

## COVER SHEET

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S. E. C. Registration Number

G	I	N	E	B	R	A													
S	A	N		M	I	G	U	E	L										
I	N	C	.																

(Company's Full Name)

3 <sup>rd</sup>	&	6 <sup>th</sup>		F	I	O	O	R		S	A	N		M	I	G	U	E	L
P	r	o	p	e	r	t	i	e	s		C	e	n	t	r	e			
S	t	.		F	r	a	n	c	i	s		S	t	r	e	e	t		
M	a	n	d	a	l	u	y	o	n	g		C	i	t	y				

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

Atty. Maila N. Pagsanhan

Contact Person

(632) 689-9100

Company Telephone Number

1	2
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Month  
Day

3	1
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Day

SEC FORM  
17-Q (2<sup>nd</sup> Qtr 2013)

FORM TYPE

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Month

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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

1. For the quarterly period ended **June 30, 2013**
2. Commission identification number **142312** 3. BIR Tax Identification No. **000-083-856**
3. Exact name of issuer as specified in its charter: **GINEBRA SAN MIGUEL, INC.**
- PHILIPPINES**
5. Province, country or other jurisdiction of incorporation or organization:
6. Industry Classification Code:  (SEC use only)
- 3<sup>RD</sup> & 6<sup>TH</sup> FLOORS, SAN MIGUEL PROPERTIES CENTER,  
ST. FRANCIS STREET, MANDALUYONG CITY**
7. Address of issuer's principal office **1550**  
Postal Code
- (632) 689-9100**
8. Issuer's telephone number, including area code
- N.A.**
9. Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

**COMMON SHARES**  
**PREFERRED SHARES**

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

**290,075,941**  
**32,786,885**  
**322,862,829**

**TOTAL LIABILITIES**

**Php 15,283,821,311**

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

Yes [ / ] No [ ]

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

**PHILIPPINE STOCK EXCHANGE - Common**

12. Indicate by check mark whether the registrant:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]



## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements.

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

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

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

## PART II – OTHER INFORMATION

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

NONE

## SIGNATURES

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

Issuer **GINEBRA SAN MIGUEL, INC.**

Signature and Title

  
**Cynthia M. Baroy**  
Chief Finance Officer

Date

**AUGUST 14, 2013**



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

			<u>2013</u>	<u>2012</u>
	<i>Note</i>		<u>Unaudited</u>	<u>As Restated</u>
				(Note 2)
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	8, 9	P	295,763	P 497,503
Trade and other receivables - net	6, 8, 9		3,742,659	3,823,891
Inventories			5,261,717	5,962,766
Prepaid taxes and other current assets	8, 9		1,567,912	1,323,141
<b>Total Current Assets</b>			<u>10,868,051</u>	<u>11,607,301</u>
<b>Noncurrent Assets</b>				
Investment in joint venture			815,203	854,555
Property, plant and equipment - net	4		6,659,296	6,886,217
Investment properties - net	5		144,443	148,926
Goodwill			226,863	226,863
Deferred tax assets - net			1,378,142	1,015,735
Other noncurrent assets - net	8		1,005,331	1,016,570
<b>Total Noncurrent Assets</b>			<u>10,229,278</u>	<u>10,148,866</u>
		P	<u>21,097,329</u>	P <u>21,756,167</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Notes payable	8			
Trade and other payables	6, 8, 9	P	10,467,120	P 9,432,200
Income and other taxes payable			2,753,170	3,409,911
Current maturities of long-term debt - net of debt issue costs	8, 9		126,286	78,877
<b>Total Current Liabilities</b>			<u>541,286</u>	<u>541,286</u>
			<u>13,887,862</u>	<u>13,462,274</u>
<b>Noncurrent Liabilities</b>				
Retirement liabilities				
Long-term debt - net of current maturities and debt issue costs	8, 9		282,635	250,595
Deferred tax liabilities			1,112,905	1,383,548
<b>Total Noncurrent Liabilities</b>			<u>419</u>	<u>419</u>
<b>Total Liabilities</b>			<u>1,395,959</u>	<u>1,634,562</u>
			<u>15,283,821</u>	<u>15,096,836</u>
<b>Equity</b>				
Capital stock				
Additional paid-in capital			399,063	399,063
Reserve for retirement plan			2,539,454	2,539,447
Retained earnings			(130,530)	(130,530)
Appropriated				
Unappropriated			2,500,000	2,500,000
Treasury stock			3,084,930	3,930,760
<b>Total Equity</b>			<u>(2,579,409)</u>	<u>(2,579,409)</u>
			<u>5,813,508</u>	<u>6,659,331</u>
		P	<u>21,097,329</u>	P <u>21,756,167</u>

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

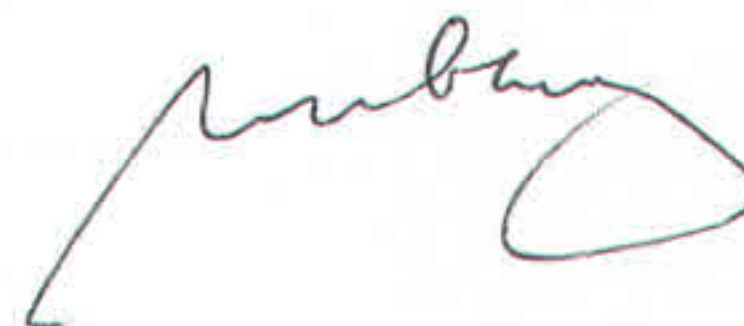




**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIOD ENDED JUNE 30, 2013 AND 2012**  
(Amounts in Thousands, Except Per Share Data)

