# COVER SHEET

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S. E. C. Registration Number

S A N M I G U E L

B R E W E R Y

I N C .

(Company's Full Name)

N o . 4 0 S a n M i g u e l

A v e n u e , M a n d a l u y o n g

C i t y

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

Atty. Rosabel T. Balan

Contact Person

632-3000

Company Telephone Number

Month | Day

17-Q (1st Quarter 2013)

FORM TYPE

Month | Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic | Foreign

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To be accomplished by SEC Personnel concerned

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 **MARCH 31, 2013**

2. Commission identification number **CS200711828**

3. BIR Tax Identification No. **006-807-251**

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

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

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

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

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

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

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

| Title of each Class outstanding (as of April 30, 2012) | |
|---|---|
| **Common Shares** | **15,410,478,960** |
| **Peso-denominated fixed-rate bonds** | **₱25.21 billion** |
| **Peso-denominated fixed-rate bonds** | **₱20.00 billion** |

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

    Yes [ x ] No [ ]

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

    **Philippine Stock Exchange – Common Shares***

12. Indicate by check mark whether the registrant:

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

    Yes [ x ] No [ ]

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

    Yes [ x ] No [ ]

* *delisted from the Philippine Stock Exchange effective May 15, 2013*

## PART I--FINANCIAL INFORMATION

**Item 1. Financial Statements.**

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

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

The information required by Part IV, Paragraph (a)(2)(B) of SRC Rule 12 is attached hereto as **Annex "B"**.

## PART II--OTHER INFORMATION

The Company may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which 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 **SAN MIGUEL BREWERY INC.**

Signature and Title **MERCY MARIE J. L. AMADOR**
Chief Finance Officer and Treasurer

Date May 14, 2013

## SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## MARCH 31, 2013 and DECEMBER 31, 2012
## (In Millions)

| | Note | | 2013 Unaudited | | 2012 As Restated (Note 2) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 8,9 | P | 24,970 | P | 21,959 |
| Trade and other receivables - net | 4,8,9 | | 4,310 | | 4,997 |
| Inventories | | | 3,888 | | 3,134 |
| Prepaid expenses and other current assets | 8,9 | | 810 | | 933 |
| Total Current Assets | | | 33,978 | | 31,023 |
| **Noncurrent Assets** | | | | | |
| Investments - net | 8,9 | | 63 | | 63 |
| Property, plant and equipment - net | 5 | | 20,275 | | 20,539 |
| Investment properties - net | | | 701 | | 703 |
| Intangible assets - net | | | 35,896 | | 35,849 |
| Deferred tax assets | | | 1,306 | | 1,260 |
| Other noncurrent assets - net | 8,9 | | 7,345 | | 7,189 |
| Total Noncurrent Assets | | | 65,586 | | 65,603 |
| | | P | 99,564 | P | 96,626 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current Liabilities** | | | | | |
| Accounts payable and accrued expenses | 4,8,9 | P | 9,199 | P | 7,640 |
| Income and other taxes payable | | | 3,498 | | 2,761 |
| Current maturities of long-term debt, net of debt issue costs | 8,9 | | 610 | | 459 |
| Total Current Liabilities | | | 13,307 | | 10,860 |
| **Noncurrent Liabilities** | | | | | |
| Long-term debt - net of current maturities and debt issue costs | 8,9 | | 51,597 | | 51,763 |
| Deferred tax liabilities | | | 19 | | 19 |
| Other noncurrent liabilities | 8,9 | | 3,262 | | 3,379 |
| Total Noncurrent Liabilities | | | 54,878 | | 55,161 |
| **EQUITY** | | | | | |
| **Equity Attributable to Equity Holders of the Parent Company** | | | | | |
| Capital stock | | | 15,410 | | 15,410 |
| Additional paid-in capital | | | 515 | | 515 |
| Reserve for retirement plan | 2 | | (2,270) | | (2,271) |
| Cumulative translation adjustments | | | (1,399) | | (1,503) |
| Unappropriated retained earnings | | | 17,022 | | 16,382 |
| | | | 29,278 | | 28,533 |
| Non-controlling Interests | | | 2,101 | | 2,072 |
| Total Equity | | | 31,379 | | 30,605 |
| | | P | 99,564 | P | 96,626 |

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

CERTIFIED CORRECT:

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**For the Period Ended March 31, 2013 and 2012**
**(In Millions, Except Per Share Data)**

| | | 2013 Unaudited | | 2012 As Restated (Note 2) |
|---|---|---|---|---|
| SALES (Notes 3 and 4) | P | 17,545 | P | 18,345 |
| COST OF SALES | | 9,409 | | 9,358 |
| GROSS PROFIT | | 8,136 | | 8,987 |
| SELLING AND ADMINISTRATIVE EXPENSES | | (3,298) | | (3,698) |
| INTEREST INCOME | | 172 | | 191 |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | | (957) | | (1,060) |
| IMPAIRMENT LOSSES ON NONCURRENT ASSETS | | - | | (44) |
| OTHER INCOME - NET (Note 9) | | 55 | | 325 |
| INCOME BEFORE TAX | | 4,108 | | 4,701 |
| INCOME TAX EXPENSE | | 1,207 | | 1,364 |
| NET INCOME | P | 2,901 | P | 3,337 |
| Net Income Attributable to: | | | | |
| Equity Holders of the Parent Company | P | 2,797 | P | 3,245 |
| Non-controlling Interests | | 104 | | 92 |
| | P | 2,901 | P | 3,337 |
| Basic/Diluted Earnings Per Share (Note 6) | P | 0.18 | P | 0.21 |

