Sugarland Corporation.

**Valentino G. Vega**, Filipino, 55, is Vice President and Sales Training Program Director of the Company. He was previously the National Sales Manager of the Company. Prior to his assignment at the Company, he was the Area Sales Manager for North Luzon Sales Operations – San Miguel Beer Division of San Miguel Corporation.

**Lucia C. Unsay**, Filipino, 61, is Vice President and Technical Services Group Manager of the Company. Ms. Unsay was previously an Assistant Vice President and Liquor, Juices and Water Group Manager in the Corporate Services Unit of San Miguel Corporation and Assistant Vice President and Manager of Corporate Technical Services of La Tondeña Distillers, Inc..

**Rosalina A. Lioanag**, Filipino, 49, is Assistant Vice President and Business Procurement Group Manager of the Company. Ms. Lioanag was previously the Company's Product Supply and Planning Manager, Non-Alcoholic Beverages Sales Manager, Supply Chain Group Manager, Supply Chain Area Operations for North Luzon and Logistics Manager.

### **Term of Office**

Pursuant to the Company's Amended By-Laws, the directors are elected at each regular meeting of the stockholders by the stockholders entitled to vote. Unless he/she resigns, dies or is removed, each director holds office until the next annual election and until his/her successor is duly elected and qualified.

The nominees for election to the Board of Directors on May 9, 2013 are as follows:

1. Eduardo M. Cojuangco, Jr.
2. Ramon S. Ang
3. Bernard D. Marquez
4. Ferdinand K. Constantino
5. Leo S. Alvez
6. Gabriel S. Claudio
7. Joseph N. Pineda
8. Minita V. Chico-Nazario
9. Angelina S. Gutierrez

### **Independent Directors**

The incumbent Independent Directors of the Company and nominees for election as independent directors of the Board of Directors on May 9, 2013 are as follows:



<b>Nominee for Independent Director (a)</b>	<b>Person/Group recommending nomination (b)</b>	<b>Relation of (a) and (b)</b>
Minita V. Chico-Nazario	Ramon S. Ang	None
Angelina S. Gutierrez	Ramon S. Ang	None

In approving the nominations for independent directors, the Nomination and Hearing Committee took into consideration the guidelines on the nomination of independent directors prescribed in the Securities Regulation Code (SRC) Rule 38.

Under Section 3, Article II of the Company's Amended By-Laws, (i) any stockholder having at least five thousand (5,000) shares registered in his/her name may be elected Director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 3, Article II of the Company's Amended By-Laws, is not qualified or eligible for nomination or election to the Board of Directors.

All the nominees for election to the Board of Directors have satisfied the foregoing requirements under the Company's Amended By-Laws. The incumbent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC.

The Certification of Justices Chico-Nazario and Gutierrez (Ret.), incumbent Independent Directors of the Company are attached hereto as **Annexes "A-1" and "A-2"**, respectively.

All nominations for the election of directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary on or before January 20 or at such earlier or later date that the Board of Directors may fix.

### **Significant Employees**

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

### **Family Relationships**

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the directors, executive officers, or nominees for election as directors.

### **Certain Relationships and Related Transactions**

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) not in the ordinary course of business.

### **Parent Company**

As of March 31, 2013, the Company is 77.36% owned by San Miguel Corporation.

### **Involvement in Certain Legal Proceedings**

None of the directors, nominees for election as director, executive officers or control persons of the Company have been involved in the following legal proceedings, including being the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

### COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table summarizes the aggregate compensation paid or accrued during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Company's President and senior executive officers:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total Compensation of the President and Senior Officers (the most highly compensated officers of the Company) <sup>7</sup>	2013 (estimated)	P26.2 Million	P9.5 Million	P7.2 Million	P42.9 Million
	2012	P 23.7 Million	P 3.9 Million	P6.9 Million	P 34.5 Million
	2011	P 21.6 Million	P 13.4 Million	P6.5 Million	P 41.5 Million
All other officers and directors as a group unnamed	2013 (estimated)	P45.0 Million	P16.5 Million	P13.4 Million	P74.9 Million
	2012	P40.2 Million	P7.0 Million	P14.0 Million	P61.2 Million
	2011	P 41.1 Million	P 24.1 Million	P 14.8 Million	P 80.0 Million
TOTAL	2013 (estimated)	P71.2 Million	P26.0 Million	P20.6 Million	P117.8 Million
	2012	P63.9 Million	P10.9 Million	P20.9 Million	P95.7 Million
	2011	P 62.7 Million	P 37.5 Million	P21.3 Million	P 121.5 Million

<sup>7</sup> The current President and senior officers of the Company are as follows: Bernard D. Marquez, Valentino G. Vega, Rosalina A. Lioanag, Cynthia M. Baroy and Lucia D. Unsay; for 2012 and 2011, they are as follows: Bernard D. Marquez, Valentino G. Vega, Cesar B. Gimena, Cynthia M. Baroy and Lucia D. Unsay. Mr. Eduardo M. Cojuangco, Jr., the Chairman and Chief Executive Officer of the Company does not receive compensation from the Company other than the per diem for attendance in Board meetings.



Article II, Section 9 of the Amended By-Laws of the Company provides that the members of the Board of Directors shall receive such compensation as may be approved by a majority vote of the stockholders at a regular or special meeting duly called, subject to such limitations as may be imposed by law.

In 2012 each director received a per diem of Ten Thousand Pesos (P10,000.00) per attendance at Board and Board Committee meetings of the Company.

There were no other arrangements pursuant to which any of the directors was compensated or is to be compensated, directly or indirectly, during the last fiscal year, and the ensuing fiscal year.

The named executive officers of the Company, just like other full-time and permanent employees of the Company, subject to certain requirements,<sup>8</sup> are eligible to subscribe to Company shares under the Company's Employees Stock Purchase Plan (the "Plan"). As of December 31, 2012, the current named officers have an aggregate subscription of 176,500 shares under the Plan.

The Plan was intended primarily to promote a sense of ownership and greater work commitment among employees of the Company and its subsidiaries. Three Million (3,000,000) shares from the Company's authorized and unissued shares were reserved for the Plan. The subscription price per share under the Plan is equal to the weighted average market closing prices of the last quarter immediately preceding the application/subscription period, less a discount of fifteen percent (15%). The shares covered by the Plan are no longer available for subscription as the offering period provided under the Plan expired on January 21, 2013.

There were no employment contracts between the Company and a named executive officer.

There were neither compensatory plans nor arrangements with respect to a named executive officer.

### **ACTION WITH RESPECT TO REPORTS**

The approval of the following will be considered and acted upon at the annual meeting of the stockholders:

1. Minutes of the 2012 Annual Stockholders' Meeting with the following items:
  - a) Approval of the Minutes of the Regular Stockholders' Meeting held on May 12, 2011;
  - b) Presentation of the Annual Report;
  - c) Ratification of all acts of the Board of Directors and Corporate Officers;
  - d) Appointment of External Auditor; and
  - e) Election of Board of Directors

---

<sup>8</sup> All full-time and permanent employees of the Company and its subsidiaries, who have rendered at least one (1) year of continuous service on a regular status (one year after regularization) at the Exercise Date (defined under the Plan), are entitled to subscribe to shares of the capital stock of the Company under the Plan, subject to the terms and conditions provided therein, which subscription shall be subject to the employees' credit profile. Members of the Board of Directors who are not employees of the Company or its subsidiaries are not eligible to participate in the Plan.

2. Annual Report of the Company for the year ended December 31, 2012
3. Ratification of all the acts of the Board of Directors and Officers since the 2012 Annual Stockholders' Meeting, adopted in the ordinary course of business such as:
  - a) Appointment of officers; and
  - b) Approval of signing authorities and limits.

Minutes of the 2012 Annual Stockholders' Meeting and resolutions of the Board of Directors since the date of the said meeting will be available for examination during office hours at the office of the Corporate Secretary.

### **VOTING PROCEDURES**

In the election of directors, the nine (9) nominees with the greatest number of votes will be elected directors. The approval of the other proposals or matters submitted to a vote will require an affirmative vote of the majority of the shares of stock present or represented by proxy at the meeting.

Counting of the Ayes and Nays or a show of hands will be the methods by which votes will be counted. The Corporate Secretary, with the assistance of SMC Stock Transfer Service Corporation, as the Company's stock transfer agent, is authorized to count any votes cast during the meeting.

### **FINANCIAL AND OTHER INFORMATION**

#### **Brief Description of the General Nature and Business of the Company**

Ginebra San Miguel Inc. (the "Company" or "GSMI"), a majority-owned subsidiary of San Miguel Corporation ("SMC"), is engaged in the manufacture and sale of alcoholic and non-alcoholic beverages.

#### **LIQUOR BUSINESS**

The Company was formed on July 10, 1987 as the legal entity for the acquisition by SMC of the production assets of an existing liquor production company that had been in operation since 1902. Today, the Company operates three liquor bottling plants, which are located in the following areas: (1) Mandaue City, Cebu; (2) Sta. Barbara, Pangasinan; and (3) Cabuyao, Laguna. The Company also utilizes external toll manufacturers to produce liquor products in Calamba, Laguna and Valenzuela City.

Among its subsidiaries are (1) Distileria Bago, Inc., a distillery that converts sugar cane molasses into alcohol with its plant located at Bago City, Negros Occidental, which became a wholly-owned subsidiary of GSMI in 1996; and (2) Agri crops Industries Inc. ("AII"), which was incorporated in 2001 as a wholly-owned subsidiary of GSMI to primarily engage in the production of cassava-starch milk, an alternative raw material for the production of alcohol. As of December 31, 2012, AII has not yet started commercial operations.

To fast-track entry into regional markets, GSMI in November 2004 entered into a Share Purchase Agreement ("SPA") with the Thai Life Group of Companies (the "Seller") for the purchase of 40% ownership of the outstanding shares of C.N.T. Wine and Liquor Company



Limited (“CNT”), a limited liability company organized under the laws of Thailand. CNT possesses a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets. GSMI and the Seller also entered into a Joint Venture Agreement (“JVA”). The JVA established the terms and conditions regarding the ownership and operation of CNT and the joint control rights, obligations and responsibilities of GSMI and the Seller, as stockholders. In November 2004, GSMI incorporated Ginebra San Miguel International Limited (“GSMIL”) and subsequently assigned its rights and obligations under the SPA and the JVA to GSMIL, including its rights to purchase 40% ownership of the outstanding shares of CNT. The acquisition of CNT was completed in December of the same year. CNT was later renamed Thai San Miguel Liquor Co., Ltd. (“TSML”).

On June 29, 2007, GSMI incorporated GSM International Holdings Ltd. (“GSMIHL”), a wholly-owned subsidiary in Thailand. GSMIHL, with certain other entities, holds 50% of the shares of Thai Ginebra Trading Co., Ltd. (“TGT”), a joint venture company with V.C. Property Company Limited. TGT functions as the selling and distribution arm of TSML.

On August 27, 2008 and September 11, 2008, GSMI incorporated Global Beverage Holdings Limited (“GBHL”) and Siam Holdings Limited (“SHL”), respectively, as wholly-owned subsidiaries. GSMI increased its investments in TSML and TGT from 40% to 44.9% through GBHL and SHL, respectively.

On January 27, 2012, the Company purchased 100% of the total outstanding shares of East Pacific Star Bottlers Phils Inc. (“EPSBPI”), a corporation principally engaged in the manufacture and bottling of alcoholic and non-alcoholic beverages. The acquisition forged synergies with the Company’s on-going operations and provided additional capacity for the contemplated expansion plans of the Company. EPSBPI has bottling facilities in Cauayan, Isabela and in Ligao City, Albay, which are currently being used in connection with the Company’s liquor business.

## **NON-LIQUOR BUSINESS**

On January 31, 2008, Healthy Condiments, Inc. (“HCI”) was incorporated as a wholly-owned subsidiary of GSMI. HCI was established to manufacture, sell, distribute, import and export vinegar and other sauce products and condiments. On March 27, 2009, the board of directors and stockholders of HCI approved the transfer of all its assets, properties, business, permits and licenses to the Company. Thus, on April 16, 2009, the Company executed a Deed of Sale with HCI for the purchase of the said assets.

On November 1, 2008, the Company entered into an Asset Purchase Agreement with San Miguel Beverages, Inc. (“SMBI”), for the purchase of SMBI’s assets consisting of receivables, equipments, containers and inventories (collectively, “SMBI Assets”). SMBI is engaged in the manufacture and distribution of non-alcoholic beverages. With the acquisition of the SMBI Assets, the Company ventured into the manufacturing of non-alcoholic beverages.

## **Financial Statements**

The 2012 Audited Consolidated Financial Statements of the Company with the Auditor’s Report and Statement of Management’s Responsibility are attached hereto as **Annex “B”**.

## **Management's Discussion and Analysis or Plan of Operation**

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2012 is attached hereto as **Annex "C"**.

## **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There are no disagreements with accountants on accounting and financial disclosure.

## **Market Price of and Dividends on the Company's Common Equity and Related Stockholder Matters**

The Company's common equity is traded in the Philippine Stock Exchange, Inc..

The Company's high and low prices for each quarter of the last two (2) fiscal years are as follows:

Quarter	2012		2011	
	High	Low	High	Low
1 <sup>st</sup>	24.60	22.50	34.30	30.50
2 <sup>nd</sup>	23.70	20.00	32.90	27.50
3 <sup>rd</sup>	21.00	17.50	30.90	23.70
4 <sup>th</sup>	19.40	16.50	25.30	22.80

For the first quarter of 2013, the Company's high and low prices are 17.98 and 15.00, respectively.

The closing price of the Company's common shares as of April 2, 2013, the latest practicable trading date, is P16.28.

The approximate number of shareholders of preferred and common shares as of March 31, 2013 is 1 and 912, respectively.

Cash dividends per share amounted to P1.50 in 2011. In 2012, the Company did not declare dividends.

There were no securities sold by the Company which were not registered under the Securities Regulation Code ("SRC") and there were no securities issued by the Company which are exempt or under an exempt transaction under the SRC within the past three (3) years, save for the common shares issued by the Company under its Employees Stock Purchase Plan (the "Plan") which were registered with the Securities and Exchange Commission ("SEC"). In a resolution dated January 21, 2008, the SEC determined that the Company's proposed issuance under the Plan of 3,000,000 common shares to qualified employees of the Company, its subsidiaries and affiliates, is limited in character and that prior registration thereof is no longer necessary in the interest of the public or for the protection of the investors in accordance with Section 10.2 of the SRC. The shares covered by the Plan are no longer available for subscription as the offering period provided under the Plan expired on January 21, 2013.



The top 20 stockholders of the Company as of March 31, 2013 are as follows:

Rank	Name of Stockholders	Common	Preferred	Total No. of Shares	% of Total O/S
1	San Miguel Corporation	216,972,000	32,786,885	249,758,885	77.36%
2	PCD Nominee Corporation (Filipino)	30,431,566	0	30,431,566	9.42%
3	San Miguel Corporation Retirement Plan	13,466,200	0	13,466,200	4.17%
4	Ginebra San Miguel Inc. Retirement Plan	9,943,285	0	9,943,285	3.08%
5	PCD Nominee Corporation (Non-Filipino)	7,954,562	0	7,954,562	2.46%
6	ESPP-W/D	3,718,100	0	3,718,100	1.15%
7	Henry Sy, Sr.	1,679,500	0	1,679,500	0.52%
8	La Suerte Cigar & Cigarette Factory	200,000	0	200,000	0.06%
9	Lim Tay	80,000	0	80,000	0.02%
10	Pua Yok Bing	55,000	0	55,000	0.02%
11	Rosalina A. Lioanag	51,500	0	51,500	0.02%
12	Dar B. Licanel	51,500	0	51,500	0.02%
13	Angelric S. Geronimo	50,000	0	50,000	0.02%
14	Roman T. Yap	50,000	0	50,000	0.02%
15	Lucia C. Unsay	50,000	0	50,000	0.02%
16	Tomasito M. Gaerlan	46,500	0	46,500	0.01%
17	Leonardo P. Bico	46,500	0	46,500	0.01%
18	Emmanuel B. Macalalag	46,500	0	46,500	0.01%
19	Jose Reginald Pascual	45,000	0	45,000	0.01%
20	Lewisito D. Leonillo	41,500	0	41,500	0.01%

### Independent Public Accountants

The accounting firm of Manabat Sanagustin & Co., CPAs (“MSC”) served as the Company’s external auditor for the last fiscal year. The Board of Directors will again nominate MSC as the Company’s external auditor for this fiscal year. Representatives of the said audit firm are expected to be present at the stockholders’ meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement, if they so desire.

MSC has been the Company’s external auditor since 2006. As such, the Company complied with the rule on rotation for the signing partner every after five (5) years under Part I (3) (b) (ix) of SRC Rule 68, as amended, with respect to its re-engagement of the said audit firm.

### Audit and Audit Related Fees

Fees for the services rendered by the external auditor to the Company and its subsidiaries in connection with the Company’s annual financial statements and other statutory and regulatory filings for 2012 and 2011 (inclusive of retainer fees and out-of-pocket expenses) amounted to about P 7 million and P 6 million per year, respectively.

The stockholders approved the appointment of the Company’s external auditor. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of

the Board of Directors and ensures that audit services rendered shall not impair or derogate the independence of the external auditor or violate SEC regulations.

#### **Compliance with leading practice on Corporate Governance**

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top-level management with its Manual on Corporate Governance as amended on March 30, 2010 (the "CG Manual"), is vested by the Board of Directors in the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the CG Manual. The Compliance Officer has certified on January 30, 2013 that for 2012, the Company has substantially adopted all the provisions of the Manual on Corporate Governance as prescribed by SEC Memorandum Circular No. 2, Series of 2002.