		<u>2013</u>		<u>2012</u>		<u>For the Quarter Ended</u>		<u>2013</u>		<u>2012</u>
	<i>Note</i>	<u>Unaudited</u>		<u>As Restated</u>		<u>Unaudited</u>		<u>Unaudited</u>		<u>(Note 2)</u>
				<u>(Note 2)</u>						
SALES	3	P 6,051,031	P	6,882,414	P	3,075,259	P	3,376,783		
COST OF SALES		<u>4,963,109</u>		<u>5,177,153</u>		<u>2,467,706</u>		<u>2,493,677</u>		
GROSS PROFIT		1,087,922		1,705,261		607,553		883,106		
SELLING AND MARKETING EXPENSES		(1,151,544)		(1,154,171)		(618,266)		(616,624)		
GENERAL AND ADMINISTRATIVE EXPENSES		(759,499)		(754,045)		(410,919)		(329,741)		
SHARE IN THE LOSSES OF A JOINT VENTURE		(39,352)		(17,325)		(19,529)		(918)		
INTEREST EXPENSE		(331,510)		(278,219)		(169,557)		(146,409)		
INTEREST INCOME		1,428		1,186		544		638		
OTHER INCOME - NET		<u>12,837</u>		<u>61,065</u>		<u>2,678</u>		<u>19,983</u>		
LOSS BEFORE INCOME TAX		(1,179,718)		(436,248)		(607,496)		(189,965)		
INCOME TAX BENEFIT		<u>(333,888)</u>		<u>(115,114)</u>		<u>(173,286)</u>		<u>(51,351)</u>		
NET LOSS		P <u>(845,830)</u>	P	(321,134)	P	(434,210)	P	(138,614)		
Basic and diluted loss per share		P <u>(3.00)</u>	P	(1.19)	P	(1.54)	P	(0.52)		

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





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

	<u>2013</u>	<u>2012</u>	<u>For the Quarter Ended</u>	<u>2013</u>	<u>2012</u>
	<u>Unaudited</u>	<u>As Restated</u> <u>(Note 2)</u>	<u>Unaudited</u>	<u>As Restated</u> <u>(Note 2)</u>	
NET LOSS	P <u>(845,830)</u>	P <u>(321,134)</u>	P <u>(434,210)</u>	P <u>(138,614)</u>	
EQUITY RESERVE FOR RETIREMENT PLAN (Note 2)	-	(17,886)	-	(8,943)	
INCOME TAX BENEFIT	-	5,366	-	2,683	
OTHER COMPREHENSIVE LOSS - NET OF TAX	-	(12,520)	-	(6,260)	
TOTAL COMPREHENSIVE LOSS - NET OF TAX	P <u><u>(845,830)</u></u>	P <u><u>(333,654)</u></u>	P <u><u>(434,210)</u></u>	P <u><u>(144,874)</u></u>	

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





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

	Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Cumulative Translation Adjustments	Retained Earnings		Treasury Stock	Total
	Common	Preferred				Appropriated	Unappropriated		
At December 31, 2012 (Audited)									
Adjustment due to PAS 19 and PFRS 11 (Note 2)	P 345,625	P 53,438	P 2,539,447	P -	P (54,721)	P 2,500,000	P 3,678,540	P (2,579,409)	P 6,482,920
At December 31, 2012 (As Restated)	-	-	-	(130,530)	54,721	-	252,220	-	176,411
Net loss for the period	345,625	53,438	2,539,447	(130,530)	-	2,500,000	3,930,760	(2,579,409)	6,659,331
Total comprehensive loss for the period	-	-	-	-	-	-	(845,830)	-	(845,830)
Stock options	-	-	-	-	-	-	(845,830)	-	(845,830)
As of June 30, 2013 (Unaudited)	P 345,625	P 53,438	P 2,539,454	P (130,530)	P -	P 2,500,000	P 3,084,930	P (2,579,409)	P 5,813,508
At December 31, 2011 (Audited)									
Adjustment due to PAS 19 and PFRS 11 (Note 2)	P 345,625	P 53,438	P 2,526,625	P -	P (35,936)	P 2,500,000	P 4,527,740	P (2,579,409)	P 7,338,083
At December 31, 2011 (As Restated)	-	-	-	(105,491)	35,936	-	240,189	-	170,634
Equity reserve for retirement plan (Note 2)	345,625	53,438	2,526,625	(105,491)	-	2,500,000	4,767,929	(2,579,409)	7,508,717
Other comprehensive loss	-	-	-	(12,520)	-	-	-	-	(12,520)
Net loss for the period	-	-	-	(12,520)	-	-	-	-	(12,520)
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	(12,520)	-	-	(321,134)	-	(321,134)
As of June 30, 2012 (Unaudited)	P 345,625	P 53,438	P 2,535,416	P (118,011)	P -	P 2,500,000	P 4,446,795	P (2,579,409)	P 7,183,854