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

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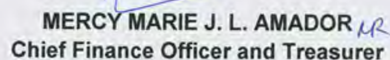

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**For the Period Ended March 31, 2013 and 2012**
**(In Millions)**

| | | 2013 Unaudited | | 2012 As Restated (Note 2) |
|---|---|---|---|---|
| NET INCOME | P | 2,901 | P | 3,337 |
| EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS | | 54 | | (245) |
| ADJUSTMENT DUE TO PAS 19 (Note 2) | | - | | (94) |
| TAX BENEFIT | | | | 29 |
| NET LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS | | - | | (1) |
| OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX | | 54 | | (311) |
| TOTAL COMPREHENSIVE INCOME - NET OF TAX | P | 2,955 | P | 3,026 |
| Comprehensive Income Attributable to: | | | | |
| Equity Holders of the Parent Company | P | 2,902 | P | 3,001 |
| Non-controlling Interests | | 53 | | 25 |
| | P | 2,955 | P | 3,026 |

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

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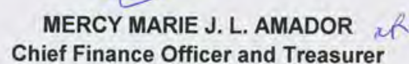

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended March 31, 2013 and 2012
(In Millions)

| | 2013 Unaudited | 2012 As Restated (Note 2) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | P 4,108 | P 4,701 |
| Adjustments for: | | |
| Interest expense and other financing charges | 957 | 1,060 |
| Depreciation, amortization and others | 560 | 214 |
| Retirement costs | 155 | 129 |
| Provision for impairment losses on receivables and inventory | 66 | 122 |
| Impairment loss on noncurrent assets | - | 44 |
| Interest income | (172) | (191) |
| Gain on sale of property and equipment and investment property | (6) | (1) |
| Operating income before working capital changes | 5,668 | 6,078 |
| Decrease (increase) in: | | |
| Trade and other receivables | 690 | 339 |
| Inventories | (808) | (243) |
| Prepaid expenses and other current assets | 98 | 38 |
| Decrease in: | | |
| Accounts payable and accrued expenses | (1,477) | (763) |
| Income and other taxes payable | (424) | (159) |
| Cash generated from operations | 3,747 | 5,290 |
| Income taxes paid | (90) | (94) |
| Interest paid | (47) | (119) |
| Contributions paid | (250) | (232) |
| Net cash flows provided by operating activities | 3,360 | 4,845 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 171 | 191 |
| Proceeds from sale of property and equipment | 6 | 1 |
| Additions to property and equipment and investment property | (47) | (68) |
| Increase in intangible assets and other noncurrent assets | (432) | (499) |
| Net cash flows used in investing activities | (302) | (375) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term borrowings | - | 1,288 |
| Payments of short-term borrowings | - | (18) |
| Cash dividends paid | - | (2,157) |
| Dividends paid to non-controlling shareholders | (24) | - |
| Decrease in other noncurrent liabilities | - | (7) |
| Net cash flows used in financing activities | (24) | (894) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (23) | (108) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 3,011 | 3,468 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 21,959 | 18,279 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | P 24,970 | P 21,747 |

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

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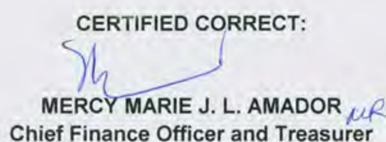

MERCY MARIE J. L. AMADOR
Chief Finance Officer and Treasurer

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**For the Period Ended March 31, 2013 and 2012**
**(In Millions)**