#### **UNDERTAKING**

Upon the written request of the stockholder, the Company will furnish such stockholder a copy of SEC Form 17-A free of charge. Such written request for a copy of SEC Form 17-A shall be addressed to:

**SMC Stock Transfer Service Corporation  
2<sup>nd</sup> Floor, San Miguel Corporation  
No. 40 San Miguel Avenue, Mandaluyong City,  
1550 Metro Manila, Philippines**

#### **SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on April 15, 2013.

**GINEBRA SAN MIGUEL INC.**

By:



**Virgilio S. Jacinto**  
Corporate Secretary



## CERTIFICATE OF QUALIFICATION OF INDEPENDENT DIRECTOR

I, **MINITA V. CHICO-NAZARIO**, Filipino, of legal age and a resident of 299 Governor A. Santos, BF Homes, Parañaque City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Ginebra San Miguel Inc.
2. I am affiliated with the following companies and/or organizations:

Company/Organization	Position/Relationship	Period of Service
	(PLEASE REFER TO ATTACHED 'ANNEX A')	

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Ginebra San Miguel Inc., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of Ginebra San Miguel Inc. of any changes in the abovementioned information within five (5) days from its occurrence

Done this 10<sup>TH</sup> day of May 2012 at Mandaluyong City.

*MINITA V. CHICO-NAZARIO*  
MINITA V. CHICO-NAZARIO  
Affiant

SUBSCRIBED AND SWORN to before me this 10<sup>TH</sup> day of May 2012 at Mandaluyong City, affiant personally appeared before me and exhibited to me her PASSPORT NO. XX4064787.

Doc. No. 87;  
Page No. 19;  
Book No. II;  
Series of 2012.

*MAILA R. NICOLASORA*  
MAILA R. NICOLASORA  
Commission No. 0259-11  
Notary Public for Mandaluyong City  
Until Dec. 31, 2012  
GSMI, San Miguel Properties Centre,  
St. Francis Street, Mandaluyong City  
Roll No. 45082  
PTR No. 1954395; 1/18/12; Mandaluyong City  
Lifetime IBP No. 010402; 1/10/12; Quezon City



## ANNEX "A"

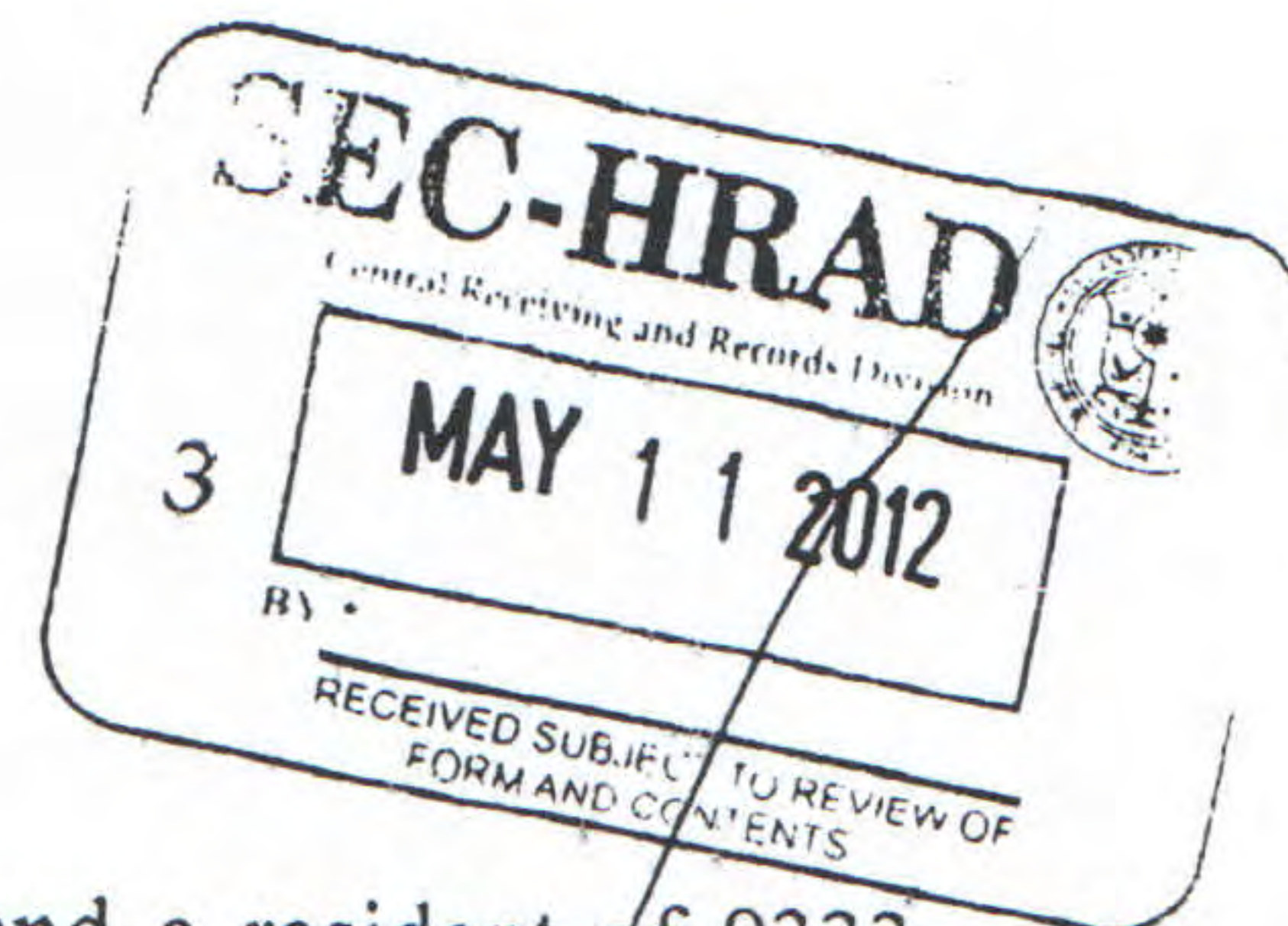
### AFFILIATIONS

Company/Organization	Position/Relationship	Period of Service
Banco San Juan	Director	June 2010 to present
Union Bank of the Philippines	Legal Consultant	July 2010 to present
College of Law, The University of Perpetual Help, Las Piñas City	Dean	June 2011 to present
Integrated Bar of the Philippines, Manila IV	Member	Up to present
Women Lawyers Association of the Philippines	Member	Up to present
U.P. Women's Club	Member	Up to present
U.P. Women Lawyers' Circle	Member	Up to present



# Annex "A-2"

## CERTIFICATE OF QUALIFICATION OF INDEPENDENT DIRECTOR



I, **ANGELINA S. GUTIERREZ**, Filipino, of legal age and a resident of 9333 Dungan St., San Antonio Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Ginebra San Miguel Inc.
2. I am affiliated with the following companies and/or organizations:

Company/Organization	Position/Relationship	Period of Service
	(PLEASE REFER TO ATTACHED 'ANNEX A')	

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Ginebra San Miguel Inc., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of Ginebra San Miguel Inc. of any changes in the abovementioned information within five (5) days from its occurrence

Done this 10<sup>TH</sup> day of May 2012 at Mandaluyong City.

**ANGELINA S. GUTIERREZ**  
Affiant

SUBSCRIBED AND SWORN to before me this 10<sup>TH</sup> day of May 2012 at Mandaluyong City, affiant personally appeared before me and exhibited to me her TIN # 170-188-514.

Doc. No. 86 ;  
Page No. 19 ;  
Book No. II ;  
Series of 2012.

**MAILA R. NICOLASORA**  
Commission No. 0259-11  
Notary Public for Mandaluyong City  
Until Dec. 31, 2012  
CSML San Miguel Franchising Centre,  
St. Francis Street, Mandaluyong City  
Roll No. 20062  
PT No. 1954395; 1/15/12; Mandaluyong City  
LE No. 010432; 1/10/12; Quezon City



## ANNEX "A"

### WORK ENGAGEMENTS/ AFFILIATIONS

<b>Company/Organization</b>	<b>Position/Relationship</b>	<b>Period of Service</b>
Pamantasan ng Lungsod ng Maynila	Dean	May 31, 2008 to present
Aliw Broadcasting Corporation (Radio DWIZ)	Chairman of the Board of Directors	May 15, 2008 to present
Mandatory Continuing Legal Education Provider	Partner, Juris Praesidium	June 1, 2008 to present
Society for Judicial Excellence of the Supreme Court	Chairman Emeritus of the Board of Trustees	September 2006 to present
Institute for Delinquency Control University of Southern California	Secretary for Life, 87 <sup>th</sup> Class	July 1989 to present
Dallas Goup Foundation	Director, Board of Trustees	January 2009 to present
UST Law Alumni Foundation Inc.	Chairman	June 2007 to present



## **Annex “B”**

### **GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**

#### **CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012, 2011 and 2010





Manabat Sanagustin & Co., CPAs  
The KPMG Center, 9/F  
6787 Ayala Avenue  
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000  
Fax +63 (2) 894 1985  
Internet [www.kpmg.com.ph](http://www.kpmg.com.ph)  
E-Mail [manila@kpmg.com.ph](mailto:manila@kpmg.com.ph)

Branches: Bacolod · Cebu · Iloilo · Subic

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Ginebra San Miguel Inc.  
6<sup>th</sup> Floor, San Miguel Properties Centre  
St. Francis Street, Ortigas Center  
Mandaluyong City

We have audited the accompanying consolidated financial statements of Ginebra San Miguel Inc. and Subsidiaries which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

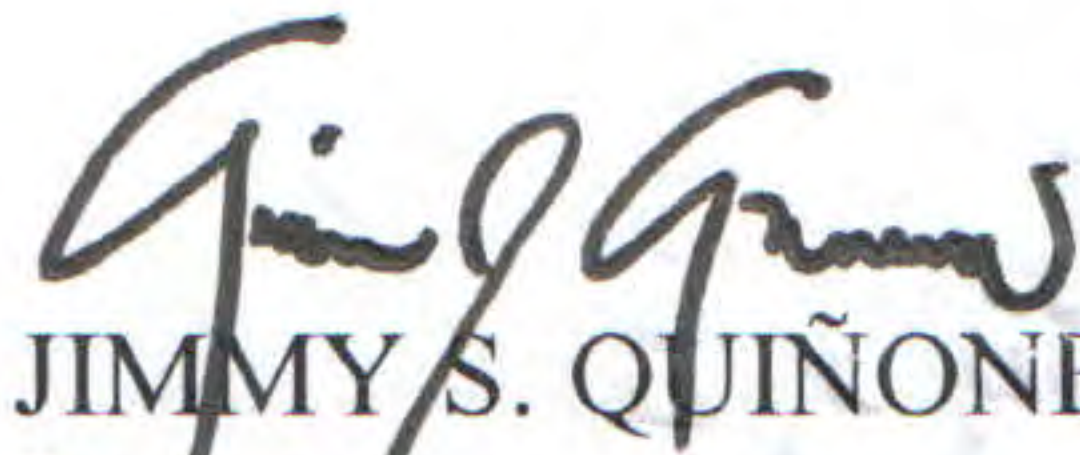




*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ginebra San Miguel Inc. and Subsidiaries as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2012, in accordance with Philippine Financial Reporting Standards.

**MANABAT SANAGUSTIN & CO., CPAs**



JIMMY S. QUIÑONES  
Partner

CPA License No. 0085650

SEC Accreditation No. 0679-AR-1, Group A, valid until March 30, 2014

Tax Identification No. 112-072-024

BIR Accreditation No. 08-001987-17-2011

Issued February 4, 2011; valid until February 3, 2014

PTR No. 3669527MC

Issued January 2, 2013 at Makati City

March 19, 2013

Makati City, Metro Manila





## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Ginebra San Miguel Inc. (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders of the Company.

Manabat Sanagustin & Co., CPAs, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders has expressed its opinion on the fairness of presentation upon completion of such audit.



**EDUARDO M. COJUANGCO, JR.**

Chairman and Chief Executive Officer



**CYNTHIA M. BAROY**  
Chief Finance Officer



**BERNARD D. MARQUEZ**  
President and Chief Operating Officer

**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



**SUBSCRIBED AND SWORN** to before me this 27<sup>th</sup> day of March 2013 at Mandaluyong City, affiant exhibiting to me their passports as follows:

<u>NAME</u>	<u>PASSPORT NO.</u>	<u>DATE OF ISSUE</u>	<u>PLACE OF ISSUE</u>
Eduardo M. Cojuangco, Jr.	XX1347206	June 6, 2008	Manila
Cynthia M. Baroy	XX2355750	October 23, 2008	Manila
Bernard D. Marquez	XX1245198	May 4, 2010	Phil. Embassy Bangkok

Doc. No. 409 ;  
Page No. 83 ;  
Book No. 1 ;  
Series of 2013.

Notary Public



**CARMELA L. SACASAS**

Commission No. 0370-12

Notary Public for Mandaluyong City

Until December 31, 2013

SMYPC, 8<sup>th</sup> Floor, San Miguel Properties Centre

No.7 St. Francis Street, Mandaluyong City

Roll No. 50767

PTR No. 1625562; 01/08/13; Mandaluyong City

IBP Lifetime Member No. 924671; 01/10/13; Makati City

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(In Thousands)

		<b>December 31</b>	
	<i>Note</i>	<b>2012</b>	2011
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7, 35, 36	<b>P621,530</b>	P366,116
Trade and other receivables - net	4, 8, 15, 29, 35, 36	<b>3,878,832</b>	3,156,620
Inventories	4, 9, 29	<b>6,109,316</b>	6,782,788
Prepaid taxes and other current assets	10, 35, 36	<b>1,335,206</b>	912,541
<b>Total Current Assets</b>		<b>11,944,884</b>	11,218,065
<b>Noncurrent Assets</b>			
Property, plant and equipment - net	4, 12	<b>7,559,240</b>	6,836,356
Investment properties - net	4, 13	<b>148,926</b>	157,998
Goodwill	4, 5	<b>226,863</b>	-
Other intangible asset	4, 11, 14	<b>56,520</b>	58,834
Retirement assets	31	<b>6,488</b>	-
Deferred tax assets - net	4, 20	<b>941,679</b>	541,055
Other noncurrent assets - net	4, 8, 15, 29, 35, 36	<b>922,169</b>	737,464
<b>Total Noncurrent Assets</b>		<b>9,861,885</b>	8,331,707
		<b>P21,806,769</b>	P19,549,772
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Notes payable	16, 35, 36	<b>P9,609,452</b>	P7,931,093
Trade and other payables	17, 29, 30, 35, 36	<b>3,452,442</b>	2,274,044
Income and other taxes payable		<b>80,105</b>	118,484
Current maturities of long-term debt - net of debt issue costs	18, 35, 36	<b>655,430</b>	373,974
<b>Total Current Liabilities</b>		<b>13,797,429</b>	10,697,595
<b>Noncurrent Liabilities</b>			
Retirement liabilities	31	<b>-</b>	6,044
Long-term debt - net of current maturities and debt issue costs	18, 35, 36	<b>1,440,739</b>	1,416,847
Finance lease liabilities - net of current portion	30, 35, 36	<b>779</b>	-
Deferred tax liabilities	5, 20	<b>419</b>	-
Other noncurrent liabilities	19, 35, 36	<b>84,483</b>	91,203
<b>Total Noncurrent Liabilities</b>		<b>1,526,420</b>	1,514,094
<b>Total Liabilities</b>		<b>15,323,849</b>	12,211,689
<b>Equity</b>			
Capital stock	21	<b>399,063</b>	399,063
Additional paid-in capital	21	<b>2,539,447</b>	2,526,625
Cumulative translation adjustments		<b>(54,721)</b>	(35,936)
Retained earnings			
Appropriated	21	<b>2,500,000</b>	2,500,000
Unappropriated	21	<b>3,678,540</b>	4,527,740
Treasury stock	21	<b>(2,579,409)</b>	(2,579,409)
<b>Total Equity</b>		<b>6,482,920</b>	7,338,083
		<b>P21,806,769</b>	P19,549,772

*See Notes to the Consolidated Financial Statements.*



**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
(In Thousands, Except Per Share Data)

	<i>Note</i>	<b>2012</b>	2011	2010
<b>SALES</b>	29	<b>P14,559,183</b>	P15,112,596	P22,688,144
<b>COST OF SALES</b>	22, 29, 37	<b>11,097,738</b>	11,975,335	17,579,137
<b>GROSS PROFIT</b>		<b>3,461,445</b>	3,137,261	5,109,007
<b>SELLING AND MARKETING EXPENSES</b>	23, 29	<b>(2,597,044)</b>	(2,491,544)	(2,283,675)
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	24, 29	<b>(1,526,077)</b>	(1,588,139)	(1,381,020)
<b>INTEREST EXPENSE</b>	16, 18, 27	<b>(612,050)</b>	(446,984)	(305,005)
<b>INTEREST INCOME</b>		<b>4,033</b>	4,025	6,999
<b>OTHER INCOME - Net</b>	28	<b>110,912</b>	36,060	190,353
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		<b>(1,158,781)</b>	(1,349,321)	1,336,659
<b>INCOME TAX EXPENSE (BENEFIT)</b>	20	<b>(309,581)</b>	(367,161)	422,805
<b>NET INCOME (LOSS)</b>		<b>(P849,200)</b>	(P982,160)	P913,854
<b>Basic and Diluted Earnings (Loss) Per Share</b>	33	<b>(P3.10)</b>	(P3.56)	P3.03

*See Notes to the Consolidated Financial Statements.*

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
(In Thousands)