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

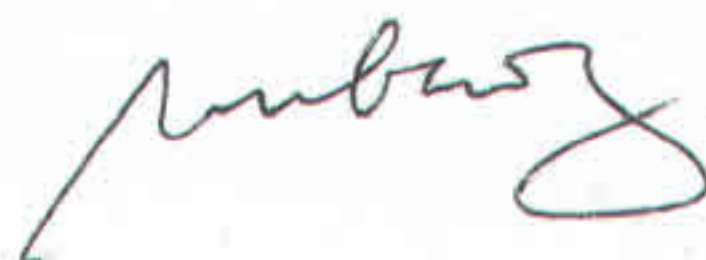




**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIOD ENDED JUNE 30, 2013 AND 2012**  
(Amounts in Thousands)

	2013	2012
	Unaudited	As Restated (Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	P (1,179,718)	P (436,248)
Adjustments for:		
Depreciation and amortization	359,066	319,238
Interest expense	331,510	278,219
Net derivative loss (gain)	1,346	(5,939)
Loss (gain) on sale of property and equipment	(655)	21
Net unrealized foreign exchange gain	(1,803)	(72)
Interest income	(1,428)	(1,186)
Share in the losses of a joint venture	39,352	17,325
Operating income (loss) before working capital changes	(452,330)	171,358
Decrease (increase) in:		
Trade and other receivables	41,218	(1,342,897)
Inventories	703,012	509,630
Prepaid taxes and other current assets	(241,726)	(77,922)
Increase (decrease) in:		
Trade and other payables	(660,570)	302,743
Other taxes payable	47,409	(84,724)
Retirement liabilities	32,040	36,961
Cash used in operations	(530,947)	(484,851)
Interest received	1,428	1,186
Income taxes paid	(239)	(211)
Net cash flows used in operating activities	(529,758)	(483,876)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(85,213)	(182,825)
Decrease (increase) in other noncurrent assets	(23,948)	127,518
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(142,672)
Net cash flows used in investing activities	(109,161)	(197,979)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Short-term borrowings	52,643,853	60,796,667
Issuance of capital stock	9,638	16,288
Payments of:		
Short-term borrowings	(51,608,933)	(59,722,854)
Long-term borrowings	(271,429)	(100,000)
Interest	(334,918)	(290,230)
Cash dividends	(179)	(117,967)
Net cash flows provided by financing activities	438,032	581,904
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(853)	(740)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(201,740)	(100,691)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (As Restated - Note 2)</b>	497,503	255,249
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	P 295,763	P 154,558

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





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

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	Current	< 30 days past due	30 - 60 days past due	60 - 90 days past due	Over 90 days past due
a) Trade Receivables	P	3,101,297	1,385,833	459,852	207,582	74,887	973,143
Less: Allowance for Doubtful Accounts		108,194	-	-	-	-	108,194
<b>NET TRADE RECEIVABLES</b>		<b>2,993,103</b>	<b>1,385,833</b>	<b>459,852</b>	<b>207,582</b>	<b>74,887</b>	<b>864,949</b>
b) Non-Trade Receivables		749,556	103,334	40,185	11,798	23,356	570,883
<b>NET NON-TRADE RECEIVABLES</b>		<b>749,556</b>	<b>103,334</b>	<b>40,185</b>	<b>11,798</b>	<b>23,356</b>	<b>570,883</b>
<b>NET RECEIVABLES</b>	P	<b>3,742,659</b>	<b>1,489,167</b>	<b>500,037</b>	<b>219,380</b>	<b>98,243</b>	<b>1,435,832</b>





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

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

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

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

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

*Amendments to Standard and Interpretations Adopted in 2013*

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

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



- 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.
- 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 Group adopted PFRS 11 with December 31, 2012 financial statements restated for comparative purposes. The effects of the adoption on the financial statements are shown in Note 2.

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

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

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



- PFRS 13, *Fair Value Measurement*, replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of the new standard is required for annual periods beginning on or after January 1, 2013.
- 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 Group adopted the amendments to PAS 19 with December 31, 2012 financial statements restated for comparative purposes. The effects of the adoption on the financial statements are shown in Note 2.

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The 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 did not 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*). The amendments clarify that: (a) the opening consolidated statement of financial position is required only if there is: (i) a change in accounting policy; (ii) a retrospective restatement; or (iii) a reclassification which has a material effect upon the information in that consolidated statement of financial position; (b) except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, notes related to the opening consolidated statement of financial position are no longer required; and (c) the appropriate date for the opening consolidated statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements. The amendments explain that the requirements for the presentation of notes related to additional comparative information and those related to the opening consolidated statement of financial position are different, because the underlying objectives are different. Consequential amendments have been made to PAS 34, *Interim Financial Reporting*. The 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*). The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under this standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*. The 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*). The amendments clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments*. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.
- Segment Assets and Liabilities (*Amendments to PAS 34*). This is amended to align the disclosure requirements for segment assets and segment liabilities in interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a) the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

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



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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing the consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group. The Group 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:

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32)*. The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- *PFRS 9, Financial Instruments (2010) and (2009)*. PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. PFRS 9 (2010 and 2009) is effective for annual periods beginning on or after January 1, 2015.

The Group conducted an evaluation on the possible financial impact of the adoption of PFRS 9 and does not plan to adopt this standard early.



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## 2. Adoption of PFRS 11 and Amendments to PAS 19

The adoption of PFRS 11 and amendments to PAS 19 resulted in certain changes to the Group's previous accounting policies. These were applied on a retroactive basis and comparative statements for 2012 have been restated to reflect the changes in accounting policies.