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Cumulative Translation Adjustment | Reserve for Retirement Plan | Unappropriated Retained Earnings | Total | Non-controlling Interests | Total Equity |
| As of January 1, 2013 (Audited) | P 15,410 | P 515 | P (1,499) | P - | P 16,382 | P 30,808 | P 2,160 | P 32,968 |
| Adjustment due to PAS 19 (Note 2) | - | - | (4) | (2,271) | - | (2,275) | (88) | (2,363) |
| As of January 1, 2013 (As Restated) | 15,410 | 515 | (1,503) | (2,271) | 16,382 | 28,533 | 2,072 | 30,605 |
| Foreign currency translation differences | - | - | 104 | 1 | - | 105 | (51) | 54 |
| Net income for the period | - | - | - | - | 2,797 | 2,797 | 104 | 2,901 |
| Total comprehensive income for the period | - | - | 104 | 1 | 2,797 | 2,902 | 53 | 2,955 |
| Cash dividends (Note 7) | - | - | - | - | (2,157) | (2,157) | (24) | (2,181) |
| As of March 31, 2013 (Unaudited) | P 15,410 | P 515 | P (1,399) | P (2,270) | P 17,022 | P 29,278 | P 2,101 | P 31,379 |
| As of January 1, 2012 (Audited) | P 15,410 | P 515 | P (672) | P - | P 10,618 | P 25,871 | P 2,003 | P 27,874 |
| Adjustment due to PAS 19 (Note 2) | - | - | - | (1,930) | 29 | (1,901) | (45) | (1,946) |
| As of January 1, 2012 (As Restated) | 15,410 | 515 | (672) | (1,930) | 10,647 | 23,970 | 1,958 | 25,928 |
| Foreign currency translation differences | - | - | (177) | - | - | (177) | (68) | (245) |
| Net change in fair value of available-for-sale financial assets, net of tax | - | - | (1) | - | - | (1) | - | (1) |
| Adjustment due to PAS 19, net of tax (Note 2) | | | (1) | (64) | (1) | (66) | 1 | (65) |
| Net income for the period | - | - | - | - | 3,245 | 3,245 | 92 | 3,337 |
| Total comprehensive income (loss) for the period | - | - | (179) | (64) | 3,244 | 3,001 | 25 | 3,026 |
| Cash dividends (Note 7) | - | - | - | - | (2,157) | (2,157) | - | (2,157) |
| As of March 31, 2012 (Unaudited) | P 15,410 | P 515 | P (851) | P (1,994) | P 11,734 | P 24,814 | P 1,983 | P 26,797 |

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

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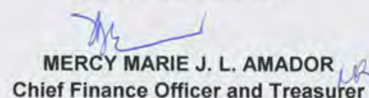

**MERCY MARIE J. L. AMADOR**
**Chief Finance Officer and Treasurer**

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
ACCOUNTS RECEIVABLE - TRADE
AS OF MARCH 31, 2013

| TYPE OF ACCOUNTS RECEIVABLE | TOTAL | CURRENT | PAST DUE | | |
|---|---|---|---|---|---|
| | | | 1 - 30 DAYS | 31 - 60 DAYS | OVER 60 DAYS |
| DOMESTIC | ₱ 2,767,493,450.89 | ₱ 2,666,966,352.00 | ₱ 43,271,476.76 | ₱ 41,863,778.13 | ₱ 15,391,844.00 |
| INTERNATIONAL | 2,088,083,952.16 | 1,377,398,569.17 | 168,728,610.14 | 81,453,848.40 | 460,502,924.45 |
| TOTAL | 4,855,577,403.05 | 4,044,364,921.17 | 212,000,086.90 | 123,317,626.53 | 475,894,768.45 |
| ALLOWANCE FOR DOUBTFUL ACCOUNTS | (1,240,486,420.06) | | | | |
| NET | ₱ 3,615,090,982.99 | | | | |

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**

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

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

The Group prepared its consolidated interim financial statements as of and for the period ended March 31, 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 million (₱000,000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent audited annual 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 statement of comprehensive income to statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The 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 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 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 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 enable 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.

- 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 financial statements; and (c) limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of the initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

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

- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations, the adoption of which is not expected to have an effect on the consolidated financial statements.

  - Comparative Information beyond Minimum Requirements (*Amendments to PAS 1*). These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the 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 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 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 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 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 statement of financial position are no longer required; and (c) the appropriate date for the opening 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 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 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 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.

- PAS 27 (Amended), *Separate Financial Statements*, and Amendments to PFRS 1, *Government Loans*, 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 International Accounting Standards Board (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 is still evaluating 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 the Amendments to PAS 19**

The adoption to the amendments to PAS 19 resulted in certain changes to the Groups's previous accounting policies. The amendments 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

| | December 31, 2012 | January 1, 2012 |
|---|---|---|
| Deferred tax assets | 894 | 765 |
| Retirement assets presented as part of "Other noncurrent assets - net" | (100) | (99) |
| Retirement liabilities presented as part of "Other noncurrent liabilities" | 3,157 | 2,612 |
| Reserve for retirement plan | (2,271) | (1,930) |
| Cumulative translation adjustments | (4) | - |
| Retained earnings - unappropriated | - | 29 |
| Non-controlling Interests | (88) | (45) |

Consolidated Statement of Income

| | March 31, 2012 |
|---|---|
| Retirement cost presented as part of "Selling and administrative expenses" | 10 |
| Income tax expense | (3) |
| Net loss | (7) |
| Net Loss Attributable to: | |
| Equity holders of the Parent Company | (7) |

Consolidated Statement of Comprehensive Income

| | March 31, 2012 |
|---|---|
| Adjustment due to PAS 19 | (94) |
| Income tax benefit | 29 |
| Other comprehensive loss | 65 |
| Other Comprehensive Loss Attributable to: | |
| Equity holders of the Parent Company | (73) |
| Non-controlling interests | 1 |

## 3. Segment Information

Operating Segments

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

The Group is organized in two major operating segments - domestic and international operations. The domestic operations produce and market fermented and malt-based beverages within the Philippines. It also distributes its products to some export markets.