	2012	2011	2010
<b>NET INCOME (LOSS)</b>	<b>(P849,200)</b>	<b>(P982,160)</b>	<b>P913,854</b>
<b>EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS</b>	<b>(18,785)</b>	<b>(26,497)</b>	<b>(6,441)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) - NET OF TAX</b>	<b>(P867,985)</b>	<b>(P1,008,657)</b>	<b>P907,413</b>

*See Notes to the Consolidated Financial Statements.*

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
(In Thousands)

	<i>Note</i>	<b>2012</b>	2011	2010
<b>CASH FLOWS FROM</b>				
<b>OPERATING ACTIVITIES</b>				
Income (loss) before income tax		<b>(P1,158,781)</b>	(P1,349,321)	P1,336,659
Adjustments for:				
Depreciation and amortization	12, 13, 25	<b>707,853</b>	526,009	469,510
Interest expense	16, 18, 27	<b>612,050</b>	446,984	305,005
Impairment losses on receivables	8, 23, 24	-	178	1,226
Gain on sale of property and equipment	28	<b>(605)</b>	(154)	(323)
Net unrealized foreign exchange gain	28	<b>(3,709)</b>	(2,399)	(44,483)
Interest income		<b>(4,033)</b>	(4,025)	(6,999)
Net derivative loss (gain)	28	<b>(11,283)</b>	18,253	(70,984)
Operating income (loss) before working capital changes		<b>141,492</b>	(364,475)	1,989,611
Decrease (increase) in:				
Trade and other receivables		<b>(1,299,171)</b>	(325,054)	(777,223)
Inventories		<b>687,134</b>	349,751	(2,075,125)
Prepaid taxes and other current assets		<b>(415,228)</b>	149,874	(277,537)
Increase (decrease) in:				
Trade and other payables		<b>1,279,828</b>	(739,200)	653,689
Other taxes payable		<b>(38,379)</b>	3,584	39,284
Retirement liabilities (assets)		<b>(12,532)</b>	63,706	(24,199)
Cash generated from (used in) operations		<b>343,144</b>	(861,814)	(471,500)
Interest received		<b>4,033</b>	4,025	6,999
Income taxes paid		<b>(496)</b>	(3,500)	(192,804)
Net cash flows provided by (used in) operating activities		<b>346,681</b>	(861,289)	(657,305)
<b>CASH FLOWS FROM</b>				
<b>INVESTING ACTIVITIES</b>				
Proceeds from sale of property and equipment		<b>150</b>	336	324
Additions to property, plant and equipment	12	<b>(311,315)</b>	(1,182,873)	(1,190,006)
Acquisition of a subsidiary, net of cash and cash equivalents acquired		<b>(142,672)</b>	-	-
Increase in other noncurrent assets		<b>(121,354)</b>	(69,875)	(30,030)
Net cash flows used in investing activities		<b>(575,191)</b>	(1,252,412)	(1,219,712)

Forward



	<i>Note</i>	<b>2012</b>	2011	2010
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from:				
Short-term borrowings		<b>P129,445,172</b>	P88,406,258	P58,449,594
Issuance of capital stock		<b>28,978</b>	38,855	18,228
Finance lease liabilities		<b>983</b>	-	-
Noncurrent liabilities		-	95,120	-
Long-term borrowings		-	-	1,492,500
Payments of:				
Short-term borrowings		<b>(127,758,709)</b>	(85,518,041)	(57,255,813)
Interest		<b>(617,181)</b>	(473,895)	(264,759)
Long-term borrowings		<b>(487,424)</b>	(121,308)	(121,417)
Cash dividends		<b>(117,975)</b>	(353,050)	(475,297)
Finance lease liabilities		<b>(390)</b>	(12,227)	(15,161)
Net cash flows provided by financing activities		<b>493,454</b>	2,061,712	1,827,875
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>(9,530)</b>	(4,525)	(31,115)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		<b>255,414</b>	(56,514)	(80,257)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	7	<b>366,116</b>	422,630	502,887
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	7	<b>P621,530</b>	P366,116	P422,630

*See Notes to the Consolidated Financial Statements.*

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
(In Thousands)

		Capital Stock		Additional	Cumulative	Retained Earnings		Treasury	
	Note	Common	Preferred	Paid-in Capital	Translation Adjustments	Appropriated	Unappropriated	Stock	Total
<b>As of January 1, 2012</b>		<b>P345,625</b>	<b>P53,438</b>	<b>P2,526,625</b>	<b>(P35,936)</b>	<b>P2,500,000</b>	<b>P4,527,740</b>	<b>(P2,579,409)</b>	<b>P7,338,083</b>
Exchange differences on translation of foreign operations/other comprehensive loss		-	-	-	(18,785)	-	-	-	(18,785)
Net loss for the year		-	-	-	-	-	(849,200)	-	(849,200)
<b>Total comprehensive loss for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(18,785)</b>	<b>-</b>	<b>(849,200)</b>	<b>-</b>	<b>(867,985)</b>
Issuances of capital stock	34	-	-	12,822	-	-	-	-	12,822
<b>As of December 31, 2012</b>		<b>P345,625</b>	<b>P53,438</b>	<b>P2,539,447</b>	<b>(P54,721)</b>	<b>P2,500,000</b>	<b>P3,678,540</b>	<b>(P2,579,409)</b>	<b>P6,482,920</b>
As of January 1, 2011		P342,986	P53,438	P2,435,476	(P9,439)	P2,500,000	P5,991,914	(P2,579,409)	P8,734,966
Exchange differences on translation of foreign operations/other comprehensive loss		-	-	-	(26,497)	-	-	-	(26,497)
Net loss for the year		-	-	-	-	-	(982,160)	-	(982,160)
Total comprehensive loss for the year		-	-	-	(26,497)	-	(982,160)	-	(1,008,657)
Issuances of capital stock	21, 34	2,639	-	91,149	-	-	-	-	93,788
Cash dividends	21, 32	-	-	-	-	-	(482,014)	-	(482,014)
<b>As of December 31, 2011</b>		<b>P345,625</b>	<b>P53,438</b>	<b>P2,526,625</b>	<b>(P35,936)</b>	<b>P2,500,000</b>	<b>P4,527,740</b>	<b>(P2,579,409)</b>	<b>P7,338,083</b>

Forward

		Capital Stock		Additional Paid-in Capital	Cumulative Translation Adjustments	Retained Earnings		Treasury Stock	Total
	Note	Common	Preferred			Appropriated	Unappropriated		
As of January 1, 2010		P336,950	P53,438	P2,304,669	(P2,998)	P1,300,000	P6,754,141	(P2,579,409)	P8,166,791
Exchange differences on translation of foreign operations/other comprehensive loss		-	-	-	(6,441)	-	-	-	(6,441)
Net income for the year		-	-	-	-	-	913,854	-	913,854
Total comprehensive income (loss) for the year		-	-	-	(6,441)	-	913,854	-	907,413
Issuances of capital stock	21, 34	6,036	-	130,807	-	-	-	-	136,843
Appropriations	21	-	-	-	-	1,200,000	(1,200,000)	-	-
Cash dividends	32	-	-	-	-	-	(476,081)	-	(476,081)
As of December 31, 2010		P342,986	P53,438	P2,435,476	(P9,439)	P2,500,000	P5,991,914	(P2,579,409)	P8,734,966

See Notes to the Consolidated Financial Statements.



## **GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Thousands, Except Percentages, Number of Shares and Per Share Data)

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#### **1. Reporting Entity**

Ginebra San Miguel Inc. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on July 10, 1987. The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the “Group”) and the Group’s interests in joint ventures. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange (PSE). The Parent Company is engaged in manufacturing and selling of alcoholic and nonalcoholic beverages. The registered office address of the Parent Company is 6<sup>th</sup> Floor, San Miguel Properties Centre, St. Francis Street, Ortigas Center, Mandaluyong City.

San Miguel Corporation (SMC) is the ultimate parent company of the Group. The Parent Company is 77.36% - owned and controlled by SMC.

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#### **2. Basis of Preparation**

##### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 19, 2013.

##### Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the following:

- derivative financial instruments are measured at fair value; and
- defined benefit asset (liability) is measured as the net total of the fair value of the plan assets, less unrecognized actuarial gains (losses) and the present value of the defined benefit obligation.

##### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional currency. All financial information are rounded off to the nearest thousand (P000), except when otherwise indicated.

### Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company, its subsidiaries and the Group's interests in joint ventures. The Parent Company owns and controls the following wholly-owned subsidiaries:

<i>Name of Subsidiary</i>	<i>Country of Incorporation</i>
Distileria Bago, Inc. (DBI)	Philippines
East Pacific Star Bottlers Phils Inc. (EPSBPI) <sup>(a)</sup>	Philippines
Agricrops Industries, Inc. (Agricrops)	Philippines
Healthy Condiments, Inc. (HCI)	Philippines
Ginebra San Miguel International Ltd. (GSMIL)	British Virgin Islands (BVI)
Ginebra San Miguel International Holdings Ltd. (GSMIHL)	BVI
Global Beverage Holdings Ltd. (GBHL)	BVI
Siam Holdings Ltd. (SHL)	BVI

(a) Consolidated starting January 27, 2012 (Note 5).

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

A joint venture is an entity over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the joint venture's assets, liabilities, income and expenses on a line by line basis, from the date that joint control commences until the date that joint control ceases. A discussion of the Group's joint ventures is included in Note 11 to the consolidated financial statements.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intragroup balances and transactions, including intragroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

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### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

#### Adoption of Amendments to Standards

The FRSC approved the adoption of a number of amendments to standards as part of PFRS.

Effective 2012, the Group has adopted the amendments to PFRS 7, *Disclosures - Transfers of Financial Assets*, which require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011. The adoption of these amendments did not have an effect on the consolidated financial statements.

Additional disclosures were included in the consolidated financial statements, where applicable.

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing the consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group. The Group does not plan to adopt these standards early.

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

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments: (a) require that an entity 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 adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

The adoption of the amendments is not expected to have an effect on the consolidated financial statements.



- Disclosures: Offsetting Financial Assets and Financial Liabilities (*Amendments to PFRS 7*). 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 adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2013.

The adoption of the amendments is not expected to have an 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 adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

The adoption of the new standard may result to changes in consolidation conclusion in respect of the Group's investee and may lead to changes 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 adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

The effect of the adoption of the new standard beginning January 1, 2013 will result to the elimination of the option to use proportionate consolidation, which is the current practice of the Group.

- 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 adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

The Group is currently assessing the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities in comparison with the existing disclosure.

- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (*Amendments to PFRS 10, PFRS 11, and PFRS 12*). The amendments: (a) simplify the process of adopting PFRS 10 and 11, and provide relief from the disclosures in respect of unconsolidated structured entities; (b) simplify the transition and provide additional relief from the disclosures that could have been onerous depending on the extent of comparative information provided in the consolidated financial statements; and (c) limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of the initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

The Group is currently assessing the disclosure requirements for consolidated financial statements, joint arrangements and disclosure of interests in other entities in comparison with the existing disclosure.

- 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 adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

The adoption of the new standard beginning January 1, 2013 is not expected to significantly change the Group's methodologies in determining fair values.

- 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 obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2013.

The effect on the Group's consolidated financial statements of the retrospective application of the amendments to PAS 19 beginning January 1, 2013 is estimated to decrease retirement assets by P6,488 and increase retirement liabilities and other comprehensive loss by P250,595 and P166,094, respectively, and a corresponding decrease to the opening balance of retained earnings amounting to P90,989.

- PAS 27, *Separate Financial Statements* (2011), supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations, the adoption of which is not expected to have an effect on the consolidated financial statements.
  - 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 adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

- Presentation of the Opening Statement of Financial Position and Related Notes (*Amendments to PAS 1*). These 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 adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
- Classification of Servicing Equipment (*Amendments to PAS 16, Property, Plant and Equipment*). These 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 adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
- Income Tax Consequences of Distributions (*Amendments to PAS 32, Financial Instruments Presentation*). These 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. These amendments remove a perceived inconsistency between PAS 32 and PAS 12. Before the amendments, 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 adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
- Segment Assets and Liabilities (*Amendments to PAS 34*). These amendments 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 adoption of the amendments is required for annual periods beginning on or after January 1, 2013.



- Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32*). These 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 adoption of the amendments is not expected to have an effect on the consolidated financial statements.

- Investment Entities [*Amendments to PFRS 10, PFRS 12, and PAS 27 (2011)*]. These amendments provide consolidation exception for investment funds and require qualifying investment entities to recognize their investments in controlled entities, as well as investments in associates and joint ventures, in a single line item in the consolidated statement of financial position, measured at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. However, the parent of an investment entity (that is not itself an investment entity) is still required to consolidate all subsidiaries. This consolidation exception is mandatory. The adoption of the amendments is required for annual periods beginning on or after January 1, 2014.
- PFRS 9, *Financial Instruments (2010)*, PFRS 9, (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 adoptions of PFRS 9 and does not plan to adopt this standard early.

#### 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 as 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 to the fair value from 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 the fair value (a ‘Day 1’ profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is 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 as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as 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 (Note 10).

The carrying amounts of financial assets under this category amounted to P1,288 and P315 as of December 31, 2012 and 2011, respectively (Note 36).

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

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

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and 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 (Notes 7, 8 and 15).

The combined carrying amounts of financial assets under this category amounted to P4,810,342 and P3,955,406 as of December 31, 2012 and 2011, respectively (Note 36).

*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 December 31, 2012 and 2011, the Group has no investments accounted for under this category.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the “Fair value reserve” in the consolidated statements of changes in equity. 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.

As of December 31, 2012 and 2011, the Group has no financial assets accounted for under this category.

#### 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 (Note 17).

The carrying amounts of financial liabilities under this category amounted to P413 and P3,619 as of December 31, 2012 and 2011, respectively (Note 36).

*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, long-term debt, finance lease liabilities and other noncurrent liabilities are included in this category (Notes 16, 17, 18, 19 and 30).

The combined carrying amounts of financial liabilities under this category amounted to P15,238,118 and P11,960,939 as of December 31, 2012 and 2011, respectively (Note 36).

#### 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.

#### Derivative Financial Instruments and Hedging

##### *Freestanding Derivatives*

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

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

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

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

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

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

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

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

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

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

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

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

#### 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.

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

#### Impairment of Financial Assets

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

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

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

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

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

The carrying amount of the asset shall be reduced either directly or through the 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.

#### Inventories

Finished goods, goods in process and materials and supplies are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and conditions are accounted for as follows:

Finished goods and goods in process	-	at cost which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; costs are determined using the moving-average method;
Materials and supplies	-	at cost using the moving-average method.

Net realizable value of finished goods is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Net realizable value of goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Net realizable value of materials and supplies is the current replacement cost.

An allowance for inventory losses is provided to write down inventories whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. When inventories are sold, the related allowance is reversed in the same period.

Containers (i.e., returnable bottles and shells) are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented under deferred containers included under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful lives of ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

#### Business Combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The Group measures goodwill at the acquisition date as: (a) the fair value of the consideration transferred; plus (b) the recognized amount of any non-controlling interests in the acquiree; plus (c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less (d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.



The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Cost related to acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

▪ *Goodwill in a Business Combination*

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

▪ *Intangible Asset Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimates. The amortization expense on intangible asset with finite life is recognized in profit or loss.

▪ *Loss of Control*

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

Transactions under Common Control

Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

Interest in Joint Venture

The Group generally recognizes its interest in joint venture using proportionate consolidation. The Group combines its share in each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The joint venture is proportionately consolidated until the date when the Group ceases to have joint control over the joint venture.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the item can be measured reliably.

Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 10
Buildings and building improvements	20 - 50
Transportation equipment	5
Machinery and equipment	3 - 40
Furniture, fixtures and office equipment	2 - 5
Other equipment	2 - 5
Leasehold improvements	10 - 30 or term of the lease, whichever is shorter

The remaining useful lives, residual values, depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization are recognized in profit or loss.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

#### Investment Properties

Investment properties consist of properties held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment properties, except for land, are measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.



Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 10
Buildings and building improvements	20 - 50
Machinery and equipment	3 - 40
Other equipment	2 - 5

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Goodwill and licenses with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

#### Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment, investment properties, deferred containers and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and those specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.



## Share Capital

### *Common Shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

### *Preferred Shares*

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon a approval by the Parent Company's BOD.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

### *Treasury Shares*

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

## Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Sales.* Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery, and the amount of revenue can be measured reliably.

*Interest.* Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

*Dividend.* Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

*Rent.* Revenue from investment properties is recognized on a straight-line basis over the term of the lease. Rent income is included as part of other income.

*Others.* Revenue is recognized when earned.

## Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

#### Share-based Payment Transactions

The cost of Employee Stock Purchase Plan (ESPP) is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expenses recognized for share-based payment transactions, at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company’s best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b) above.



#### *Finance Lease*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreements are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in profit or loss.

Capitalized leased assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

#### *Operating Lease*

*Group as Lessee.* Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

*Group as Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

#### Research Costs

Research costs are expensed as incurred.

### Retirement Costs

The Parent Company and DBI have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains and losses, effect of asset limit and effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to the plan, past service cost is recognized immediately as an expense. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceed the greater of 10% of the present value of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service costs not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the resulting asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan, net actuarial losses of the current period and past service costs of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service costs of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service costs of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service costs of the current period are recognized immediately.

### Foreign Currency

#### *Foreign Currency Translations*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting date.



Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

#### *Foreign Operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (Translation reserve) in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the “Translation reserve” in the consolidated statements of changes in equity.

The functional currency of GSMIL, GSMIHL and SHL is the Philippine peso, while that of Thai San Miguel Liquor Co. Ltd. (TSML) and Thai Ginebra Trading (TGT) is the Thailand Baht (THB). The assets and liabilities of TSML and TGT are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the reporting date and their income and expenses are translated at the average exchange rates for the year.

#### Taxes

*Current Tax.* Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

*Deferred Tax.* Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.



Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Value-added Tax (VAT).* Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of “Prepaid taxes and other current assets” or “Income and other taxes payable” in the consolidated statements of financial position.

#### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm’s length basis in a manner similar to transactions with non-related parties.

#### Basic and Diluted Earnings Per Common Share (EPS)

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

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

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

#### Operating Segments

The Group’s operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The President (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8, are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. All inter-segment transfers are carried out at arm’s length prices.

Segment revenues, expenses and performance include sales and purchases between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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### **4. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Finance Leases - Group as Lessee.* TSML and TGT, the Group's joint ventures in Thailand entered into lease agreements with a Thai bank covering transportation equipment. The Group determined that these are finance leases since the significant risks and rewards of ownership related to those properties are transferred to the Group from the date of the lease agreement.

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P963 and P391 as of December 31, 2012 and 2011, respectively (Notes 30 and 35). The carrying amount of transportation equipment under finance lease amounted to P927 and P619 as of December 31, 2012 and 2011, respectively (Note 12).

*Operating Lease Commitments - Group as Lessor/Lessee.* The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.



No rent income was recognized in the consolidated statement of income in 2012. Rent income amounted to P7,500 and P18,000 in 2011 and 2010, respectively (Note 28).

Rent expense recognized in the consolidated statements of income amounted to P238,164, P292,996 and P268,921 in 2012, 2011 and 2010, respectively (Notes 22, 23 and 24).

*Determining Fair Values of Financial Instruments.* Where the fair values of financial assets and financial liabilities recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

*Contingencies.* The Group currently has tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 37).

#### Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

*Allowance for Impairment Losses on Trade and Other Receivables.* Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience, and historical loss experience. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded selling and marketing expenses and decrease current assets.

The allowance for impairment losses amounted to P108,194 and P108,292 as of December 31, 2012 and 2011, respectively. The carrying amounts of trade and other receivables amounted to P3,878,832 and P3,156,620 as of December 31, 2012 and 2011, respectively (Note 8).

*Allowance for Inventory Losses.* The Group provides an allowance for inventory losses whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying amounts of inventories amounted to P6,109,316 and P6,782,788 as of December 31, 2012 and 2011, respectively. The allowance for inventory losses amounted to P79,635 and P75,099 as of December 31, 2012 and 2011, respectively (Note 9).

*Financial Assets and Financial Liabilities.* The Group carries certain financial assets and financial liabilities at fair value which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair values of financial assets and financial liabilities are discussed in Note 36.

*Estimated Useful Lives of Investment Properties, Property, Plant and Equipment and Deferred Containers.* The Group estimates the useful lives of investment properties, property, plant and equipment and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant and equipment and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of investment properties, property, plant and equipment and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of investment properties, property, plant and equipment and deferred containers would increase recorded cost of sales, selling and marketing expenses, and general and administrative expenses and decrease noncurrent assets.

Investment properties, net of accumulated depreciation amounted to P148,926 and P157,998 as of December 31, 2012 and 2011, respectively (Note 13). Property, plant and equipment, net of accumulated depreciation and amortization amounted to P7,559,240 and P6,836,356 as of December 31, 2012 and 2011, respectively (Note 12). Accumulated depreciation and amortization of investment properties amounted to P659,755 and P650,683 as of December 31, 2012 and 2011, respectively (Note 13). Accumulated depreciation and amortization of property, plant and equipment amounted to P5,933,276 and P5,399,867 as of December 31, 2012 and 2011, respectively (Note 12).



Deferred containers net of accumulated amortization included as part of “Other noncurrent assets” account in the consolidated statements of financial position amounted to P487,792 and P233,584 as of December 31, 2012 and 2011, respectively (Note 15).

*Fair Value of Investment Properties.* The fair value of investment properties presented for disclosure purposes is based on market values, being the estimated amount for which the properties can be exchanged between a willing buyer and seller in an arm’s length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment properties are located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the properties. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment properties amounted to P235,100 as of March 5, 2010 (Note 13).

*Impairment of Goodwill and License with Indefinite Useful Life.* The Group determines whether goodwill and licenses are impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill as of December 31, 2012 amounted to P226,863 (Note 5).

The carrying amounts of license amounted to P56,520 and P58,834 as of December 31, 2012 and 2011, respectively (Note 14).

*Acquisition Accounting.* The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group’s acquisitions have resulted in goodwill. Total carrying amount of goodwill arising from business combinations in 2012 amounted to P226,863 (Note 5).

*Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group’s assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P941,679 and P541,055 as of December 31, 2012 and 2011, respectively (Note 20).

*Impairment of Non-financial Assets.* PFRS requires that an impairment review be performed on property, plant and equipment, investment properties, deferred containers and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

There were no impairment losses on property, plant and equipment, investment properties and other non-financial assets recognized as of December 31, 2012, 2011 and 2010. The aggregate amount of property, plant and equipment, investment properties, deferred containers and idle assets amounted to P8,208,750 and P7,241,970 as of December 31, 2012 and 2011, respectively (Notes 12, 13 and 15).

*Present Value of Defined Benefit Obligation.* The present value of the retirement liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 31 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement liability.

Other key assumptions for retirement liabilities are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement liabilities.

The Group has a net cumulative unrecognized actuarial losses amounting to P257,083 and P207,441 as of December 31, 2012 and 2011, respectively (Note 31).

*Asset Retirement Obligation.* Determining asset retirement obligation requires estimation of the cost of dismantling, installations and restoring the leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as of December 31, 2012 and 2011.



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## 5. Acquisition of a Subsidiary

The following are the developments relating to the Parent Company's acquisition of a subsidiary in 2012:

On January 27, 2012, GSMI acquired 100% of the outstanding capital stock of EPSBPI for P200,000. EPSB PI is a company primarily engaged in the manufacturing and bottling of alcoholic and nonalcoholic beverages.

From the date of acquisition, EPSBPI has contributed loss of P44,825 to the Group's financial performance.

If the acquisition had occurred on January 1, 2012, management estimates that the contributed revenue would have been P132,113 and contributed loss for the year would have been P55,345.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2012
<b>Assets</b>	
Cash and cash equivalents	P57,328
Trade and other receivables - net	18,141
Inventories	4,324
Prepaid expenses and other current assets	23,723
Property, plant and equipment - net	1,062,986
Other noncurrent assets	96,640
<b>Liabilities</b>	
Accounts payable and accrued expenses	489,376
Long-term debt	800,000
Deferred tax liabilities	629
<b>Total Identifiable Net Liabilities at Fair Value</b>	<b>P26,863</b>

The fair value of the trade and other receivables amounts to P18,141. None of the receivables has been impaired and it is expected that the full amount can be collected.

Goodwill was recognized as a result of the acquisition as follows:

	2012
Total consideration transferred	P200,000
Total identifiable net liabilities at fair value	26,863
<b>Goodwill</b>	<b>P226,863</b>

Goodwill arising from the acquisition is attributable to the benefit of expected synergies with the Group's beverage business, revenue growth, and future development specifically on tolling services with third parties. None of the goodwill recognized is expected to be deductible for tax purposes.

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections is 12% in 2012. The discount rates also impute the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

No impairment losses were recognized in 2012.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- **Gross Margins.** Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.
- **Discount Rates.** The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.
- **Raw Material Price Inflation.** Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

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## **6. Segment Information**

### Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risk and rates of return which are affected predominantly by differences in the products produced. The operating businesses are organized and managed separately according to geographical location, with each segment representing a strategic business unit that offers different products and serves different markets. With the acquisition of San Miguel Beverages Inc.'s (SMBI) assets in 2008, the Parent Company ventured back into the manufacturing and distribution of nonalcoholic beverages.

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.

For each of the operating segments, the Group's President (the chief operating decision maker) reviews internal management reports on at least monthly basis.



#### Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

#### Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Financial information about operating segments follow:

	For the Years Ended December 31, 2012, 2011 and 2010								
	Alcoholic			Nonalcoholic			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
<b>Sales</b>	<b>P13,896,975</b>	P14,470,899	P21,854,906	<b>P662,208</b>	P641,697	P833,238	<b>P14,559,183</b>	P15,112,596	P22,688,144
<b>Result</b>									
Segment result	<b>(P489,487)</b>	(P731,532)	P1,619,987	<b>(P172,189)</b>	(P210,890)	(P175,675)	<b>(P661,676)</b>	(P942,422)	P1,444,312
Interest expense							<b>(612,050)</b>	(446,984)	(305,005)
Interest income							<b>4,033</b>	4,025	6,999
Other income - net							<b>110,912</b>	36,060	190,353
Income tax expense (benefit)							<b>(309,581)</b>	(367,161)	422,805
<b>Net Income (Loss)</b>							<b>(P849,200)</b>	(P982,160)	P913,854
<b>Other Information</b>									
Segment assets	<b>P18,302,016</b>	P17,424,402	P16,811,712	<b>P1,357,522</b>	P788,017	P1,005,028	<b>P19,659,538</b>	P18,212,419	P17,816,740
Intangible asset							<b>283,383</b>	58,834	61,804
Other noncurrent assets							<b>922,169</b>	737,464	695,685
Deferred tax assets							<b>941,679</b>	541,055	108,939
<b>Consolidated Total Assets</b>							<b>P21,806,769</b>	P19,549,772	P18,683,168
Segment liabilities	<b>P3,337,459</b>	P2,171,020	P2,604,934	<b>P114,799</b>	P108,677	P257,912	<b>P3,452,258</b>	P2,279,697	P2,862,846
Notes payable							<b>9,609,452</b>	7,931,093	5,053,614
Long-term debt - net of debt issue costs							<b>2,096,169</b>	1,790,821	1,925,736
Finance lease liabilities							<b>963</b>	391	1,809
Other noncurrent liabilities							<b>84,483</b>	91,203	-
Deferred tax liabilities							<b>419</b>	-	-
Income and other taxes payable							<b>80,105</b>	118,484	104,197
<b>Consolidated Total Liabilities</b>							<b>P15,323,849</b>	P12,211,689	P9,948,202
Capital expenditures	<b>P242,067</b>	P1,182,775	P1,177,423	<b>P69,248</b>	P98	P12,583	<b>P311,315</b>	P1,182,873	P1,190,006
Depreciation and amortization							<b>707,853</b>	526,009	469,510
Noncash items other than depreciation							<b>(3,709)</b>	(2,221)	(43,257)



## 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2012	2011
Cash in banks and on hand	<b>P554,583</b>	P310,803
Short-term investments	<b>66,947</b>	55,313
	<b>P621,530</b>	P366,116

Cash in banks earns interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates.

## 8. Trade and Other Receivables

Trade and other receivables consist of:

	Note	2012	2011
Trade		<b>P3,267,080</b>	P1,957,418
Non-trade	34	<b>482,683</b>	1,025,620
Amounts owed by related parties	29	<b>237,263</b>	281,874
		<b>3,987,026</b>	3,264,912
Less allowance for impairment losses		<b>(108,194)</b>	(108,292)
		<b>P3,878,832</b>	P3,156,620

Trade receivables are non-interest bearing and are generally on a 60 to 90-day and 30 to 60-day credit terms in 2012 and 2011, respectively.

Non-trade receivables consist of advances to suppliers amounting to P127 and P548,840 as of December 31, 2012 and 2011, respectively, and miscellaneous receivables amounting to P482,556 and P476,780 as of December 31, 2012 and 2011, respectively.

The movements in the allowance for impairment losses are as follows:

	Note	2012	2011
Balance at beginning of year		<b>P108,292</b>	P174,124
Charges for the year	23, 24	-	178
Reversals and others		<b>(98)</b>	(66,010)
Balance at end of year		<b>P108,194</b>	P108,292

As of December 31, 2012 and 2011, the aging of receivables is as follows:

<b>2012</b>	<b>Trade</b>	<b>Non-trade</b>	<b>Owed by Related Parties</b>	<b>Total</b>
Current	<b>P1,945,652</b>	<b>P60,795</b>	<b>P41,173</b>	<b>P2,047,620</b>
Past due				
Less than 30 days	<b>465,978</b>	<b>60,334</b>	<b>3,336</b>	<b>529,648</b>
30 - 60 days	<b>241,346</b>	<b>6,479</b>	<b>11,676</b>	<b>259,501</b>
61 - 90 days	<b>84,289</b>	<b>4,426</b>	<b>33,474</b>	<b>122,189</b>
Over 90 days	<b>529,815</b>	<b>350,649</b>	<b>147,604</b>	<b>1,028,068</b>
	<b>P3,267,080</b>	<b>P482,683</b>	<b>P237,263</b>	<b>P3,987,026</b>

<b>2011</b>	<b>Trade</b>	<b>Non-trade</b>	<b>Owed by Related Parties</b>	<b>Total</b>
Current	P1,174,052	P156,285	P24,404	P1,354,741
Past due				
Less than 30 days	107,486	87,470	18,716	213,672
30 - 60 days	87,187	71,400	4,024	162,611
61 - 90 days	101,600	8,221	32,933	142,754
Over 90 days	487,093	702,244	201,797	1,391,134
	P1,957,418	P1,025,620	P281,874	P3,264,912

Various collaterals for trade receivables such as bank guarantees, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group has settlement arrangements with various terminated dealers for the collection of the outstanding trade receivables over a period from four to fifteen years. The noncurrent portion amounting to P4,280 and P4,780 as of December 31, 2012 and 2011, respectively, is included in trade receivables from terminated dealers under the “Other noncurrent assets” account in the consolidated statements of financial position (Note 15).

## 9. Inventories

Inventories consist of:

	<b>2012</b>	<b>2011</b>
Finished goods and goods in process	<b>P1,974,680</b>	P2,221,747
Materials and supplies	<b>4,001,339</b>	4,404,525
Containers	<b>133,297</b>	156,516
	<b>P6,109,316</b>	P6,782,788

The costs of finished goods, goods in process and materials and supplies amounted to P6,055,654 and P6,701,371 as of December 31, 2012 and 2011, respectively.

Containers at deposit value amounted to P133,297 and P156,516 as of December 31, 2012 and 2011, respectively.

The allowance for inventory losses amounted to P79,635 and P75,099 as of December 31, 2012 and 2011, respectively.



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**10. Prepaid Taxes and Other Current Assets**

Prepaid taxes and other current assets consist of:

	<i>Note</i>	<b>2012</b>	2011
Prepaid taxes		<b>P1,197,381</b>	P851,081
Derivative assets	35, 36	<b>1,288</b>	315
Others		<b>136,537</b>	61,145
		<b>P1,335,206</b>	P912,541

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Prepaid taxes represent prepayments of excise taxes on alcohol and income taxes.

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**11. Investments in Joint Ventures**

GSMI, through GSMIL, has an existing joint venture with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand of which GSMIL owns 40% ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

Through the acquisition by SHL of the 49% ownership interest in Siam Wine Liquor Co., Ltd. (SWL) and SWL's acquisition of shares representing 10% ownership of the outstanding capital stock of TSML, the Group's share in TSML increased from 40% to 44.9%. The acquisition was funded through advances made by GSMI to GBHL, which has an existing loan agreement with SWL for the same amount.

The Group's share in the assets, liabilities, income and expenses of TSML as of and for the years ended December 31, 2012, 2011 and 2010 which is included in the Group's consolidated financial statements is shown below:

	<b>2012</b>	2011	2010
Current assets	<b>P296,993</b>	P484,252	P516,039
Noncurrent assets	<b>734,609</b>	806,327	893,617
Current liabilities	<b>357,537</b>	424,774	436,078
Noncurrent liabilities	<b>142,369</b>	268,874	309,241
Revenue	<b>443,742</b>	451,868	657,135
Cost of sales	<b>535,264</b>	600,339	816,542
Operating expenses	<b>66,945</b>	84,501	76,285
Other income	<b>812</b>	3,506	11,977
Net loss	<b>157,655</b>	229,466	223,715

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The Group's share in the cash flows of TSML for the years ended December 31, 2012, 2011 and 2010 is as follows:

	<b>2012</b>	2011	2010
Net cash flows used in operating activities	<b>(P37,633)</b>	(P208,985)	(P373,193)
Net cash flows provided by investing activities	<b>71,719</b>	87,289	374
Net cash flows used in financing activities	<b>(126,505)</b>	(40,367)	(105,800)

GSMI, through GSMIHL, has an existing 40% ownership in the TGT, which was formed as another joint venture with Thai Life. TGT functions as the selling and distribution arm of TSML.

Through the acquisition of SWL of the 10% ownership interest in TGT, GSMI group's share in TGT increased from 40% to 44.9%. The acquisition was funded through advances made by GSMI to GBHL which has an existing loan agreement with SWL for the same amount.