The effects of the adoption on the financial statements are as follows:

### **Increase (decrease) in:**

#### Consolidated Statements of Financial Position

	As of December 31, 2012	As of January 1, 2012
Total current assets	(P337,583)	(P549,642)
Total noncurrent assets	286,981	256,738
Total current liabilities	(335,155)	(402,048)
Total noncurrent liabilities	108,142	(61,490)
Total equity	176,411	170,634

#### Consolidated Statement of Income

	For the Period Ended June 30, 2012
Sales	(P343,659)
Loss from operations	(8,824)
Net loss	(6,470)

#### Consolidated Statement of Comprehensive Income

	For the Period Ended June 30, 2012
Equity reserve for retirement plan	(P17,886)
Income tax benefit	5,366
	(P12,520)

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## 3. Segment Information

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.

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

The alcoholic segment produces and markets alcoholic beverages.

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



Financial information about operating segments follow:

	Alcoholic		Nonalcoholic		Consolidated	
	2013	2012	2013	2012	2013	2012
<b>REVENUES</b>						
Net Sales	P 5,686,689	P 6,561,025	P 364,342	P 321,389	P 6,051,031	P 6,882,414
<b>RESULT</b>						
Segment Result *	(739,265)	(91,747)	(72,131)	(56,132)	(811,396)	(147,879)

\* Includes rental income and sale of scrap.

#### 4. Property, Plant and Equipment

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

June 30, 2013

	December 31, 2012 (As Restated - Note 2)		Additions	Retirements	Reclassification	June 30, 2013
<b>Cost:</b>						
Land and Improvements	P	708,069	P -	P -	P 1,936	P 710,005
Buildings and Improvements		1,756,967	-	-	4,177	1,761,144
Transportation Equipment		241,287	-	(2,695)	8,102	246,694
Machinery and Equipment		8,552,085	-	(1,030)	35,098	8,586,153
Furniture and Office Equipment		111,331	-	(375)	382	111,338
Other Equipment		705,170	-	-	69,360	774,530
Leasehold Improvements		138,684	-	-	3,047	141,731
Construction in Progress		333,931	85,213	-	(122,594)	296,550
	P	12,547,524	P 85,213	P (4,100)	P (492)	P 12,628,145
<b>Accumulated Depreciation:</b>						
Land and Improvements	P	150,129	P 2,614	P -	P -	P 152,743
Buildings and Improvements		712,902	27,722	-	-	740,624
Transportation Equipment		151,507	15,673	(2,695)	299	164,784
Machinery and Equipment		3,995,873	233,328	(1,030)	(315)	4,227,856
Furniture and Office Equipment		82,346	7,508	(375)	-	89,479
Other Equipment		556,845	29,093	-	(7,738)	578,200
Leasehold Improvements		11,705	3,458	-	-	15,163
	P	5,661,307	P 319,396	P (4,100)	P (7,754)	P 5,968,849
Net Book Value	P	6,886,217	P (234,183)	P -	P 7,262	P 6,659,296



June 30, 2012

	December 31, 2011 (As Restated)		Additions	Retirements	Reclassification	June 30, 2012 (As Restated)	
Cost:							
Land and Improvements	P	716,827	P -	P (43)	P (8,715)	P	708,069
Buildings and Improvements		1,333,745	-	-	442,981		1,776,726
Machinery and Equipment		7,930,435	-	-	735,562		8,665,997
Transportation Equipment		232,513	-	(1,887)	3,740		234,366
Furniture and Office Equipment		108,417	-	-	10,090		118,507
Other Equipment		689,175	-	-	10,133		699,308
Leasehold Improvements		16,421	-	-	108,757		125,178
Construction in Progress		230,949	182,825	-	(93,749)		320,025
	P	11,258,482	P 182,825	P (1,930)	P 1,208,799	P	12,648,176
Accumulated Depreciation:							
Land and Improvements	P	148,251	P 2,471	P -	P (2,642)	P	148,080
Buildings and Improvements		514,433	24,306	-	165,359		704,098
Machinery and Equipment		3,782,540	218,319	-	(15,363)		3,985,496
Transportation Equipment		124,850	14,712	(1,846)	1,043		138,759
Furniture and Office Equipment		65,536	12,057	-	2,336		79,929
Other Equipment		525,295	20,494	-	(4,749)		541,040
Leasehold Improvements		5,771	2,334	-	11,779		19,884
	P	5,166,676	P 294,693	P (1,846)	P 157,763	P	5,617,286
Net Book Value	P	6,091,806	P (111,868)	P (84)	P 1,051,036	P	7,030,890

Depreciation and amortization charged to operations amounted to P319,396 and P294,693 in June 30, 2013 and 2012, respectively.