The international operations also produce and market fermented and malt-based beverages in several foreign markets.

Inter-segment Transactions

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

Financial information about business segments follow:

| | For the Period Ended March 31, 2013 | | | |
|---|---|---|---|---|
| | **Domestic** | **International** | **Eliminations** | **Consolidated** |
| **Sales** | | | | |
| External sales | ₱14,136 | ₱3,409 | ₱ - | ₱17,545 |
| Inter-segment sales | 8 | - | ( 8) | - |
| **Total Sales** | **₱14,144** | **₱3,409** | **(₱ 8)** | **₱17,545** |
| **Results** | | | | |
| Segment Results | ₱ 4,562 | ₱ 276 | ₱ - | ₱ 4,838 |

| | For the Period Ended March 31, 2012 (As Restated-Note 2) | | | |
|---|---|---|---|---|
| | Domestic | International | Eliminations | Consolidated |
| **Sales** | | | | |
| External sales | ₱14,828 | ₱3,517 | ₱ - | ₱18,345 |
| Inter-segment sales | 11 | - | ( 11) | - |
| **Total Sales** | **₱14,839** | **₱3,517** | **(₱ 11)** | **₱18,345** |
| **Results** | | | | |
| Segment Results | ₱ 5,003 | ₱ 220 | ₱ 66 | ₱ 5,289 |

## 4. Related Party Transactions

The Group, in the normal course of business, purchases products and services from and sells products to related parties. Transactions with related parties are made on an arm's length basis and at normal market prices.

| | Year | Revenue From Related Parties | Purchases From Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| Retirement plan | **March 31, 2013** | **P-** | **P-** | **P -** | **P18** | On demand; | Unsecured; |
| | December 31, 2012 | - | - | - | 18 | Non-interest bearing | No impairment |
| Parent | **March 31, 2013** | **3** | **187** | **25** | **1,407** | On demand; | Unsecured; |
| | December 31, 2012 | 10 | 643 | 26 | 477 | Non-interest bearing | No impairment |
| Shareholder | **March 31, 2013** | **-** | **-** | **3** | **-** | On demand; | Unsecured; |
| | December 31, 2012 | - | - | 4 | - | Non-interest bearing | No impairment |
| Associate of Parent | **March 31, 2013** | **-** | **-** | **-** | **1,224** | 3 years; | Unsecured |
| | December 31, 2012 | - | - | - | 1,232 | Interest bearing | |
| Under common control | **March 31, 2013** | **78** | **907** | **134** | **721** | On demand; | Unsecured; With |
| | December 31, 2012 | 199 | 6,515 | 149 | 1,790 | Non-interest bearing | impairment |
| **Total** | **March 31, 2013** | **P81** | **P1,094** | **P162** | **P3,370** | | |
| Total | December 31, 2012 | P209 | P7,158 | P179 | P3,517 | | |

All current outstanding balances with these related parties are expected to be settled in cash within twelve months as of the reporting date. None of the balances is secured.

a. Amounts owed to related parties consist of trade payables, loans payable to SMC's associate, professional fees, insurance and management fees arising from purchases of materials, bottles, shells, cartons, reimbursement of expenses and services rendered from/by related parties.

b. Amounts owed by related parties consist of trade and non trade receivables, share in expenses and tolling services.

## 5. Property, Plant and Equipment

Property, plant and equipment consist of:

| March 31, 2013 | Balance, December 31, 2012 | Additions | Disposals and Reclassifications | Currency Translation Adjustments | Balance, March 31, 2013 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Land | ₱ 8,036 | ₱ - | ₱ - | ₱ 36 | ₱ 8,072 |
| Buildings and improvements | 11,036 | 24 | (15) | (19) | 11,026 |
| Machinery and equipment | 35,669 | 142 | (44) | (23) | 35,744 |
| Transportation equipment | 919 | 7 | (43) | (1) | 882 |
| Tools and small equipment | 75 | - | (1) | - | 74 |
| Office equipment, furniture and fixtures | 508 | 2 | (4) | (1) | 505 |
| Leasehold improvements | 293 | 33 | - | - | 326 |
| Construction in progress | 341 | (167) | - | - | 174 |
| | 56,877 | 41 | (107) | (8) | 56,803 |
| **Accumulated depreciation:** | | | | | |
| Buildings and improvements | 4,085 | 57 | (15) | (6) | 4,121 |
| Machinery and equipment | 22,473 | 246 | (44) | 8 | 22,683 |
| Transportation equipment | 578 | 11 | (41) | (1) | 547 |
| Tools and small equipment | 46 | 1 | (1) | - | 46 |
| Office equipment, furniture and fixtures | 394 | 8 | (4) | (1) | 397 |
| Leasehold improvements | 96 | 12 | - | - | 108 |
| | 27,672 | 335 | (105) | - | 27,902 |
| **Accumulated impairment losses:** | | | | | |
| Buildings and improvements | 2,025 | - | - | (7) | 2,018 |
| Machinery and equipment | 6,578 | - | - | (31) | 6,547 |
| Transportation equipment | 12 | - | (2) | - | 10 |
| Tools and small equipment | 13 | - | - | - | 13 |
| Office equipment, furniture and fixtures | 37 | - | - | - | 37 |
| Leasehold improvements | 1 | - | - | - | 1 |
| | 8,666 | - | (2) | (38) | 8,626 |
| **Net book value** | **₱ 20,539** | **(₱ 294)** | **(₱ - )** | **₱ 30** | **₱20,275** |