The Group's share in the assets, liabilities, income and expenses of TGT as of and for the years ended December 31, 2012, 2011 and 2010 which is included in the Group's consolidated financial statements is shown below:

	<b>2012</b>	2011	2010
Current assets	<b>P43,766</b>	P65,375	P50,903
Noncurrent assets	<b>80</b>	2,725	14,464
Current liabilities	<b>14,405</b>	13,673	15,131
Noncurrent liabilities	<b>84</b>	56	1,622
Revenue	<b>113,247</b>	171,383	231,686
Cost of sales	<b>1,391</b>	2,210	17,106
Operating expenses	<b>38,679</b>	83,476	110,684
Other income	<b>9,195</b>	624	703
Net income	<b>82,372</b>	86,321	104,599

The Group's share in the cash flows of TGT for the years ended December 31, 2012, 2011 and 2010 is as follows:

	<b>2012</b>	2011	2010
Net cash flows provided by operating activities	<b>P104,714</b>	P70,391	P159,246
Net cash flows provided by investing activities	<b>2,644</b>	11,739	15,355
Net cash flows provided by (used in) financing activities	<b>28</b>	(1,565)	(14,442)



## 12. Property, Plant and Equipment

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

	Land and Land Improvements	Buildings and Building Improvements	Transportation Equipment	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Other Equipment	Leasehold Improvements	Construction in Progress	Total
<b>Cost:</b>									
December 31, 2010	P652,949	P1,229,042	P224,757	P7,192,673	P86,321	P597,214	P12,170	P1,089,434	P11,084,560
Additions	-	-	-	-	-	-	-	1,182,873	1,182,873
Disposals/reclassifications	266,644	248,616	18,349	1,374,902	32,097	105,404	5,278	(2,039,270)	12,020
Currency translation adjustments	(8,438)	(6,005)	(1,158)	(26,598)	(423)	(522)	(43)	(43)	(43,230)
December 31, 2011	911,155	1,471,653	241,948	8,540,977	117,995	702,096	17,405	232,994	12,236,223
Additions	-	-	-	-	-	-	-	311,315	311,315
Disposals/reclassifications/ acquisition of subsidiary	(8,758)	423,476	4,291	624,985	2,222	17,391	122,055	(205,487)	980,175
Currency translation adjustments	(6,989)	(4,963)	(284)	(22,001)	(336)	(482)	(33)	(109)	(35,197)
<b>December 31, 2012</b>	<b>895,408</b>	<b>1,890,166</b>	<b>245,955</b>	<b>9,143,961</b>	<b>119,881</b>	<b>719,005</b>	<b>139,427</b>	<b>338,713</b>	<b>13,492,516</b>
<b>Accumulated depreciation and amortization:</b>									
December 31, 2010	172,919	500,938	154,370	3,603,943	54,116	507,352	5,283	-	4,998,921
Additions	16,370	41,894	29,610	326,175	21,218	44,736	1,941	-	481,944
Disposals/reclassifications	(9,104)	(1,358)	(50,564)	13,330	(1,427)	(21,289)	(1,148)	-	(71,560)
Currency translation adjustments	(1,269)	(981)	(841)	(5,833)	(321)	(184)	(9)	-	(9,438)
December 31, 2011	178,916	540,493	132,575	3,937,615	73,586	530,615	6,067	-	5,399,867
Additions	7,452	57,455	30,404	485,153	20,654	43,691	5,990	-	650,799
Disposals/reclassifications/ acquisition of subsidiary	(2,642)	147,751	(7,979)	(231,889)	(3,626)	(9,854)	(170)	-	(108,409)
Currency translation adjustments	(1,140)	(1,021)	(225)	(6,074)	(292)	(220)	(9)	-	(8,981)
<b>December 31, 2012</b>	<b>182,586</b>	<b>744,678</b>	<b>154,775</b>	<b>4,184,805</b>	<b>90,322</b>	<b>564,232</b>	<b>11,878</b>	<b>-</b>	<b>5,933,276</b>
<b>Net book value:</b>									
December 31, 2011	P732,239	P931,160	P109,373	P4,603,362	P44,409	P171,481	P11,338	P232,994	P6,836,356
<b>December 31, 2012</b>	<b>P712,822</b>	<b>P1,145,488</b>	<b>P91,180</b>	<b>P4,959,156</b>	<b>P29,559</b>	<b>P154,773</b>	<b>P127,549</b>	<b>P338,713</b>	<b>P7,559,240</b>

Additions in 2012 amounting to P311,315 pertain to acquisitions of Nonalcoholic Beverage electric coolers and crates.

Additions in 2011 amounting to P1,182,873 pertain to acquisitions of a bottling facility in Calamba, Laguna and a cassava alcohol facility located at DBI plant.

Property, plant and equipment include unutilized machinery and equipment consisting of distillation equipment of the Parent Company stored in DBI plant. Carrying amounts of unutilized machinery and equipment, net of accumulated impairment losses of P269,600, amounted to P193,227 and P197,360 as of December 31, 2012 and 2011, respectively.

Depreciation and amortization charged to operations amounted to P650,799, P481,944 and P409,245 in 2012, 2011 and 2010, respectively (Note 25). These amounts include annual amortizations of capitalized interest amounting to P11,034, P9,658 and P8,664 in 2012, 2011 and 2010, respectively.

Interest amounting to P9,038, P20,637 and P14,916 were capitalized to machinery and equipment in 2012, 2011 and 2010, respectively (Note 27). The capitalization rate used to determine the amount of interest eligible for capitalization was 5.65% in 2012, 4.97% in 2011 and 5.73% in 2010. As of December 31, 2012 and 2011, the unamortized capitalized borrowing costs amounted to P83,760 and P84,359, respectively.

The carrying amount of transportation equipment under finance lease amounted to P927 and P619 as of December 31, 2012 and 2011, respectively (Notes 4 and 30).

### 13. 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 (Note 30).

The movements in investment properties are as follows:

	Land and Land Improvements	Buildings and Building Improvements	Machinery and Equipment	Other Equipment	Total
<b>Cost:</b>					
<b>December 31, 2011 and 2012</b>	<b>P49,297</b>	<b>P116,300</b>	<b>P633,837</b>	<b>P9,247</b>	<b>P808,681</b>
<b>Accumulated depreciation and amortization:</b>					
December 31, 2010	17,528	68,180	561,809	9,247	656,764
Additions	31	2,828	3,512	-	6,371
Reclassifications	(1)	-	(12,451)	-	(12,452)
December 31, 2011	17,558	71,008	552,870	9,247	650,683
Additions	31	3,118	5,923	-	9,072
<b>December 31, 2012</b>	<b>17,589</b>	<b>74,126</b>	<b>558,793</b>	<b>9,247</b>	<b>659,755</b>
<b>Net book value:</b>					
December 31, 2011	P31,739	P45,292	P80,967	P -	P157,998
<b>December 31, 2012</b>	<b>P31,708</b>	<b>P42,174</b>	<b>P75,044</b>	<b>P -</b>	<b>P148,926</b>

Depreciation charged to operations amounted to P9,072, P6,371 and P11,297 for the years ended December 31, 2012, 2011 and 2010, respectively (Note 25).

As of March 5, 2010, the fair values of investment properties as determined by an independent firm of appraisers amounted to P235,100. Fair value is based on the estimated market value of the land using the gathered available market evidences and depreciated replacement cost for other assets which have no available market evidences.



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**14. Other Intangible Asset**

The movements in other intangible asset with indefinite useful life, including effects of currency translation adjustments, are as follows:

	<b>2012</b>	2011
Balance at beginning of year	<b>P58,834</b>	P61,804
Reclassifications	<b>(200)</b>	(397)
Currency translation adjustments	<b>(2,114)</b>	(2,573)
Balance at end of year	<b>P56,520</b>	P58,834

The Parent Company assessed that the license of TSML to manufacture liquor is an intangible asset with an indefinite useful life since the license allows the Group to operate liquor business in Thailand indefinitely. In addition, the Parent Company and its joint venture partner intend to be in such business indefinitely.

The TSML license is reviewed for impairment at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the indefinite intangible asset is allocated. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

Management assessed that there is no impairment loss in value of the license for the years ended December 31, 2012, 2011 and 2010.

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**15. Other Noncurrent Assets**

Other noncurrent assets consist of:

	<i>Note</i>	<b>2012</b>	2011
Deferred containers - net	4	<b>P487,792</b>	P233,584
Trade receivables referred to legal counsel	35, 36	<b>33,022</b>	34,371
Trade receivables from terminated dealers - net of current portion	8, 35, 36	<b>4,280</b>	4,780
Advances	11, 29, 35, 36	<b>122,915</b>	242,915
Deposits and others	35, 36	<b>274,160</b>	221,814
		<b>P922,169</b>	P737,464

Advances represent outstanding amounts granted to external suppliers.

Deposits and others include: (a) idle assets with carrying amount of P12,792 and P14,032 as of December 31, 2012 and 2011, respectively; (b) input taxes on the acquisition of capitalizable assets amounting to P111,604 and P53,709 as of December 31, 2012 and 2011, respectively; and (c) advances by the Parent Company to TSML amounting to P118,393 as of December 31, 2012 and 2011.

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**16. Notes Payable**

This account consists of unsecured short-term peso-denominated borrowings obtained from local banks for working capital requirements. These loans mature in three months or less and bear annual interest rates ranging from 3.40% to 5.75% and 3.50% to 6.87% in 2012 and 2011, respectively.

This account also includes 44.9% of the unsecured short-term Thailand Baht-denominated borrowings of TSML which were obtained from banks for working capital requirements. These loans mature in three months or less and bear annual interest ranging from 3.93% to 4.60% in 2012 and 2.05% to 4.97% in 2011.

Interest expense on notes payable amounted to P467,583, P324,646 and P246,665 in 2012, 2011 and 2010, respectively (Note 27).

The Group's exposure to interest rate, foreign currency and liquidity risks are discussed in Note 35.

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**17. Trade and Other Payables**

Trade and other payables consist of:

	<i>Note</i>	<b>2012</b>	2011
Trade		<b>P2,287,884</b>	P1,646,791
Amounts owed to related parties	29	<b>1,163,961</b>	623,243
Finance lease liabilities - current portion	30, 35, 36	<b>184</b>	391
Derivative liabilities	35, 36	<b>413</b>	3,619
		<b>P3,452,442</b>	P2,274,044

Credit term of trade payables is generally 30 days.

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**18. Long-term Debt**

Long-term debt consists of:

	<b>2012</b>	2011
Unsecured term notes:		
Peso-denominated:		
Fixed interest rate with maturities up to 2015 (a)	<b>P1,239,119</b>	P1,494,691
Floating interest rate based on PDST-F plus margin, with maturities up to 2018 (b)	<b>685,715</b>	-
Foreign currency-denominated:		
Floating interest rate based on THBFIX plus margin, with maturities up to 2014 (c)	<b>171,335</b>	296,130
	<b>2,096,169</b>	1,790,821
Less current maturities	<b>655,430</b>	373,974
	<b>P1,440,739</b>	P1,416,847



- a. On May 25, 2010, the Parent Company entered into unsecured long-term, interest bearing loans from a local bank amounting to P1,500,000 for the purpose of funding its permanent working capital requirements. On May 31 and August 25, 2010, P300,000 and P1,200,000, respectively, were drawn down from the said credit facility. These loans are carried at amortized cost and bear annual interest rates at Philippine peso fixed-rate of 7.89% and 7.25%, respectively. The loans are payable in equal semi-annual installments which will commence in 2012.
- b. GSMI through EPSBPI, recognizes an unsecured, long-term interest bearing loan with the Development Bank of the Philippines amounting to P800,000. The proceeds of the loan is intended exclusively for the construction of the bottling facilities in Ligao, Albay and Cauayan, Isabela.

The loan is payable up to nine years from and after the initial date of borrowing, but in no case later than September 30, 2018 (expiry date of MOA), inclusive of a grace period of two years on principal repayment. The loan is payable in equal quarterly installments on the Principal Repayment Dates, commencing on February 18, 2012.

EPSBPI agrees to pay interest on the outstanding principal amount of borrowings on each interest payment date ending per annum equivalent to the higher of benchmark rate plus a spread one percent or the overnight rate. Benchmark rate is the three-month PDST-F rate as displayed in the Philippine Dealing and Exchange Corporation page on the first day of each interest period. While overnight rate means the Bangko Sentral ng Pilipinas overnight reverse repo rate on interest rate settling date.

- c. The Parent Company recognizes 44.9% of the unsecured, long-term, interest-bearing loan of TSML from Thai local and foreign banks used to finance TSML's plant construction and start-up operations. This loan is carried at amortized cost. It bears annual interest rate at the aggregate of applicable Thailand Baht floating-rate fix (THBFIX) and 1.75% per annum. TSML and the creditor entered into an agreement that changed the rate of interest to a fixed rate of 6.41% for the period from January 1 to June 30, 2010. The loan is payable every six months at 5% and 10% of the outstanding loan facilities starting March 14, 2009.

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restriction on loans and guarantees, disposal of a substantial portion of assets and significant changes in the general nature of business.

The movements in debt issue costs are as follows:

	2012	2011
Balance at beginning of year	<b>P6,249</b>	P8,287
Amortization	<b>(1,981)</b>	(2,015)
Cumulative translation adjustments and others	<b>(34)</b>	(23)
Balance at end of year	<b>P4,234</b>	P6,249

#### Repayment Schedule

As of December 31, 2012, the annual maturities of this long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2013	P657,411	P1,981	P655,430
2014	600,134	1,657	598,477
2015	500,001	596	499,405
2016	114,286	-	114,286
2017	114,286	-	114,286
2018	114,285	-	114,285
	<b>P2,100,403</b>	<b>P4,234</b>	<b>P2,096,169</b>

#### **19. Other Noncurrent Liabilities**

Other noncurrent liabilities primarily consist of various loans obtained by TSML for its working capital requirements. The loan is unsecured and bears 3% interest per annum.

#### **20. Income Taxes**

Deferred tax assets and liabilities arise from the following:

	2012	2011
NOLCO	<b>P674,974</b>	P329,020
MCIT	<b>127,885</b>	64,558
Impairment losses on non-operating machinery and equipment	<b>83,448</b>	83,448
Allowance for impairment losses on trade and other receivables	<b>52,237</b>	52,237
Allowance for write-down of inventories to net realizable value	<b>20,971</b>	20,971
Past service costs	<b>6,551</b>	4,084
Retirement liabilities - net	-	2,242
Derivative liabilities - net	-	991
Derivative assets - net	<b>(262)</b>	-
Unrealized foreign exchange gain - net	<b>(539)</b>	(562)
Retirement assets - net	<b>(1,946)</b>	-
Unamortized capitalized borrowing costs	<b>(25,128)</b>	(19,117)
Others	<b>3,069</b>	3,183
	<b>P941,260</b>	P541,055

The above amounts are reported in the consolidated statements of financial positions as follows:

	2012	2011
Deferred tax assets	<b>P941,679</b>	P541,055
Deferred tax liabilities	<b>(419)</b>	-
	<b>P941,260</b>	P541,055



As of December 31, 2012, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deductible from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up to	NOLCO	MCIT
2012	December 31, 2015	P1,158,604	P63,327
2011	December 31, 2014	1,091,311	64,558
		<b>P2,249,915</b>	<b>P127,885</b>

The components of income tax expense (benefit) are shown below:

	2012	2011	2010
Current	<b>P28,039</b>	P536	P386,256
Deferred	<b>(337,620)</b>	(367,697)	36,549
	<b>(P309,581)</b>	(P367,161)	P422,805

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2012	2011	2010
Statutory income tax rate	<b>30.00%</b>	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subjected to final tax	<b>(0.10)</b>	(0.10)	(0.20)
Nondeductible expenses and others	<b>(3.18)</b>	(2.70)	1.80
Effective income tax rate	<b>26.72%</b>	27.20%	31.60%

## 21. Equity

### Common Stock

As of December 31, 2012 and 2011, the Parent Company has 460,000,000 authorized common shares with par value of P1 per share. The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Parent Company.

As of December 31, 2012 and 2011, the Parent Company offer price is P17.80 and P23.30, respectively. The Parent Company has a total of 939 and 1,129 stockholders.

The movements in the number of issued and outstanding common shares are as follows:

	2012	2011
Balance at beginning of year	<b>P345,625,332</b>	P342,985,932
Issuances during the year	-	2,639,400
Issued shares at end of year	<b>345,625,332</b>	345,625,332
Less treasury shares	<b>55,549,391</b>	55,549,391
Issued and outstanding shares at end of year	<b>P290,075,941</b>	P290,075,941

### Preferred Shares

As of December 31, 2012 and 2011, the Parent Company has 100,000,000 authorized preferred shares with par value of P1 per share. The holders of preferred shares are entitled to participate and receive annual dividends of P1.50 per share which shall be cumulative and payable in arrears on December 31 of each year. In addition, the holders of preferred shares shall receive a special annual dividend equal to the excess of the aggregate dividends paid or to be paid to common shareholders over P1.50 per preferred share per annum.

The holders of preferred shares are entitled to vote in the same manner as the holders of common shares.

As of December 31, 2012 and 2011, the Parent Company has 32,786,885 outstanding preferred shares.

### Treasury Shares

Details of treasury shares as of December 31, 2012 and 2011 are as follows:

	Number of Shares
Preferred	20,650,700
Common	55,549,391

### Unappropriated Retained Earnings

No dividends were declared in 2012. Annual dividends amounting to P482,014 and P476,081 (P1.50 per share) were declared by the Parent Company in 2011 and 2010, respectively. Of this amount, P49,180 (P1.50 per share) relates to preferred dividends for 2011 and 2010.

The unappropriated retained earnings balance is restricted to the extent of: (a) the acquisition price of the treasury shares amounting to P2,579,409 as of December 31, 2012 and 2011; and (b) undistributed net loss of the subsidiaries and joint ventures amounting to P171,623 in 2012 and undistributed net earnings of the subsidiaries and joint ventures amounting to P200,255 and P143,374 in 2011 and 2010, respectively. Undistributed earnings of the subsidiaries and joint ventures are not available for dividends until declared by the respective investees.

Under the Corporation Code of the Philippines (the Code), stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-up capital stock except when justified by any of the reasons mentioned in the Code. As of December 31, 2010, unappropriated retained earnings were in excess of the paid-up capital.

### Appropriated Retained Earnings

On November 11, 2010, the BOD approved P1,200,000 appropriation for the purpose of capital investment for the expansion of the plant facilities, including but not limited to equipment rehabilitation, to accommodate new product line and the increase in volume requirements in the next three to five years.