## 5. Investment Properties

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

The movements in investment properties are as follows:

June 30, 2013

	Land and Land Improvements		Buildings and Building Improvements		Machinery and Equipment		Other Equipment		Total
<b>Cost:</b>									
December 31, 2012	P	49,297	P	116,300	P	633,837	P	9,247	P 808,681
<b>June 30, 2013</b>		<b>49,297</b>		<b>116,300</b>		<b>633,837</b>		<b>9,247</b>	<b>808,681</b>
<b>Accumulated depreciation and amortization:</b>									
December 31, 2012		17,589		74,126		558,793		9,247	659,755
Additions		32		1,503		2,948		-	4,483
<b>June 30, 2013</b>		<b>17,621</b>		<b>75,629</b>		<b>561,741</b>		<b>9,247</b>	<b>664,238</b>
<b>Net Book Value:</b>									
December 31, 2012	P	31,708	P	42,174	P	75,044	P	-	P 148,926
<b>June 30, 2013</b>	<b>P</b>	<b>31,676</b>	<b>P</b>	<b>40,671</b>	<b>P</b>	<b>72,096</b>	<b>P</b>	<b>-</b>	<b>144,443</b>



June 30, 2012

	Land and Land Improvements	Buildings and Building Improvements	Machinery and Equipment	Other Equipment	Total
Cost:					
December 31, 2011	P 49,297	P 116,300	P 633,837	P 9,247	P 808,681
June 30, 2012	49,297	116,300	633,837	9,247	808,681
Accumulated depreciation and amortization:					
December 31, 2011	17,558	71,008	552,870	9,247	650,683
Additions	15	1,559	2,962	-	4,536
June 30, 2012	17,573	72,567	555,832	9,247	655,219
Net Book Value:					
December 31, 2011	P 31,739	P 45,292	P 80,967	-	P 157,998
June 30, 2012	P 31,724	P 43,733	P 78,005	-	P 153,462

## 6. Related Party Disclosures

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

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

	Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	June 30, 2013 December 31, 2012	P 9,583 28,059	P 94,740 189,355	P 29,090 27,306	P 84,942 81,714	On demand; Non-interest bearing	Unsecured; No impairment
Under Common Control	June 30, 2013 December 31, 2012	274,246 118,199	1,352,535 3,747,307	97,249 130,584	838,574 1,081,437	On demand; Non-interest bearing	Unsecured; No impairment
Joint Venture	June 30, 2013 December 31, 2012	- -	- -	248,369 214,870	- -	On demand; Non-interest bearing	Unsecured; No impairment
Retirement Plan	June 30, 2013 December 31, 2012	- -	- -	77,025 77,025	- -	On demand; Non-interest bearing	Unsecured; No impairment
Associates of the Ultimate Parent Company	June 30, 2013 December 31, 2012	- -	8,001 21,837	- -	- -	On demand; Non-interest bearing	Unsecured; No impairment
	June 30, 2013 December 31, 2012	- -	- -	- -	2,600,000 2,600,000	3 months; Interest bearing	Unsecured; No impairment
Others	June 30, 2013 December 31, 2012	2,156 653	964 2,670	3,199 2,348	484 810	On demand; Non-interest bearing	Unsecured; No impairment
	June 30, 2013 December 31, 2012	P 285,985 146,911	P 1,456,240 3,961,169	P 454,932 452,133	P 3,524,000 3,763,961		



## 7. Basic and Diluted Loss Per Share

Basic and Diluted Loss Per Share is computed as follows:

	June 30	
	2013	2012 (As Restated - Note 2)
Net loss	P (845,830)	P (321,134)
Less: Dividends on preferred shares	(24,590)	(24,590)
Net loss available to common shares (a)	(870,420)	(345,724)
Weighted average number of common shares outstanding (b)	290,076	290,076
Basic and Diluted Loss Per Share (a/b)	P (3.00)	P (1.19)

## 8. Financial Risk Management Objectives and Policies

### Objectives and Policies

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

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

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

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

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

The Group uses derivatives to manage its exposures to commodity price risks arising from the Group's operations.

The BOD has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training



and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

The BOD constituted the Group's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: (a) quality and integrity of the Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls; (b) performance of the internal auditors; (c) annual independent audit of the Group's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; (d) compliance by the Group with legal and regulatory requirements, including the Group's disclosure 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 9 to the consolidated financial statements.

#### Interest Rate Risk

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P3,309 and P6,506 for the period ending June 30, 2013 and December 31, 2012, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.



## Interest Rate Risk Table

As at June 30, 2013 and December 31, 2012, the terms and maturity profile of the interest-bearing financial instruments, together with the gross amounts, are shown in the following tables:

June 30, 2013	<1year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Over 5 years	Total
<b>Fixed Rate</b>							
Philippine peso-denominated	P 428,571	P 600,000	P -	P -	P -	P -	P 1,028,571
Interest rate	7.25% - 7.89%	7.25% - 7.89%					
<b>Floating rate</b>							
Philippine peso-denominated	114,286	114,286	114,286	114,286	114,286	57,142	628,572
Interest rate	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	
	P 542,857	P 714,286	P 114,286	P 114,286	P 114,286	P 57,142	P 1,657,143
<hr/>							
December 31, 2012	<1year	1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	Over 5 years	Total
<b>Fixed Rate</b>							
Philippine peso-denominated	P 428,571	P 428,571	P 385,715	P -	P -	P -	P 1,242,857
Interest rate	7.25% - 7.89%	7.25% - 7.89%	7.25% - 7.89%				
<b>Floating rate</b>							
Philippine peso-denominated	114,286	114,286	114,286	114,286	114,286	114,285	685,715
Interest rate	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	PDST-F +1.00%	
	P 542,857	P 542,857	P 500,001	P 114,286	P 114,286	P 114,285	P 1,928,572