| March 31, 2012 | Balance, December 31, 2011 | Additions | Disposals and Reclassifications | Cumulative Translation Adjustments | Balance, March 31, 2012 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Land | ₱ 8,070 | ₱ - | ₱ - | ₱ 5 | ₱ 8,075 |
| Buildings and improvements | 11,463 | 21 | - | (147) | 11,337 |
| Machinery and equipment | 36,535 | 36 | (2) | (331) | 36,240 |
| Transportation equipment | 965 | 16 | (1) | (6) | 973 |
| Tools and small equipment | 114 | 1 | - | (2) | 112 |
| Office equipment, furniture and fixtures | 713 | 4 | - | (7) | 710 |
| Leasehold improvements | 272 | 3 | - | - | 275 |
| Construction in progress | 167 | (13) | - | (1) | 153 |
| | 58,299 | 68 | (3) | (489) | 57,875 |
| **Accumulated depreciation and amortization:** | | | | | |
| Buildings and improvements | 3,879 | 46 | - | (33) | 3,892 |
| Machinery and equipment | 22,037 | 239 | (2) | (111) | 22,163 |
| Transportation equipment | 553 | 21 | (2) | (5) | 567 |
| Tools and small equipment | 79 | 1 | 1 | (1) | 80 |

| | | | | | |
|---|---|---|---|---|---|
| Office equipment, furniture and fixtures | 590 | 8 | - | (5) | 593 |
| Leasehold improvements | 77 | 5 | - | - | 82 |
| | 27,215 | 320 | (3) | (155) | 27,377 |
| **Accumulated impairment losses:** | | | | | |
| Buildings and improvements | 3,802 | - | - | (84) | 3,718 |
| Machinery and equipment | 6,993 | - | - | (160) | 6,833 |
| Transportation equipment | 13 | - | - | (1) | 12 |
| Tools and small equipment | 21 | - | - | (1) | 20 |
| Office equipment, furniture and fixtures | 41 | - | - | (1) | 40 |
| | 10,870 | - | - | (247) | 10,623 |
| Net book value | ₱ 20,214 | (₱ 252) | (₱ -) | (₱ 87) | ₱19,875 |

Depreciation charged to operations amounted to ₱335 and ₱320 in March 2013 and 2012, respectively.

## 6. Basic and Diluted Earnings Per Share (EPS)

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

Diluted EPS is computed by adjusting the net income for the period attributable to equity holders of the Parent Company and the weighted average number of issued and outstanding common shares during the period, for the effects of all dilutive common shares.

Basic/Diluted EPS is computed as follows:

| | **March** | |
|---|---|---|
| | **2013** | 2012 As Restated ( Note 2) |
| Net Income attributable to equity holders of the Parent Company (a) | **₱ 2,797** | ₱ 3,245 |
| Weighted average number of shares outstanding (b) | **15,410** | 15,410 |
| Basic / Diluted EPS (a/b) | **₱ 0.18** | ₱ 0.21 |

As of March 31, 2013 and 2012, the Group has no dilutive debt or equity instruments.

## 7. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to ₱0.14 and ₱0.14 per share as of March 2013 and 2012, respectively.

## 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
- Liquidity Risk
- Credit Risk

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

The Group's principal non-trade related financial instruments include cash and cash equivalents, available-for-sale (AFS) financial assets, 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, accounts payable and accrued expenses arise directly from and are used to facilitate its daily 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 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 Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's accounting policies in relation to derivatives are set out in Note 9 to the consolidated financial statements.

Interest Rate Risk

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

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

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

The 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 ₱73 and ₱74 in March 31, 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 March 31, 2013 and December 31, 2012, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| **March 31, 2013** | **<1 year** | **1-<2 years** | **>2-<3 years** | **>3-<4 years** | **>4-<5 years** | **>5 years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Fixed rate** | | | | | | | |
| **Philippine peso-denominated** | **₱ -** | **₱22,400** | **₱ -** | **₱ -** | **₱3,000** | **₱19,810** | **₱45,210** |
| **Interest rate** | | **8.875%** | | | **6.05%** | **5.93%-10.50%** | |
| **Floating rate** | | | | | | | |
| **Foreign currency-denominated (expressed in Philippine peso)** | **612** | **6,732** | **-** | **-** | **-** | **-** | **7,344** |
| **Interest rate** | **LIBOR + margin** | **LIBOR + margin** | | | | | |
| | **₱ 612** | **₱29,132** | **₱ -** | **₱ -** | **₱ 3,000** | **₱19,810** | **₱ 52,554** |

| December 31, 2012 | <1 year | 1-<2 years | >2-<3 years | >3-<4 years | >4-<5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|
| Fixed rate | | | | | | | |
| Philippine peso-denominated | ₱ - | ₱22,400 | ₱ - | ₱ - | ₱3,000 | ₱19,810 | ₱45,210 |
| Interest rate | | 8.875% | | | 6.05% | 5.93%-10.50% | |
| Floating rate | | | | | | | |
| Foreign currency-denominated (expressed in Philippine peso) | 462 | 616 | 6,311 | - | - | - | 7,389 |
| Interest rate | LIBOR + margin | LIBOR + margin | LIBOR + margin | | | | |
| | ₱ 462 | ₱ 23,016 | ₱ 6,311 | ₱ - | **₱3,000** | ₱19,810 | ₱ 52,599 |