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**22. Cost of Sales**

Cost of sales consists of:

	<i>Note</i>	<b>2012</b>	2011	2010
Inventories		<b>P9,009,966</b>	P9,918,414	P15,045,165
Utilities and supplies		<b>877,592</b>	700,366	912,612
Depreciation and amortization	12, 13, 25	<b>420,992</b>	290,676	279,669
Outside services	37	<b>353,705</b>	602,401	880,878
Personnel	26	<b>196,861</b>	164,630	181,901
Repairs and maintenance		<b>124,077</b>	105,417	131,542
Rent	30	<b>78,860</b>	159,779	100,943
Insurance		<b>6,913</b>	10,266	7,589
Research costs		<b>6,417</b>	5,406	7,638
Others		<b>22,355</b>	17,980	31,200
		<b>P11,097,738</b>	P11,975,335	P17,579,137

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**23. Selling and Marketing Expenses**

Selling and marketing expenses consist of:

	<i>Note</i>	<b>2012</b>	2011	2010
Advertising and promotions		<b>P1,319,710</b>	P1,293,074	P1,063,964
Delivery and marketing		<b>546,813</b>	552,889	635,418
Personnel	26	<b>246,963</b>	245,513	222,109
Outside services		<b>111,238</b>	79,739	80,777
Rent	30	<b>102,295</b>	71,281	73,529
Utilities and supplies		<b>86,437</b>	75,462	58,198
Research costs		<b>43,138</b>	39,740	24,420
Travel and transportation		<b>37,879</b>	31,242	31,319
Depreciation and amortization	12, 13, 25	<b>34,532</b>	32,754	30,423
Repairs and maintenance		<b>33,240</b>	28,660	28,395
Corporate special program		<b>23,078</b>	22,910	24,651
Impairment losses on receivables	8	<b>-</b>	79	1,226
Others		<b>11,721</b>	18,201	9,246
		<b>P2,597,044</b>	P2,491,544	P2,283,675

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## 24. General and Administrative Expenses

General and administrative expenses consist of:

	<i>Note</i>	<b>2012</b>	2011	2010
Personnel	26	<b>P651,413</b>	P664,007	P455,956
Depreciation and amortization	12, 13, 25	<b>252,329</b>	202,579	159,418
Outside services	29	<b>244,054</b>	269,825	270,199
Taxes and licenses		<b>85,164</b>	113,640	93,621
Insurance		<b>76,712</b>	75,384	54,494
Rent	30	<b>57,009</b>	61,936	94,449
Repairs and maintenance		<b>43,873</b>	39,147	39,086
Corporate special program		<b>37,743</b>	50,363	81,626
Utilities and supplies		<b>35,065</b>	36,226	38,672
Travel and transportation		<b>19,984</b>	20,079	57,770
Research costs		<b>5,425</b>	6,758	18,066
Impairment losses on receivables	8	-	99	-
Others		<b>17,306</b>	48,096	17,663
		<b>P1,526,077</b>	P1,588,139	P1,381,020

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## 25. Depreciation and Amortization

Depreciation and amortization consist of:

	<i>Note</i>	<b>2012</b>	2011	2010
Property, plant and equipment	12	<b>P650,799</b>	P481,944	P409,245
Pallets		<b>46,742</b>	36,080	46,737
Investment properties	13	<b>9,072</b>	6,371	11,297
Others		<b>1,240</b>	1,614	2,231
		<b>P707,853</b>	P526,009	P469,510

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Depreciation and amortization are distributed as follows:

	<i>Note</i>	<b>2012</b>	2011	2010
Cost of sales	22	<b>P420,992</b>	P290,676	P279,669
Selling and marketing expenses	23	<b>34,532</b>	32,754	30,423
General and administrative expenses	24	<b>252,329</b>	202,579	159,418
		<b>P707,853</b>	P526,009	P469,510

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**26. Personnel Expenses**

Personnel expenses consist of:

	<i>Note</i>	<b>2012</b>	2011	2010
Salaries and wages		<b>P443,195</b>	P416,952	P414,186
Employee benefits		<b>599,836</b>	593,492	455,427
Retirement costs (benefits)	<i>31</i>	<b>52,206</b>	63,706	(9,647)
		<b>P1,095,237</b>	P1,074,150	P859,966

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Personnel expenses are distributed as follows:

	<i>Note</i>	<b>2012</b>	2011	2010
Cost of sales	<i>22</i>	<b>P196,861</b>	P164,630	P181,901
Selling and marketing expenses	<i>23</i>	<b>246,963</b>	245,513	222,109
General and administrative expenses	<i>24</i>	<b>651,413</b>	664,007	455,956
		<b>P1,095,237</b>	P1,074,150	P859,966

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**27. Interest Expense**

Interest expense consists of:

	<i>Note</i>	<b>2012</b>	2011	2010
Interest on notes payable	<i>16</i>	<b>P467,583</b>	P324,646	P246,665
Interest on long-term debt		<b>153,505</b>	142,975	73,256
Capitalized borrowing costs	<i>12</i>	<b>(9,038)</b>	(20,637)	(14,916)
		<b>P612,050</b>	P446,984	P305,005

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**28. Other Income**

Other income and charges consist of:

	<i>Note</i>	<b>2012</b>	2011	2010
Other income:				
Sale of scrap		<b>P165,821</b>	P50,263	P47,687
Gain on derivatives	<i>36</i>	<b>11,283</b>	-	70,984
Sale of cassava chips and ENA crystalline		<b>5,105</b>	140,076	-
Foreign exchange gain - net		<b>3,709</b>	2,399	44,483
Gain on sale of property and equipment		<b>605</b>	154	323
Rent income	<i>30</i>	<b>-</b>	7,500	18,000
Others		<b>39,497</b>	2,357	12,329
		<b>226,020</b>	202,749	193,806

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*Forward*

	<i>Note</i>	<b>2012</b>	2011	2010
Other charges:				
Cost of scrap		<b>P81,132</b>	P -	P -
Cost of cassava chips and ENA crystalline		<b>7,932</b>	148,436	-
Loss on derivatives	36	-	18,253	-
Loss on purchase agreement		-	-	2,821
Others		<b>26,044</b>	-	632
		<b>115,108</b>	166,689	3,453
		<b>P110,912</b>	P36,060	P190,353

## 29. 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 year by examining the financial position of the related party and the market in which the related party operates.

Transactions with related parties and the related balances include the following:

	<b>Year</b>	<b>Revenue from Related Parties</b>	<b>Purchases from Related Parties</b>	<b>Amounts Owed by Related Parties</b>	<b>Amounts Owed to Related Parties</b>	<b>Terms</b>	<b>Conditions</b>
Ultimate Parent Company	<b>2012</b>	<b>P28,059</b>	<b>P189,355</b>	<b>P27,306</b>	<b>P81,714</b>	On demand;	Unsecured;
	2011	21,371	440,686	29,613	118,987	Non-interest	No impairment
	2010	-	351,301	30,198	95,259	bearing	
Under Common Control	<b>2012</b>	<b>118,199</b>	<b>3,747,307</b>	<b>130,584</b>	<b>1,081,437</b>	On demand;	Unsecured;
	2011	149,816	3,490,444	112,713	503,856	Non-interest	No impairment
	2010	124,595	3,251,293	200,222	729,722	bearing	
Joint Venture	<b>2012</b>	-	-	<b>118,393</b>	-	On demand;	Unsecured;
	2011	-	-	118,393	-	Non-interest	No impairment
	2010	-	-	-	-	bearing	
Retirement Plan	<b>2012</b>	-	-	<b>77,025</b>	-	On demand;	Unsecured;
	2011	-	-	137,025	-	Non-interest	No impairment
	2010	-	-	137,025	-	bearing	
Associates of the Ultimate Parent Company	<b>2012</b>	-	<b>21,837</b>	-	-	On demand;	Unsecured;
	2011	-	23,789	-	-	Non-interest	No impairment
	2010	-	43,217	-	-	bearing	
	<b>2012</b>	-	-	-	<b>2,600,000</b>	3 months;	Unsecured;
	2011	-	-	-	1,300,000	Interest-	No impairment
	2010	-	-	-	-	bearing	
Others	<b>2012</b>	<b>653</b>	<b>2,670</b>	<b>2,348</b>	<b>810</b>	On demand;	Unsecured;
	2011	356	817	2,523	400	Non-interest	No impairment
	2010	-	929	1,413	4,614	bearing	
	<b>2012</b>	<b>P146,911</b>	<b>P3,961,169</b>	<b>P355,656</b>	<b>P3,763,961</b>		
	2011	P171,543	P3,955,736	P400,267	P1,923,243		
	2010	P124,595	P3,646,740	P368,858	P829,595		

- a. The Group, in the normal course of business, has significant transactions with related parties pertaining to purchases of containers, bottles and other packaging materials and sale of liquor and by-products. The sales to and purchases from related parties are made at market prices. There have been no guarantees provided or received for any amounts owed by and owed to related parties. The Group has not made any provision for impairment losses relating to amounts owed by related parties for the years ended December 31, 2012, 2011 and 2010.
- b. Management fees for the years ended December 31, 2012, 2011 and 2010 amounting to P164,237, P179,234 and P189,054, respectively, are included in outside services account under “General and administrative expenses” (Note 24).
- c. Amounts owed by TSML are included in the “Other noncurrent assets” account in the consolidated statements of financial position (Note 15).
- d. Amounts owed to Bank of Commerce are included in the “Notes Payable” account in the consolidated statements of financial position (Note 16).
- e. The compensation of key management personnel of the Group, by benefit type, follows:

	2012	2011	2010
Short-term employee benefits	<b>P34,499</b>	P41,524	P42,016
Retirement costs (benefits)	<b>7,778</b>	9,109	(1,675)
Share-based payments	<b>576</b>	1,200	851
	<b>P42,853</b>	P51,833	P41,192

### 30. Leasing Agreements

#### Finance Leases

##### *Group as Lessee*

In 2008, TSML and TGT entered into various finance lease agreements with a Thai bank covering automobiles needed for business operations. In 2012, additional finance lease agreement with a Thai Bank was entered into by TSML. As of December 31, 2012 and 2011, the Group’s share in the carrying amount of leased transportation equipment amounted to P927 and P619, respectively (Note 12).

The Group’s share in the minimum lease payments for these finance lease liabilities are as follows:

#### **2012**

	Minimum Lease Payable	Interest	Principal
Within one year	<b>P239</b>	<b>P55</b>	<b>P184</b>
After one year but not more than five years	<b>863</b>	<b>84</b>	<b>779</b>
	<b>P1,102</b>	<b>P139</b>	<b>P963</b>



2011

	Minimum Lease Payable	Interest	Principal
Within one year	P400	P9	P391

### Operating Leases

#### *Group as Lessor*

The Parent Company leases out its investment properties to a third party lessee under an operating lease agreement for a period of five years (Note 13). The lease agreement has been terminated on June 24, 2011.

As of December 31, 2010, the future minimum lease receivable under such lease are as follows:

	2010
Within one year	P7,500
After one year but not more than five years	-
	P7,500

No rent income was recognized in the consolidated statement of income in 2012. Rent income recognized in the consolidated statements of income amounted to P7,500 and P18,000 for the years ended December 31, 2011 and 2010, respectively (Note 28).

#### *Group as Lessee*

- a. The Parent Company leases various warehouse facilities under operating leases. These leases typically run for a period of one year. The Parent Company has the option to renew the lease after expiration of the lease term. Rent expense recognized in the consolidated statements of income amounted to P238,164, P292,996 and P268,921 in 2012, 2011 and 2010, respectively.
- b. On December 20, 2008, EPSBPI entered into a lease agreement with Navotas Ridge Realty Corporation (NRRC) for ten years from January 1, 2009 to December 31, 2019 and renewable at the option of EPSBPI upon mutual agreement of both parties. Rental fee amounted to P10 per month until January 31, 2010. Upon commencement of operation of the bottling facility on February 1, 2010, rental fee increased to P99 with a 5% escalation every year until the end of the term.

On April 1, 2012, EPSBPI entered into another lease agreement with NRRC for a period of five years from April 1, 2012 to March 31, 2017 and renewable at the option of EPSBPI upon mutual agreement of both parties. Rental fee amounted to P69 per month and subject to 5% escalation every year until the end of the term.

- c. On February 24, 2009, EPSBPI entered into a lease agreement with San Miguel Properties, Inc. for ten years from March 1, 2009 to February 28, 2019 and renewable at the option of EPSBPI upon mutual agreement of both parties. Rental fee amounted to P10 per month until February 28, 2010. Upon commencement of the operation of the bottling facility on March 1, 2010, rental is increased to P100 with 5% escalation every year until the end of the term.

- d. On July 15, 2010, E PSBPI entered into a lease agreement with Amberland Corporation for two years from July 30, 2010 to July 29, 2012 and renewable on a yearly basis with 10% escalation upon mutual agreement of both parties. Rental fee amounted to P57 per month plus VAT.

The future minimum non-cancellable lease payables are as follows:

	<b>2012</b>
Less than one year	<b>P3,665</b>
One year to five years	<b>19,271</b>
More than five years	<b>295</b>
	<b>P23,231</b>

### **31. Retirement Plans**

The Parent Company and DBI have separate funded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2012. Valuations are obtained on a periodic basis.

The Retirement Plans are registered with the Bureau of Internal Revenue as tax-qualified plans under Republic Act No. 4917, as amended. The control and administration of the Group's retirement plans are vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company and DBI. Majority of the BOT of the Group's retirement plan, who exercises voting rights over the shares and approve material transactions, are also BOD and officers of the Parent Company and DBI. The Retirement Plans' accounting and administrative functions are undertaken by the Parent Company's Retirement Funds Office.

Retirement costs (benefits) recognized by the Parent Company in profit or loss amounted to P49,750, P62,099 and (P11,930) in 2012, 2011 and 2010, respectively, while those charged by DBI amounted to P2,456, P1,607 and P2,283 in 2012, 2011 and 2010, respectively. The Group's annual contribution to the retirement plans consists of payments covering the current service cost and amortization of past service costs.

The components of retirement costs recognized in the consolidated statements of income in 2012, 2011 and 2010 are as follows:

	<b>2012</b>	2011	2010
Current service cost	<b>P52,298</b>	P36,559	P31,751
Interest cost	<b>52,787</b>	47,878	44,066
Past service cost-non vested benefits	<b>-</b>	231	231
Expected return on plan assets	<b>(59,139)</b>	(20,962)	(53,218)
Amortization of actuarial losses (gains)	<b>6,260</b>	-	(32,477)
Net retirement costs (benefits)	<b>P52,206</b>	P63,706	(P9,647)
Actual return on (losses from) plan assets	<b>(P13,025)</b>	(P35,317)	P208,431

The non vested past service cost is amortized for two years.

The retirement costs (benefits) are recognized in the following line items in the consolidated statements of income:

	<i>Note</i>	<b>2012</b>	2011	2010
Cost of sales	22	<b>P10,594</b>	P9,109	P -
Selling and marketing expenses	23	<b>12,359</b>	11,460	-
General and administrative expenses	24	<b>29,253</b>	43,137	(9,647)
		<b>P52,206</b>	P63,706	(P9,647)

The reconciliation of the assets and liabilities recognized in the consolidated statements of financial position is as follows:

	<b>2012</b>			2011		
	<b>GSMI</b>	<b>DBI</b>	<b>Total</b>	<b>GSMI</b>	<b>DBI</b>	<b>Total</b>
Present value of defined benefit obligation	<b>P826,386</b>	<b>P49,914</b>	<b>P876,300</b>	P837,637	P51,322	P888,959
Fair value of plan assets	<b>583,335</b>	<b>42,370</b>	<b>625,705</b>	632,608	42,866	675,474
	<b>(243,051)</b>	<b>(7,544)</b>	<b>(250,595)</b>	(205,029)	(8,456)	(213,485)
Unrecognized actuarial losses	<b>249,073</b>	<b>8,010</b>	<b>257,083</b>	200,800	6,641	207,441
Retirement assets (liabilities)	<b>P6,022</b>	<b>P466</b>	<b>P6,488</b>	(P4,229)	(P1,815)	(P6,044)

Retirement assets (liabilities) recognized by the Parent Company amounted to P6,022 and (P4,229) as of December 31, 2012 and 2011, respectively, while those recognized by DBI amounted to P466 and (P1,815) as of December 31, 2012 and 2011, respectively.

The movements in the present value of defined benefit obligation are as follows:

	<b>2012</b>	2011
Balance at beginning of year	<b>P888,959</b>	P612,516
Interest cost	<b>52,787</b>	47,878
Current service cost	<b>52,298</b>	36,559
Actuarial losses (gains)	<b>(16,263)</b>	213,384
Transfer to other plan	<b>(16,394)</b>	-
Benefits paid	<b>(85,087)</b>	(21,378)
Balance at end of year	<b>P876,300</b>	P888,959

The movements in the fair value of plan assets are as follows:

	<b>2012</b>	2011
Balance at beginning of year	<b>P675,474</b>	P732,169
Contributions by employer	<b>64,737</b>	-
Expected return on plan assets	<b>59,139</b>	20,962
Transfer to other plan	<b>(16,394)</b>	-
Actuarial losses	<b>(72,164)</b>	(56,279)
Benefits paid	<b>(85,087)</b>	(21,378)
Balance at end of year	<b>P625,705</b>	P675,474



The Group's plan assets consist of the following:

	In Percentages	
	2012	2011
Marketable securities	36	28
Fixed income portfolio	37	47
Stock trading portfolio	27	25
	100	100

#### *Investments in Marketable Securities*

As of December 31, 2012 and 2011, the plan assets include 14,213,721 and 9,987,785 common shares, respectively, of the Parent Company with fair market value per share of P17.80 and P23.30, respectively.

The plan recognized an unrealized loss on revaluation of marketable securities amounting to P70,254 and P96,714 in 2012 and 2011, respectively.

There was no dividend income recognized in 2012. The plan recognized dividend income from the investment in shares of stock amounted to P331 in 2011.