## Foreign Currency Risk

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

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



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

	June 30, 2013		December 31, 2012 (As Restated - Note 2)	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	US\$ 1,996	P 86,221	US\$ 1,635	P 67,126
Trade and other receivables	536	23,151	347	14,241
Foreign currency-denominated monetary assets	US\$ 2,532	P 109,372	US\$ 1,982	P 81,367

The Group reported net foreign exchange gain amounting to P1,803 and P72 on June 30, 2013 and 2012, respectively, with the translation of its foreign currency-denominated assets. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
December 31, 2011	43.84
June 30, 2012	42.12
December 31, 2012	41.05
June 30, 2013	43.20

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 June 30, 2013 and December 31, 2012:

June 30, 2013	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P 1,996)	(P 1,397)	P 1,996	P 1,397
Trade and other receivables	(536)	(375)	536	375
	(P 2,532)	(P 1,772)	P 2,532	P 1,772

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



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

#### Commodity Price Risk

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

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

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

#### Liquidity Risk

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

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

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



The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of June 30, 2013 and December 31, 2012.

<b>June 30, 2013</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 year or less</b>	<b>&gt;1 year - 2 years</b>	<b>&gt;2 years - 5 years</b>	<b>Over 5 years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	P 295,763	P 295,763	P 295,763	P -	P -	P -
Trade and other receivables - net	3,742,659	3,742,659	3,742,659	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,385	1,385	1,385	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	437,698	437,698	-	189,329	248,369	-
<b>Financial Liabilities</b>						
Notes payable	10,467,120	10,526,241	10,526,241	-	-	-
Trade and other payables (excluding dividends payable)	2,746,541	2,746,541	2,746,541	-	-	-
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	2,015	2,015	2,015	-	-	-
Long-term debt (including current maturities)	1,654,191	1,827,218	631,788	770,589	367,312	57,529



December 31, 2012 (As Restated - Note 2)	Carrying Amount	Contractual Cash Flow	1 year or less	>1 year - 2 years	>2 years - 5 years	Over 5 years
<b>Financial Assets</b>						
Cash and cash equivalents	P 497,503	P 497,503	P 497,503	P -	P -	P -
Trade and other receivables - net	3,823,891	3,823,891	3,823,891	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,288	1,288	1,288	-	-	-
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	404,381	404,381	-	189,511	214,870	-
<b>Financial Liabilities</b>						
Notes payable	9,432,200	9,487,236	9,487,236	-	-	-
Trade and other payables (excluding dividends payable)	3,404,704	3,404,704	3,404,704	-	-	-
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	413	413	413	-	-	-
Long-term debt (including current maturities)	1,924,834	2,156,878	649,948	613,829	776,910	116,191

### Credit Risk

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

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

### Trade and Other Receivables

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

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

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



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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance 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 June 30, 2013 and December 31, 2012, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	June 30, 2013	December 31, 2012 (As Restated - Note 2)
Cash and cash equivalents	P 295,763	P 497,503
Trade and other receivables - net	3,742,659	3,823,891
Derivative assets	1,385	1,288
Noncurrent receivables and deposits	437,698	404,381
	<b>P 4,477,505</b>	<b>P 4,727,063</b>

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

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

#### Capital Management

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

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

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



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

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

The Group is not subject to externally imposed capital requirements.

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## 9. Financial Assets and Financial Liabilities

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

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

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

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

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

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



derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

#### Financial Assets

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

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

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

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

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

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

The carrying amounts of financial assets under this category amounted to P1,385, P1,227 and P1,288 as of June 30 and March 31, 2013 and December 31, 2012, respectively.

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

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



of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

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

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

The combined carrying amounts of financial assets under this category amounted to P4,476,120, P4,029,343 and P4,725,775 as of June 30 and March 31, 2013 and December 31, 2012, respectively.

*HTM Investments.* HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of June 30 and March 31, 2013 and December 31, 2012, the Group has no investments accounted for under this category.

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

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

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

#### Financial Liabilities

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



The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense" in the consolidated statements of income.

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

The carrying amounts of financial liabilities under this category amounted to P2,015, P492 and P413 as of June 30 and March 31, 2013 and December 31, 2012, respectively.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

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

The combined carrying amounts of financial liabilities under this category amounted to P14,867,852, P14,844,345 and P14,761,738 as of June 30 and March 31, 2013 and December 31, 2012, respectively.

#### Debt Issue Costs

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

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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



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

#### Impairment of Financial Assets

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

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

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

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

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

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



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

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

#### Classification of Financial Instruments Between Debt and Equity

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

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

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

#### Offsetting Financial Instruments

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



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

	June 30, 2013		December 31, 2012 (As Restated - Note 2)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	P 295,763	P 295,763	P 497,503	P 497,503
Trade and other receivables - net	3,742,659	3,742,659	3,823,891	3,823,891
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,385	1,385	1,288	1,288
Noncurrent receivables and deposits (included under "Other noncurrent assets - net" account in the consolidated statements of financial position)	437,698	437,698	404,381	404,381
<b>Financial Liabilities</b>				
Notes payable	10,467,120	10,467,120	9,432,200	9,432,200
Trade and other payables (excluding dividends payable)	2,746,541	2,746,541	3,404,704	3,404,704
Derivative liabilities (included under "Trade and other payables" account in the consolidated statements of financial position)	2,015	2,015	413	413
Long-term debt (including current maturities)	1,654,191	1,708,990	1,924,834	2,008,891

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

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

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



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

*Long-term Debt.* The fair value of interest-bearing fixed-rate loan is based on the discounted value of expected future cashflows using the applicable market rates for similar types of instruments as of reporting date. As of June 30, 2013 and December 31, 2012, discount rates used range from 1.97% to 3.16% and 0.68% to 3.40%, respectively. The carrying amounts of floating rate loans with annually interest rate repricing approximate their fair values.