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 uses natural hedges and/or purchases foreign currencies at spot rates where necessary to address short-term imbalances from importations, revenue and expense transactions, and other foreign currency-denominated obligations.

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

| | **March 31, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$116.5** | **₱4,754** | US$108.8 | ₱4,468 |
| Trade and other receivables | **57.3** | **2,338** | 54.0 | 2,218 |
| Noncurrent receivable | **0.3** | **11** | 0.3 | 11 |
| | **174.1** | **7,103** | 163.1 | 6,697 |
| **Liabilities** | | | | |
| Accounts payable and accrued expenses | **57.4** | **2,341** | 50.2 | 2,063 |
| Long-term debt | **180.0** | **7,344** | 180.0 | 7,389 |
| | **237.4** | **9,685** | 230.2 | 9,452 |
| Net foreign currency-denominated monetary liabilities | **(US$63.3)** | **(₱2,582)** | (US$67.1) | (₱2,755) |

The Group reported net foreign exchange gains amounting to ₱43 and ₱284 in March 31, 2013 and 2012, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

| | **Peso to US Dollar** |
|---|---|
| December 31, 2011 | 43.84 |
| March 31, 2012 | 42.92 |
| December 31, 2012 | 41.05 |
| March 31, 2013 | 40.80 |

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of March 31, 2013 and December 31, 2012:

| **March 31, 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 | **(P13)** | **(P113)** | **P13** | **P113** |
| Trade and other receivables | **(1)** | **(56)** | **1** | **56** |
| | **(14)** | **(169)** | **14** | **169** |
| Accounts payable and accrued expenses | **8** | **55** | **(8)** | **(55)** |
| Long-term debt | **150** | **135** | **(150)** | **(135)** |
| | **158** | **190** | **(158)** | **(190)** |
| | **P144** | **P21** | **(P144)** | **(P21)** |

| December 31, 2012 | P1 decrease in the US dollar exchange rate | | P1 increase in the US dollar exchange rate | |
|---|---|---|---|---|
| | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| Cash and cash equivalents | (P14) | (P105) | P14 | P105 |
| Trade and other receivables | (2) | (53) | 2 | 53 |
| | (16) | (158) | 16 | 158 |
| Accounts payable and accrued expenses | 2 | 50 | (2) | (50) |
| Long-term debt | 150 | 135 | (150) | (135) |
| | 152 | 185 | (152) | (185) |
| | P136 | P27 | (P136) | (P27) |

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.

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

**March 31, 2013**

| | **Carrying Amount** | **Contractual Cash Flow** | **1 year or less** | **>1 year - 2 years** | **>2 years - 5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | **P24,970** | **P24,970** | **P24,970** | **P -** | **P -** | **P -** |
| Trade and other receivables - net | **4,310** | **4,310** | **4,310** | **-** | **-** | **-** |
| AFS financial assets (included under "Investments" account in the consolidated statements of financial position) | **63** | **63** | **-** | **-** | **-** | **63** |
| Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position) | **46** | **46** | **-** | **-** | **22** | **24** |
| **Financial Liabilities** | | | | | | |
| Accounts payable and accrued expenses (excluding cash dividends payable) | **7,029** | **7,029** | **7,029** | **-** | **-** | **-** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Derivative liabilities (included under “Accounts payable and accrued expenses” account in the consolidated statements of financial position) | **5** | **5** | **5** | **-** | **-** | **-** |
| Long-term debt (including current maturities) | **52,207** | **65,071** | **4,302** | **30,804** | **7,414** | **22,551** |

December 31, 2012

| | Carrying Amount | Contractual Cash Flow | 1year or less | >1 year - 2 years | >2 years - 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | P21,959 | P21,959 | P21,959 | P - | P - | P - |
| Trade and other receivables - net | 4,997 | 4,997 | 4,997 | - | - | - |
| Derivative assets (included under “Prepaid expenses and other current assets” account in the consolidated statements of financial position) | 4 | 4 | 4 | - | - | - |
| AFS financial assets (included under “Investments” account in the consolidated statements of financial position) | 63 | 63 | - | - | - | 63 |
| Noncurrent receivables (included under “Other noncurrent assets” account in the consolidated statements of financial position) | 47 | 47 | - | - | 21 | 26 |
| **Financial Liabilities** | | | | | | |
| Accounts payable and accrued expenses (excluding cash dividends payable) | 7,631 | 7,631 | 7,631 | - | - | - |
| Derivative liabilities (included under “Accounts payable and accrued expenses” account in the consolidated statements of financial position) | 1 | 1 | 1 | - | - | - |
| Long-term debt (including current maturities) | 52,222 | 66,044 | 4,158 | 25,215 | 13,783 | 22,888 |

Credit Risk

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

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures. Where appropriate, the Group obtains collateral or arranges master netting agreements.