#### *Interest in Pooled Funds*

Investments in pooled funds were established mainly to put together all the retirement funds of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

Investment income and expenses are allocated to the plans based on the pro-rata share in net assets of the pooled funds. The Plans' interests in the net assets of the pooled funds were 8.22% of fixed income portfolio and 10.38% of stock trading portfolio. As of December 31, 2012, approximately 4.57% and 1.48% of the Plans' investments in fixed income portfolio and stock trading portfolio, respectively, represent investment in shares of stock of SMC and its subsidiaries.

The BOT approved the percentage of asset to be allocated for fixed income instruments and equities. The Retirement Plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2012	2011
Discount rate	5	6
Expected rate of return on plan assets	9	9
Salary increase rate	7	7

The historical information for the current and previous four annual periods is as follows:

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	<b>P876,300</b>	P888,959	P612,516	P498,514	P350,424
Fair value of plan assets	<b>625,705</b>	675,474	732,169	540,610	296,299
Excess (deficit) in the plan	<b>(250,595)</b>	(213,485)	119,653	42,096	(54,125)
Experience adjustments on plan liabilities	<b>(16,263)</b>	213,384	69,609	40,770	(16,550)
Experience adjustments on plan assets	<b>(72,164)</b>	(56,279)	(155,213)	(129,776)	(106,841)

The Group does not expect to pay any contribution to the defined benefit plans in 2013.

As of December 31, 2012 and 2011, the outstanding balances of the Group's receivables from GSMIRP amounted to P77,025 and P137,025, respectively, are included as part of "Trade and other receivables" account in the consolidated statements of financial position (Notes 8 and 29).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2012 and 2011 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from the retirement plan for the years ended December 31, 2012, 2011 and 2010.

### 32. Cash Dividends

Cash dividends declared by the Parent Company's BOD to common and preferred shareholders amounted to P1.50 per share in 2011.

### 33. Basic and Diluted Earnings (Loss) Per Share

Basic and Diluted Earnings (Loss) Per Share is computed as follows:

	2012	2011	2010
Net income (loss)	<b>(P849,200)</b>	(P982,160)	P913,854
(a) Less dividends on preferred shares	<b>49,180</b>	49,180	49,180
(b) Net income (loss) available to common shares	<b>(P898,380)</b>	(P1,031,340)	P864,674
Common shares outstanding at beginning of year (in thousands)	<b>290,076</b>	287,437	281,401
Weighted average number of shares issued during the year (in thousands)	-	2,419	3,687
(c) Weighted average number of common shares outstanding (in thousands) - basic and diluted	<b>290,076</b>	289,856	285,088
Basic and Diluted Earnings (Loss) Per Share (b/c)	<b>(P3.10)</b>	(P3.56)	P3.03

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### **34. Share-based Payment Transactions**

#### ESPP

Under the ESPP implemented in January 2008, 3,000,000 common shares (inclusive of stock dividends declared or stock splits) of the Parent Company's unissued common shares have been reserved for the employees of the Group until 2013. A participating employee may acquire at least 500 shares of stock through payroll deductions. On August 7, 2009, the BOD approved the increase in the maximum number of shares that may be subscribed per employee from 5,000 to 15,000 shares.

All full-time and permanent employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the weighted average market closing prices of the last quarter immediately preceding the subscription period.

The ESPP requires the shares subscribed and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date. Subscriptions receivable as of December 31, 2012 and 2011 amounted to P138,280 and P158,049, respectively, presented as part of "Non-trade" under the "Trade and other receivables" account in the consolidated statements of financial position (Note 8).

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and revert to the pool of shares available under the ESPP.

The number of subscribed shares and weighted average exercise price under the ESPP as of December 31, 2011 is 2,639,400 at P26.01.

The average market price of the shares granted was P30.60 and P26.49 per share in 2011 and 2010, respectively.

The average remaining contractual life of the ESPP was two years as of December 31, 2012.

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### **35. 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, trade and other payables, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The Group's commodity forwards are intended mainly for risk management purposes.

The Group uses derivatives to manage its 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 control 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 3 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 charges 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 P8,729 and P3,538 in 2012 and 2011, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

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

<b>December 31, 2012</b>	<b>&lt;1 Year</b>	<b>1 - 2 Years</b>	<b>2 - 3 Years</b>	<b>3 - 4 Years</b>	<b>4 - 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>Fixed Rate</b>							
Philippine peso - denominated	<b>P428,571</b>	<b>P428,571</b>	<b>P385,715</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P1,242,857</b>
Interest rate	<b>7.25% - 7.89%</b>	<b>7.25% - 7.89%</b>	<b>7.25% - 7.89%</b>				
<b>Floating Rate</b>							
Philippine peso - denominated	<b>114,286</b>	<b>114,286</b>	<b>114,286</b>	<b>114,286</b>	<b>114,286</b>	<b>114,285</b>	<b>685,715</b>
Interest rate	<b>PDST - F +1.00%</b>	<b>PDST - F +1.00%</b>	<b>PDST-F +1.00%</b>	<b>PDST - F +1.00%</b>	<b>PDST-F +1.00%</b>	<b>PDST-F +1.00%</b>	
Foreign currency- denominated (expressed in Philippine peso)	<b>114,554</b>	<b>57,277</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>171,831</b>
Interest rate	<b>THBFIX +1.75%</b>	<b>THBFIX +1.75%</b>					
	<b>P657,411</b>	<b>P600,134</b>	<b>P500,001</b>	<b>P114,286</b>	<b>P114,286</b>	<b>P114,285</b>	<b>P2,100,403</b>
<b>December 31, 2011</b>	<b>&lt;1 Year</b>	<b>1 - 2 Years</b>	<b>2 - 3 Years</b>	<b>3 - 4 Years</b>	<b>4 - 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>Fixed Rate</b>							
Philippine peso - denominated	<b>P257,143</b>	<b>P428,571</b>	<b>P428,571</b>	<b>P385,715</b>	<b>P -</b>	<b>P -</b>	<b>P1,500,000</b>
Interest rate	<b>7.25% - 7.89%</b>	<b>7.25% - 7.89%</b>	<b>7.25% - 7.89%</b>	<b>7.25% - 7.89%</b>			
<b>Floating Rate</b>							
Foreign currency- denominated (expressed in Philippine peso)	<b>118,828</b>	<b>118,828</b>	<b>59,414</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>297,070</b>
Interest rate	<b>THBFIX +1.75%</b>	<b>THBFIX +1.75%</b>	<b>THBFIX +1.75%</b>				
	<b>P375,971</b>	<b>P547,399</b>	<b>P487,985</b>	<b>P385,715</b>	<b>P -</b>	<b>P -</b>	<b>P1,797,070</b>

### Foreign Currency Risk

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

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

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

	2012		2011	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	US\$4,657	P191,154	US\$3,802	P166,658
Trade and other receivables	1,370	56,233	4,150	181,943
	6,027	247,387	7,952	348,601
<b>Liabilities</b>				
Trade and other payables	1,032	42,348	785	34,421
Notes payable	4,318	177,252	5,621	246,406
Long-term debt (including current maturities)	4,186	171,831	6,776	297,071
Finance lease liabilities (including current portion)	23	963	9	391
Other noncurrent liabilities	2,058	84,483	2,080	91,203
	11,617	476,877	15,271	669,492
Net foreign currency-denominated monetary liabilities	(US\$5,590)	(P229,490)	(US\$7,319)	(P320,891)

The Group reported net foreign exchange gains amounting to P3,709, P2,399 and P44,483 in 2012, 2011 and 2010, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
December 31, 2010	43.84
December 31, 2011	43.84
December 31, 2012	41.05



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 December 31, 2012 and 2011:

2012	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P4,657)	(P3,260)	P4,657	P3,260
Trade and other receivables	(1,370)	(959)	1,370	959
	(6,027)	(4,219)	6,027	4,219
Trade and other payables	1,032	722	(1,032)	(722)
Notes payable	4,318	3,023	(4,318)	(3,023)
Long-term debt (including current maturities)	4,186	2,930	(4,186)	(2,930)
Finance lease liabilities (including current portion)	23	16	(23)	(16)
Other noncurrent liabilities	2,058	1,441	(2,058)	(1,441)
	11,617	8,132	(11,617)	(8,132)
	P5,590	P3,913	(P5,590)	(P3,913)
2011	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P3,802)	(P2,661)	P3,802	P2,661
Trade and other receivables	(4,150)	(2,905)	4,150	2,905
	(7,952)	(5,566)	7,952	5,566
Trade and other payables	785	550	(785)	(550)
Notes payable	5,621	3,935	(5,621)	(3,935)
Long-term debt (including current maturities)	6,776	4,743	(6,776)	(4,743)
Finance lease liabilities (including current portion)	9	6	(9)	(6)
Other noncurrent liabilities	2,080	1,456	(2,080)	(1,456)
	15,271	10,690	(15,271)	(10,690)
	P7,319	P5,124	(P7,319)	(P5,124)

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

### Commodity Price Risk

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

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

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

### Liquidity Risk

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

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

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards 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 December 31, 2012 and 2011.

## 2012

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P621,530	P621,530	P621,530	P -	P -	P -
Trade and other receivables - net	3,878,832	3,878,832	3,878,832	-	-	-
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)	309,980	309,980	-	191,587	118,393	-
<b>Financial Liabilities</b>						
Notes payable	9,609,452	9,665,096	9,665,096	-	-	-
Trade and other payables (excluding dividends payable)	3,447,051	3,447,051	3,447,051	-	-	-
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)	2,096,169	2,334,231	769,360	671,770	776,910	116,191
Finance lease liabilities (including current portion recognized under "Trade and other payables" account in the consolidated statements of financial position)	963	1,102	239	239	624	-
Other noncurrent liabilities	84,483	91,893	2,432	89,461	-	-



2011

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P366,116	P366,116	P366,116	P -	P -	P -
Trade and other receivables - net	3,156,620	3,156,620	3,156,620	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	315	315	315	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	432,670	432,670	-	314,277	118,393	-
Financial Liabilities						
Notes payable	7,931,093	7,985,546	7,985,546	-	-	-
Trade and other payables (excluding dividends payable)	2,147,431	2,147,431	2,147,431	-	-	-
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	3,619	3,619	3,619	-	-	-
Long-term debt (including current maturities)	1,790,821	2,077,565	495,361	637,251	944,953	-
Finance lease liabilities (including current portion recognized under "Trade and other payables" account in the consolidated statements of financial position)	391	400	400	-	-	-
Other noncurrent liabilities	91,203	98,108	2,543	2,791	92,774	-

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade 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 are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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

	<i>Note</i>	<b>2012</b>	2011
Cash and cash equivalents	7	<b>P621,530</b>	P366,116
Trade and other receivables - net	8	<b>3,878,832</b>	3,156,620
Derivative assets	10	<b>1,288</b>	315
Noncurrent receivables and deposits	15	<b>309,980</b>	432,670
		<b>P4,811,630</b>	P3,955,721

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

#### Capital Management

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

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

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

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

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

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

The Group is not subject to externally imposed capital requirements.

### 36. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31, 2012 and 2011:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	<b>P621,530</b>	<b>P621,530</b>	P366,116	P366,116
Trade and other receivables - net	<b>3,878,832</b>	<b>3,878,832</b>	3,156,620	3,156,620
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	<b>1,288</b>	<b>1,288</b>	315	315
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	<b>309,980</b>	<b>309,980</b>	432,670	432,670
<b>Financial Liabilities</b>				
Notes payable	<b>9,609,452</b>	<b>9,609,452</b>	7,931,093	7,931,093
Trade and other payables (excluding dividends payable)	<b>3,447,051</b>	<b>3,447,051</b>	2,147,431	2,147,431
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	<b>413</b>	<b>413</b>	3,619	3,619
Long-term debt (including current maturities)	<b>2,096,169</b>	<b>2,180,226</b>	1,790,821	1,956,436
Finance lease liabilities (including current portion recognized under "Trade and other payables" account in the consolidated statements of financial position)	<b>963</b>	<b>963</b>	391	391
Other noncurrent liabilities	<b>84,483</b>	<b>84,483</b>	91,203	91,203



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

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

*Derivatives.* The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. 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 payables approximates fair value due to the relatively short-term maturities of these financial instruments.

*Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities.* The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of December 31, 2012 and 2011, discount rates used range from 0.68% to 3.40% and 1.72% to 4.06%, 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 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 or oil.

#### Derivative Instruments not Designated as Hedges

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

##### Freestanding Derivatives

Freestanding derivatives consist of commodity derivatives entered into by SMC on behalf of the Group.

##### Embedded Derivatives

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

#### *Embedded Currency Forwards*

As of December 31, 2012 and 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$1,830 and US\$7,502, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2012 and 2011, the net positive (negative) fair value of these embedded currency forwards amounted to P875 and (P3,304), respectively.

For the years ended December 31, 2012, 2011 and 2010, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P11,283, (P18,253) and P70,984, respectively.

#### Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Balance at beginning of year	(P3,304)	P16,986
Net changes in fair value of non-accounting hedges	11,283	(18,253)
	7,979	(1,267)
Less fair value of settled instruments	7,104	2,037
Balance at end of year	P875	(P3,304)

#### Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2012 and 2011. The different levels have been defined as follows:

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

#### **2012**

	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Derivative assets	P -	P1,288	P -	P1,288
<b>Financial Liabilities</b>				
Derivative liabilities	-	413	-	413

2011

	Level 1	Level 2	Level 3	Total
Financial Assets				
Derivative assets	P -	P315	P -	P315
Financial Liabilities				
Derivative liabilities	-	3,619	-	3,619

As of December 31, 2012 and 2011, the Group has no financial instruments valued based on Level 1 and Level 3. During the year, 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.

### 37. Other Matters

#### a. *Commitments*

- The Company has a Toll Manufacturing Agreement with third parties for the production of its liquor and non liquor products. Toll manufacturing expense amounting to P239,492, P463,498 and P721,213, in 2012, 2011 and 2010, respectively, were included as part of outside services under the “Cost of sales” account (Note 22).
- The outstanding purchase commitments of the Parent Company as of December 31, 2012 and 2011 amounted to US\$84,706 (P3,477,195) and US\$79,188 (P3,471,582), respectively.

#### b. *Contingencies*

The Group is contingently accountable for liabilities arising from lawsuits or claims (mostly labor related cases) filed by third parties, which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these lawsuits cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability arising from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements. No provision was recognized in 2012, 2011 and 2010.





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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Stockholders and the Board of Directors  
Ginebra San Miguel Inc. and Subsidiaries  
6th Floor, San Miguel Properties Centre,  
St. Francis Street, Ortigas Center  
Mandaluyong City

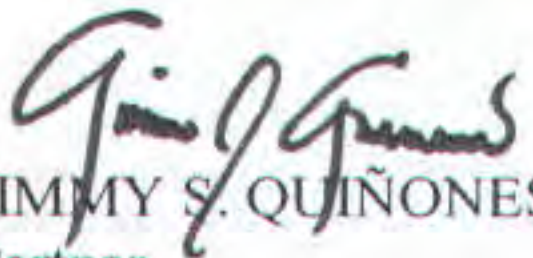
We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ginebra San Miguel Inc. and Subsidiaries (the "Group") as at and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated March 19, 2013.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

### MANABAT SANAGUSTIN & CO., CPAs

  
JIMMY S. QUINONES  
Partner

CPA License No. 0085650

SEC Accreditation No. 0679-AR-1, Group A, valid until March 30, 2014

Tax Identification No. 112-072-024

BIR Accreditation No. 08-001987-17-2011

Issued February 4, 2011; valid until February 3, 2014

PTR No. 3669527MC

Issued January 2, 2013 at Makati City

March 19, 2013  
Makati City, Metro Manila



GINEBRA SAN MIGUEL INC.  
6<sup>th</sup> Floor, San Miguel Properties Centre  
St. Francis Street, Ortigas Center, Mandaluyong City  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION**  
(in Thousands)

<b>Unappropriated Retained Earnings, January 1, 2012</b>		<b>P4,456,401</b>
<b>Adjustments:</b>		
Unrealized foreign exchange gain - net	(2,125)	
Treasury stocks	(2,579,409)	2,581,534
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>		<b>1,874,867</b>
<b>Net loss for the current year based on the face of AFS</b>	<b>(792,734)</b>	
<b>Less: Non-actual/unrealized income net of tax</b>		
Equity in net income of associate/joint venture	-	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	5,287	
Unrealized actuarial gain	-	
Fair value adjustments (M2M gains)	-	
Fair value adjustment of Investment Property resulting to gain	-	
Adjustment due to deviation from PFRS/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-	
Deferred income tax benefit for the year	340,137	
<b>Sub-total</b>	<b>(1,138,158)</b>	
<b>Add: Non-actual losses</b>		
Depreciation on revaluation increment (after tax)	-	
Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents)	-	
Adjustment due to deviation from PFRS/GAAP - loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Deferred income tax expense for the year	-	
<b>Net loss actually earned during the period</b>		<b>(1,138,158)</b>
<b>Add (less):</b>		
Dividend declarations during the period	-	
Appropriations of Retained Earnings during the period	-	
Reversals of appropriations	-	
Effects of prior period adjustments	-	
Treasury shares	-	
<b>Unappropriated Retained Earnings, as adjusted, December 31, 2012</b>		<b>P736,709</b>



**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**6<sup>TH</sup> Floor, San Miguel Properties Centre,**  
**St. Francis Street, Ortigas Center, Mandaluyong City**  
**SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND**  
**INTERPRETATIONS**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2012		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>			✓	
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2012		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities		✓	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
<b>PFRS 10</b>	Consolidated Financial Statements		✓	
<b>PFRS 11</b>	Joint Arrangements		✓	
<b>PFRS 12</b>	Disclosure of Interests in Other Entities		✓	
<b>PFRS 13</b>	Fair Value Measurement		✓	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income		✓	
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Balance Sheet Date	✓		
<b>PAS 11</b>	Construction Contracts			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements		✓	
PAS 28 (Amended)	Investments in Associates and Joint Ventures		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓	
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		