#### Derivative Financial Instruments

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

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

#### Embedded Derivatives

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

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

#### Embedded Currency Forwards

As of June 30 and March 31, 2013 and December 31, 2012, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$2,032, US\$1,903 and US\$1,830, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of June 30 and March 31, 2013 and December 31, 2012, the net fair value of these embedded currency forwards amounted to (P630), P735 and P875, respectively.

For the periods ended June 30, 2013 and 2012 and March 31, 2013 and 2012, the Group recognized marked-to-market loss (gains) from embedded derivatives amounting to P1,346, (P5,939), P121 and P6,448, respectively.

#### Fair Value Hierarchy

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

The financial instruments carried at fair value, by valuation method as of June 30, 2013 and December 31, 2012 are presented below. The different levels have been defined as follows:

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



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

The Group's derivative assets and derivative liabilities amounting to P1,385 and P2,015, respectively, as of June 30, 2013 and P1,288 and P413, respectively, as of December 31, 2012, are valued based on Level 2. The Group has no financial instruments valued based on Level 1 and Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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## 10. Other Matters

- (a) There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- (b) There were no material changes in estimates of amounts reported in prior financial years.
- (c) Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.
- (d) There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- (e) There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- (f) There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual statements of financial position date. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- (g) There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period June 30, 2013.
- (h) The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- (i) The Group's material commitments for capital expenditure projects have been approved during the year but are still ongoing and not yet completed as of June 30, 2013. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.





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

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

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Ginebra San Miguel Inc. (the Parent Company or GSMI) and its subsidiaries (collectively referred to as the Group) as of and for the period ended June 30, 2013 (with comparative figures as of December 31, 2012 and for the period ended June 30, 2012). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2013, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

#### **I. FINANCIAL PERFORMANCE**

##### **2013 vs. 2012**

The Hard Liquor Industry took a temporary dip in the first semester, owing to the increase in retail prices resulting from higher excise tax, thus impacted to a 12% decline in sales revenue. The Company implemented an average of 17% increase in the selling prices for its major brands effective February 1, 2013.

In spite of higher excise tax, lower volumes supported with cost improvement initiatives led to a 4% decrease in cost of sales.

Considerable decrease in revenue but tempered by favorable cost of sales led first semester gross profit to reduce by 36%.

Significant sales volume shortfall of Thai San Miguel Liquor Co. Ltd. (TSML) resulted to a P39 million share in the loss of a joint venture, higher than last year by 127%.

Increase in short-term borrowings to support operations led to a 19% increase in interest expense, net of interest income. Other income, net of other charges, declined by 79% on account of lower miscellaneous sales.

Income tax benefit surged to P334 million, 190% above last year due to the recognition of Net Operating Loss Carry-Over (NOLCO).

All these generated an P846 million net loss, 163% higher than year-ago level.

The Group implemented the following programs to solidify brand equity as well as improve consumption:

- a. A sequel to the popular "Lahing Ginebra, Ikaw Na!" campaign, complemented by the nationwide concert series "Ginumanfest";
- b. A summer-themed campaign "Sarap Makihalo" for GSM Blue; and
- c. Consumer promo "Lahing Ginebra, Gandang Porma" in collaboration with Suyen Corporation which allowed consumers to exchange GSMI caps and crowns with Bench Body T-shirts.

These programs proved successful and helped sustained the volumes of the core brand Ginebra San Miguel. Market share of the company stabilized at 28% in the May Retail Trade Audit (RTA) reading.

For the second semester, preparations are underway for a campaign for the Company's flagship brand Ginebra San Miguel which will capitalize on its 180-year heritage. There are programs aimed at drawing back the young drinkers. The distribution set-up has been re-designed to expand the reach of the Group's



products to areas via wholesalers and retail outlets. Hiring of additional personnel necessary for the execution of the program is ongoing. Initiatives on cost reduction and efficiency improvements will be sustained. With all these efforts, the Group expects volume and bottom-line results to significantly improve in the second half of the year. Until then, operating cash requirements will be funded by short-term credit facilities.

### 2012 vs. 2011

Sales revenues decreased by 12% for the first semester, mainly attributable to the decline in domestic liquor sales volume. Recovery of the Group's flagship brand, Ginebra San Miguel in the second quarter slowed down domestic liquor volume decline for the first semester.

Cost of sales for the first semester declined by 16% due to lower effective distillery feedstock and bottle costs, as well as improved distillery operations in the second quarter. As a result, gross profit ended almost at par with 2011 level for the first semester.

Interest expense, net of interest income, significantly increased by 42% on account of higher short-term borrowings to fund the Group's working capital requirements, and the Group's consolidation of East Pacific Star Bottlers Phils Inc. (EPSBPI) long-term debt.

Other income - net of other charges significantly increased by 103% from 2011 on account of higher scrap sales and higher foreign exchange gain.