*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 dealers, wholesalers and retailers as these factors may have an influence on the credit risk.

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 or cash basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on cash 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.

*AFS Financial Assets*

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

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

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Cash and cash equivalents | **₱24,970** | ₱21,959 |
| Trade and other receivables - net | **4,310** | 4,997 |
| Derivative assets | **-** | 4 |
| AFS financial assets | **63** | 63 |
| Noncurrent receivables | **46** | 47 |
| | **₱29,389** | ₱27,070 |

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

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

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 business 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 debt, return capital to shareholders or issue new shares.

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

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

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

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

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

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

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

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

*Financial Assets*

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

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

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains and 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 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 ₱ nil and ₱4 as of 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 which are subject to an insignificant risk of changes in value.

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

The combined carrying amounts of financial assets under this category amounted to ₱29,326 and ₱27,003 as of 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 classified 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 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 and losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has no investments accounted for under this category as of March 31, 2013 and December 31, 2012.

*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 consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

The Group's investments in equity securities included under "Investments" account are classified under this category.

The carrying amounts of financial assets under this category amounted to ₱63 and ₱63 as of March 31, 2013 and December 31, 2012, respectively.

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred shall be 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 ₱5 and ₱1 as of 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 integral part of the effective interest rate of the liability.

Included in this category are the Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses and long-term debt.

The combined carrying amounts of financial liabilities under this category amounted to ₱59,236 and ₱59,853 as of 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 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 the 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 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 assets to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

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

| | **March 31, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **₱24,970** | **₱24,970** | ₱21,959 | ₱21,959 |
| Trade and other receivables - net | **4,310** | **4,310** | 4,997 | 4,997 |
| Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position) | **-** | **-** | 4 | 4 |
| AFS financial assets (included under "Investments" account in the consolidated statements of financial position) | **63** | **63** | 63 | 63 |
| Noncurrent receivables (included under "Other noncurrent assets" account in the consolidated statements of financial position) | **46** | **46** | 47 | 47 |
| **Financial Liabilities** | | | | |
| Accounts payable and accrued expenses | **7,029** | **7,029** | 7,631 | 7,631 |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position) | **5** | **5** | 1 | 1 |
| Long-term debt (including current maturities) | **52,207** | **58,878** | 52,222 | 57,899 |

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

*Derivatives.* The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. Fair values for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

*AFS Financial Assets.* The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. Unquoted equity securities are carried at cost less impairment.

*Accounts Payable and Accrued Expenses.* The carrying amount of accounts payable and accrued expenses 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 loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. As of March 31, 2013 and December 31, 2012, discount rates used range from 0.46% to 3.46% and 0.49% to 4.35%, respectively. The carrying amount of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of embedded derivative financial instruments that are not designated as hedges are discussed below.

*Derivative Instruments Not Designated as Hedges*

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

Embedded Derivatives

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

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

*Embedded Currency Forwards*

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

As of March 31, 2013 and December 31, 2012, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$17 and US$20, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2013 and December 31, 2012, the net (negative) positive fair value of these embedded currency forwards amounted to (₱5) and ₱3, respectively.

For the periods ended March 31, 2013 and 2012 and December 31, 2012 and 2011, the Group recognized marked-to-market gains (losses) from embedded derivatives amounting to (₱4), ₱36, (₱9) and (₱4) respectively.

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method as of March 31, 2013 and December 31, 2012. 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.

**March 31, 2013**

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Financial Assets** | | | |
| Derivative Assets | ₱ - | ₱ 0 | ₱- |
| AFS financial assets | 63 | - | 63 |
| **Financial Liabilities** | | | |
| Derivative Liabilities | - | 5 | 5 |

December 31, 2012

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| **Financial Assets** | | | |
| Derivative Assets | ₱ - | ₱ 4 | ₱ 4 |
| AFS financial assets | 63 | - | 63 |
| **Financial Liabilities** | | | |
| Derivative Liabilities | - | 1 | 1 |

As of March 31, 2013 and December 31, 2012, the Group has no financial instruments valued based on Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 10. Events after the Reporting Date

a. On April 12, 2013, the Company accepted and paid a total of 51,425,799 common shares tendered by the public in accordance with the terms and conditions of the Company’s tender offer for its common shares held by the public.

b. On April 24, 2013, the PSE granted the Petition for Voluntary Delisting of its common shares in the PSE. The shares of the Company will be delisted from the PSE effective May 15, 2013.

c. On May 09, 2012, the BOD of the Parent Company declared cash dividends amounting to ₱0.14 per share payable to stockholders of record as of June 3, 2013 to be paid on June 10, 2013.