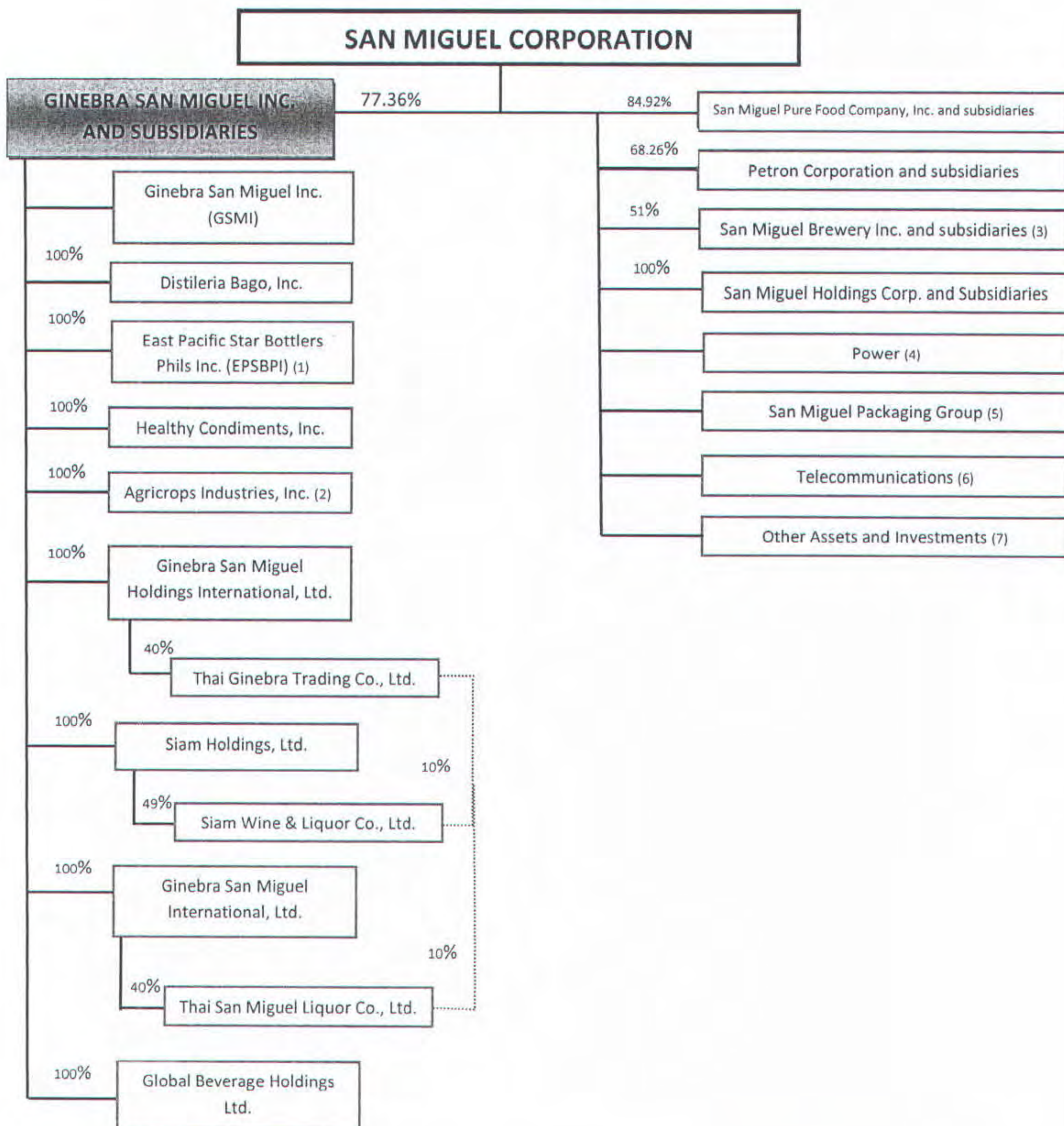
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	✓		
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓



# GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES GROUP STRUCTURE





- (1) On January 27, 2012, GSMI acquired 100% of the outstanding capital stock of EPSBPI
- (2) Incorporated in September 2000 and has not yet started commercial operations
- (3) San Miguel Brewery Inc. and subsidiaries include Iconic Beverages, Inc., Brewery Properties Inc. and subsidiary and San Miguel Brewing International Ltd. and subsidiaries
- (4) Power business includes of SMC Global Power Holdings Corp. and subsidiaries (100%) and Manila Electric Company (32.04%)
- (5) San Miguel Packaging includes San Miguel Yamamura Packaging Corporation and subsidiaries, SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (65%), San Miguel Yamamura Packaging International Limited (65%), San Miguel Yamamura Asia Corporation (60%) and Mindanao Corrugated Fibreboard, Inc. (100%)
- (6) Telecommunications business includes Vega Telecom, Inc. and subsidiaries (100%) and San Miguel Equity Securities Inc. (100%)
- (7) Other Assets and Investments include San Miguel Properties, Inc. and subsidiaries (99.68%) and San Miguel Equity Investments Inc. (100%)





## **GINEBRA SAN MIGUEL, INC.**

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

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of Ginebra San Miguel, Inc. (the Parent Company) and its subsidiaries collectively referred to as the Group for the three-year period ended December 31, 2012. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2012. All necessary adjustments to present fairly the Group's consolidated financial position as of December 31, 2012 and the financial performance and cash flows for the year ended December 31, 2012 and for all the other periods presented, have been made.

#### **I. BASIS OF PREPARATION**

##### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

##### Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the following:

- derivative financial instruments are measured at fair value; and
- defined benefit asset (liability) is measured as the net total of the fair value of the plan assets, less unrecognized actuarial gains (losses) and the present value of the defined benefit obligation.

##### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information are rounded off to the nearest thousand (P000), except when otherwise indicated.

##### Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

##### Adoption of Amendments to Standards

The FRSC approved the adoption of a number of amendments to standards as part of PFRS.

Effective 2012, the Group has adopted the amendments to PFRS 7, *Disclosures - Transfers of Financial Assets*, which require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011. The



adoption of these amendments did not have an effect on the consolidated financial statements.

Additional disclosures were included in the consolidated financial statements, where applicable.

## II. KEY TRANSACTION

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

## III. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following table.

	December 31		
	2012	2011	2010
	<i>(In Millions)</i>		
Sales	<b>P14,559</b>	P15,113	P22,688
Gross Profit	<b>3,461</b>	3,137	5,109
Selling and Administrative Expenses	<b>(4,123)</b>	(4,080)	(3,665)
Financing Charges - Net	<b>(608)</b>	(443)	(298)
Other Income - Net	<b>111</b>	36	190
Net Income (Loss)	<b>(849)</b>	(982)	914

### 2012 vs. 2011

Flagship Ginebra San Miguel brand strengthened with volumes growing 19% from 2011 despite the sustained aggression from competition. This resulted in just a 5% slide in domestic liquor volumes versus year-ago. In turn, revenues were just 4% short of 2011.

Cost of sales decreased by 7% due to lower business volumes, as well as lower distillery feedstock costs and improved distillery efficiency.

These operational and cost improvements reaped for the Group a 10% increase in gross profit in spite of decline in revenues.

Interest expense, net of interest income increased by 37% on account of higher debt level in 2012, arising from the Group's acquisition of EPSBPI and increased working capital requirement.

Other income, net of other charges, increased by 208% chiefly on account of income from sale of scrap materials and recognition of gain in embedded derivatives.

Improvement in gross profit and higher other income compensated for the increase in financing charges and slightly higher selling and administrative expenses, resulting to a net loss 14% lower than year-ago.

The Group launched sales and marketing initiatives to address the decline in business volume and profitability. New liquor products were introduced to revitalize the white spirits category. These are 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. Further gains are expected due to improvements in distillery operations and second-hand bottle retrieval. With these improvements, together with a more focused sales force, the Group is poised in its recovery momentum to deliver better bottom-line results.



### **2011 vs. 2010**

The Company faced a challenging year in 2011, owing to a highly competitive market and weak demand for liquor products.

Domestic liquor sales volumes were affected by intense competition and the change in consumer preference for lighter alcoholic beverages. Thus, revenues dropped by 33% from 2010. Sales and marketing programs have been implemented in the fourth quarter to regain sales momentum.

Decrease in consumer demand despite the increase in costs of raw material containers and excise taxes resulted in a 32% decrease in cost of sales. With the said movements in revenues and cost of sales, gross profit decreased by 39%.

Selling and marketing expenses rose by 9%, as the Group intensified its advertising and promotional initiatives to address competition and impede further volume decline. General and administrative expenses posted a 15% increase on account of higher personnel-related costs, depreciation and taxes.

Interest expense, net of interest income, increased by 49% attributable to the Group's long-term loan and unsecured short-term peso-denominated borrowings from local banks to support the increase in working capital and other requirements.

Other income, net of other charges, declined by 81% on account of losses in embedded derivatives.

The Group sustained a net loss of P982 million resulting from sales decline and increase in costs.

## **IV. FINANCIAL POSITION**

### **2012 vs. 2011**

Cash and cash equivalents increased by 70% from December 2011 to P622 million on account of improved cash flow from operations as well as improvement in credit terms extended by suppliers.

Trade and other receivables - net increased by 23% on account of extension of longer credit terms to dealers to support volume generation.

Inventories decreased by 10% on account of decline in purchase of molasses, as well as the Group's program to deplete finished goods inventories to free up funds invested in working capital.

Prepaid taxes and other current assets increased by 46% chiefly on account of prepayment of specific tax for the alcohol importations delivered during the last quarter.

Property, plant and equipment – net increased by 11% mainly on account of consolidation of EPSBPI's property, plant and equipment balance.

Investment properties – net decreased by 6% on account of normal depreciation charges.

Goodwill of P227 million was recognized as a result of the acquisition of the 100% outstanding shares of EPSBPI in January 2012.

Retirement assets of P6 million represent the excess of the fair value of the Parent Company's and Distileria Bago, Inc.'s (DBI) plan assets to their defined benefit obligation to their employees.

Deferred tax assets – net grew by 74% on account of the increase in recognized Net Operating Loss Carryover (NOLCO) and Minimum Corporate Income Tax (MCIT) in 2012.



Other noncurrent assets - net increased by 25% on account of purchases of returnable bottles and crates made in 2012.

Notes payable increased by 21% to fund the Group's working capital requirements.

Trade and other payables increased by 52% on account of longer average credit terms extended by suppliers to the Group.

Income and other taxes payable decreased by 32% on account of lower value-added tax (VAT) payable balance.

Current maturities of long-term debt – net of debt issue costs increased by 75% on account of consolidation of EPSBPI's long-term debt balance.

Retirement liabilities of P6 million in 2011 represent the excess the fair value of the Parent Company's and DBI's defined benefit obligation to their employees to their plan assets.

Finance lease liabilities – net of current portion of P779 thousand represents the Group's proportionate share on the lease obligation for transportation equipment used by Thai San Miguel Liquor, Co. Ltd. (TSML).

Other noncurrent liabilities of P84 million relate chiefly to the Group's proportionate share on the loan of TSML from its shareholder, which is denominated in Thai Baht (THB). The 7% decline from 2011 was due to the translation adjustment of the said liability.

The debit balance of cumulative translation adjustment increased by P19 million due to translation of foreign subsidiaries' net assets. The exchange rates used are P1.3428 to THB1 in December 31, 2012 (P1.3929 in December 2011) for net assets and P1.3597 to THB1 as of December 31, 2012 (P1.4220 as of December 2011) for income and expense items.

#### **2011 vs. 2010**

Cash and cash equivalents decreased by 13% from December 2010 to P366 million, as the Group used cash to reduce trade payables, pay interests on long-term and short-term debts and capital expenditures.

Trade and other receivables – net increased by 10% on account of extending credit terms to support dealers in response to the aggressive competition in the market.

Inventories dropped by 5% on account of the Group's decrease in requirement due to decreased volume of operation and strategic management of inventories.

Prepaid taxes and other current assets declined by 16% due to lower specific taxes as the Group reduced its alcohol production in 2011.

Property, plant and equipment – net increased by 12% on account of increased capital expenditures related to the Group's distillery and bottling equipment.

Deferred tax assets – net increased by 397% mainly due to the significant increase in recognized NOLCO for the year.

Notes payable increased by 57% to fund additional working capital requirements.

Trade and other payables were reduced by 21% during the period as part of the settlement of payables to suppliers.

Income and other taxes payable rose by 14% on account of lower input taxes resulting from low raw material purchases and low importation during the year.



Current maturities amounting to P374 million of the Company's P1,500 million represents the portion that will be due in 2012.

Long-term debt, net of current maturities, amounting to P1,417 million represents the Parent Company's loan from a local bank used to fund its working capital requirements and the Group's proportionate share in the long-term debt of TSML from the Thai local bank and foreign banks to finance TSML's plant construction and start-up operations.

Finance lease liabilities significantly decreased by 100% due to pre-termination of lease contract of TSML and TGT.

Other noncurrent liabilities of P91 million represent the Group's proportionate share on the loan of TSML from its shareholders.

Cumulative translation adjustment increased by P26 million due to translation of foreign subsidiaries' net assets. The exchange rates used are P1.3929 to THB1 in December 31, 2011 (P1.4536 in December 2010) for net assets and P1.4220 to THB1 as of December 31, 2011 (P1.4233 as of December 2010) for income and expense items.

### **Equity**

The increases (decreases) in equity for the years 2012 and 2011 are due to:

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In Millions)</i>	
Net loss for the period	<b>(P849)</b>	(P982)
Effect of translation adjustments	<b>(19)</b>	(27)
Issuance of capital stock	<b>13</b>	94
Cash dividends	<b>-</b>	(482)
	<b>(P855)</b>	(P1,397)

### **Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

	<b>December 31</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>(In Millions)</i>		
Net cash flows provided by (used in) operating activities	<b>P347</b>	(P861)	(P657)
Net cash flows used in investing activities	<b>(575)</b>	(1,252)	(1,220)
Net cash flows provided by financing activities	<b>493</b>	2,062	(1,828)

Net cash flows provided by (used in) operating activities consist of income (loss) for the period less changes in non-cash current assets, certain current liabilities and others, which include decreases in inventory level.



Net cash flows used in investing activities include the following:

	December 31		
	2012	2011	2010
	<i>(In Millions)</i>		
Additions to property, plant and equipment	(311)	(1,183)	(1,190)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	(143)	-	-
Increase in other noncurrent assets	(121)	(69)	(30)

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

	December 31		
	2012	2011	2010
	<i>(In Millions)</i>		
Proceeds from:			
Short-term borrowings	P129,445	P88,406	P58,450
Issuance of capital stock	29	39	18
Finance lease liabilities	1	-	-
Noncurrent liabilities	-	95	-
Long-term borrowings	-	-	1,492
Payments of:			
Short-term borrowings	(127,759)	(85,518)	(57,256)
Interest	(617)	(474)	(265)
Long-term borrowings	(488)	(121)	(121)
Cash dividends	(118)	(353)	(475)
Finance lease liabilities	-	(12)	(15)

The effect of exchange rate changes on cash and cash equivalents amounted to (P10) million, (P5) million and (P31) million for the years ended December 31, 2012, 2011 and 2010, respectively.

## V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The following items are not available for declaration as dividends:

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Accumulated equity in net earnings of subsidiaries and joint ventures (included in the unappropriated retained earnings balance)	(P172)	P 200
Treasury stock	2,579	2,579



## VI. 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 III, "Financial Performance" of the Management Discussion and Analysis (MD&A) for the discussion of the computed certain Key Performance Indicators.

KPI	As of December 31	
	2012	2011
Liquidity: <b>Current Ratio</b>	<b>0.87</b>	<b>1.05</b>
Solvency: <b>Debt to Equity Ratio</b>	<b>2.36</b>	<b>1.66</b>
Profitability: <b>Return on Average Stockholders' Equity</b>	<b>(12%)</b>	<b>(12%)</b>

KPI	For the Year Ended December 31	
	2012	2011
Operating Efficiency: <b>Volume Growth</b>	<b>(5%)</b>	<b>(37%)</b>
<b>Revenue Growth</b>	<b>(4%)</b>	<b>(33%)</b>
<b>Operating Margin</b>	<b>(4%)</b>	<b>(6%)</b>

<b>Interest Rate Coverage Ratio</b>	<b>0.25</b>	<b>(0.85)</b>
<b>Asset to Equity Ratio</b>	<b>3.36</b>	<b>2.66</b>

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

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



## VII. OTHER MATTERS

### a) Commitments

- The Parent Company has Toll Manufacturing Agreements with third parties for the production of its liquor and non-liquor products. Toll manufacturing expense amounting to P239,492, P463,498 and P721,213, in 2012, 2011 and 2010, respectively, were included as part of outside services under the "Cost of Sales" account.
- The outstanding purchase commitments of the Company as of December 31, 2012 and 2011 amounted to US\$84,706 (P3,477,195) and US\$79,188 (P3,471,582), respectively.

### b) Contingencies

The Group is contingently accountable for liabilities arising from lawsuits or claims (mostly labor related cases) filed by third parties, which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these lawsuits cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability arising from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements. No provision was recognized in 2012, 2011 and 2010.

- c) There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Performance.
- d) There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- e) There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- f) 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.
- g) 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 balance sheet date.
- h) There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationship of the Group with unconsolidated entities or other persons created during the reporting period.
- i) The effects of seasonality or cyclicity on the operations of the Group's businesses are not material.