Loss before income tax for the first semester at P436 million ended 18% above 2011 owing to the increase in interest expense. Higher other income - net of other charges tempered its impact.

Recognition of income tax benefit from NOLCO led to a P321 million consolidated net loss for the semester, lower by 10% from 2011.

The Group is currently undertaking measures to address said decline in business volume and profitability. New liquor products were introduced in the first semester to revitalize the white spirits category, such as GSM Blue Light, GSM Blue Flavors, Antonov Vodka Schnapps and new variants of Antonov Mixed Drinks. Improvements in pricing and distribution are also being pursued to regain trade competitiveness. Operating gains are expected to be reaped from implemented and planned improvements in distillery operations and second-hand bottle retrieval. The Group expects operating cash requirements to be funded by short-term credit facilities until revenue streams from said programs stabilize. It is expected that benefits will materialize in the near term.

## **II. FINANCIAL POSITION**

### 2013 vs. 2012

Cash and cash equivalents declined by 41% as these were used to fund operational requirements.

Managed purchases of materials and supplies as well as production schedules trimmed inventories by 12%.

Prepaid taxes and other current assets increased by 18% chiefly on account of prepaid excise tax to satisfy obligations on withdrawn alcohol.

Investment in joint venture decreased by 5% due to the recognition of the Group's share in net loss of TSML amounting to P39 million.

Deferred tax assets - net grew by 36% on account of increase in recognized NOLCO.

Higher short-term borrowings used to support operations resulted to 11% increase in notes payable.

Trade and other payables decreased by 19% resulting from the impact of reduced purchases of materials particularly alcohol.



## Annex “B”

Income and other taxes payable surge to P126 million, equivalent to a 60% increase from 2012, due mainly to higher value-added tax payable brought about by lower input taxes on purchases made for the period.

Retirement liabilities grew by 13% primarily due to monthly accruals for retirement.

Long-term debt - net of current maturities and debt issue costs decreased by 20% on account of payment of amortization.

### 2012 vs. 2011

Cash and cash equivalents decreased by 39%, on account of slower revenue flows, investment in EPSBPI and capital expenditures.

Trade and other receivables-net increased by 28% as credit terms were extended to aid volume generation for the Group's domestic liquor business.

Inventories decreased by 8%, largely due to decline in distillery feedstock.

Prepaid taxes and other current assets increased by 8% on account of increased excise tax prepayments, due to higher alcohol inventory versus December 2011 level, as well as consolidation of EPSBPI's prepaid taxes and other current assets' balance.

Property, plant and equipment-net increased by 15% mainly on account of the consolidation of EPSBPI's property balance.

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

Deferred tax assets increased by 28% mainly on account of recognition of income tax benefit from NOLCO.

Other noncurrent assets-net declined by 6% on account of elimination of intragroup accounts related to EPSBPI for the purpose of consolidated reporting.

Notes payable increased by 14% to fund the Group's working capital requirements.

Trade and other payables increased by 8% on account of increased purchases of packaging materials.

Income and other taxes payable decreased by 73% as lower business volumes decreased output VAT payable.

Retirement liability increased by 26% on account of higher pension cost accruals.

Long-term debt increased by 33% on account of the Group's consolidation of EPSBPI's long-term debt balance.

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



# Annex “B”

## Equity

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

	June 30	
	2013	2012
	(As Restated)	
	(In Millions)	
Net loss for the period	(P846)	(P321)
Equity reserve for retirement plan	-	(13)
Stock Options	-	9
	(P846)	(P325)

## III. Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	June 30	
	2013	2012
	(As Restated)	
	(In Millions)	
Net cash flows used in operating activities	(P530)	(P484)
Net cash flows used in investing activities	(109)	(198)
Net cash flows provided by financing activities	438	582

Net cash flows 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 net movement in inventory level.

Net cash flows used in investing activities include the following:

	June 30	
	2013	2012
	(As Restated)	
	(In Millions)	
Additions to property, plant and equipment	(P85)	(P183)
Decrease (increase) in other noncurrent assets	(24)	128
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(143)

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

	June 30	
	2013	2012
	(As Restated)	
	(In Millions)	
Proceeds from:		
Short-term borrowings	P52,644	P60,797
Issuance of capital stock	10	16
Payments of:		
Short-term borrowings	(51,609)	(59,723)
Long-term borrowings	(271)	(100)
Interest	(335)	(290)
Cash dividends	-	(118)

The effect of exchange rate changes on cash and cash equivalents amounted to (P853) thousand and (P740) thousand for the six-month period ended June 30, 2013 and 2012, respectively.



## IV. KEY PERFORMANCE INDICATORS

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

KPI	June 30, 2013	December 31, 2012 (As Restated)
Liquidity: Current Ratio	0.78	0.86
Solvency: Bank Debt-to-Equity Ratio	2.09	1.71
Profitability: Return on Average Stockholders' Equity	(27%)	(9%)

Asset to Equity Ratio	3.63	3.27
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KPI	Period Ended June 30	
	2013	2012 (As Restated)
Operating Efficiency: Volume Growth	(22%)	(16%)
Revenue Growth	(12%)	(12%)
Operating Margin	(13%)	(2%)

Interest Rate Coverage Ratio	(1.49)	0.58
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The manner by which the Group calculates the above indicators is as follows:

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

\*Annualized for quarterly reporting