## 11. Other Matters

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

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

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

d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. There were no material off-statement 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 into by the Group as of and for the period ended March 31, 2013.

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

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of March 31, 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 the next quarter until its completion. The fund to be used for these projects will come from available cash.

Annex “B”

SAN MIGUEL BREWERY INC.
A subsidiary of San Miguel Corporation

# MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

## INTRODUCTION

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

## I. KEY TRANSACTIONS

- Following the denial by the Securities and Exchange Commission (“SEC”) of all requests by listed companies (including the Company’s request) for the extension of the grace period for listed companies to comply with the Philippine Stock Exchange, Inc.’s (“PSE”) minimum public ownership requirement and the PSE’s imposition of a trading suspension on the common shares of the Company effective January 1, 2013, the Board of Directors of the Company approved on February 15, 2013, the voluntary delisting of the Company’s common shares from the PSE. A petition for the same was thereafter filed by the Company with the PSE on February 20, 2013.

- To comply with the PSE requirement on voluntary delisting, the Company undertook a tender offer to buy back all of the common shares held by the public (other than those held by its major stockholders and directors) at an offer price of ₱20.00 per common share. The tender offer commenced on March 4, 2013 and ended on April 3, 2013.

## II. FINANCIAL PERFORMANCE

### 2013 vs. 2012

The Group posted consolidated sales revenue of ₱17,545 million for the first quarter of 2013, 4.4% lower compared to the same period last year due to a 12% decline in total sales volume. Domestic operations contributed ₱14,144 million while international operations contributed US$83.8 million or ₱3,409 million.

Cost of sales was flat at ₱9,409 million, with domestic operations accounting for ₱7,200 million and US$54.5 million or ₱2,217 million for international operations.

Operating expenses amounted to ₱3,298 million, a decrease of 10.8% from the same period in 2012 due to continued implementation of cost management programs to counter the impact of lower volumes and higher excise taxes for domestic operations. Domestic operations accounted for ₱2,382 million, lower by 13.8% from the same period last year while international operations accounted for US$22.5 million or ₱916 million, 3.2% lower than 2012.

Income from operations decreased by 8.5%, ending the quarter with ₱4,838 million. Domestic operations contributed ₱4,562 million while international operations contributed US$6.8 million.

Interest income declined by 9.9% despite an increase in cash balance due to lower interest rates on money market placements.

Interest expense and other financing charges likewise decreased from ₱1,060 million in the first quarter of 2012 to ₱957 million in 2013 due to the lower financing cost of the ₱20 billion fixed rate bonds issued in April 2012, the proceeds of which were used to redeem the ₱13.59 billion Series A bonds which formed part of the ₱38.8 billion fixed rate bonds issued in April 2009 and matured in April 2012, and to partially prepay the US$300 million term facility of the Company in the amount of US$150 million.

Other income decreased by ₱270 million primarily due to the lower foreign exchange gain as compared to last year.

As a result of the foregoing, consolidated net income decreased by 13.1% , ending the period with ₱2,901 million as against the ₱3,337 million in 2012. Domestic and international operations contributed ₱2,709 million and US$4.7 million, respectively.

Net income attributable to non-controlling interests increased by 13% mainly due to improvement of San Miguel Brewery Hong Kong Ltd. ("SMBHK") group's operations.

The operating and financial highlights of each segment are as follows:

***Domestic Beer Operations***

The increase in excise taxes effective January, 2013 slowed down consumption and resulted in a 4.7% decrease in revenues as compared to the first quarter of 2012. Operating expenses decreased by 13.8% as costs were contained to counter the impact of lower volumes. Income from operations also decreased from ₱5,003 million in 2012 to ₱4,562 million for this quarter as a result of lower volumes. Consequently, net income decreased, ending the first quarter with ₱2,709 million as compared to the ₱3,709 million in 2012.

***International Beer Operations***

Building on the growth momentum of 2012, SMBIL started the year with a 33% year-on-year growth in operating income to settle at US$6.78 million, on the back of lower fixed cost spending and margin improvements. Most of SMBIL's managed countries registered improvements over the same period last year.

Volumes, on the other hand, declined by 3% versus the previous year as growth in Indonesia, Vietnam and Thailand were offset by declines in South China and Exports.

Indonesia was off to another good start as it posted 6% volume growth this quarter due to the continued success of the market expansion programs implemented last year.

Vietnam was able to post a 20% increase in domestic volumes owing to the success of the W1N Beer incentive program which helped W1N beer grow by 57% versus 2012. Meanwhile, Thailand posted a 7% growth in its domestic volumes on account of the increase in the number of active outlets as part of the on-going market penetration program.

South China posted a 28% volume decline due to shortfalls in its core markets, and a distribution restructuring is now on-going in these markets. Hong Kong and North China domestic volumes also registered slight volume declines, at 3% and 2%, respectively.

Exports volume declined by 6% caused by the yet unresolved conflict in Sudan.

**2012 vs. 2011**

The Group's consolidated sales revenue reached ₱18,345 million in 2012, 4.6% higher versus the same period in 2011 despite a 3.6% drop in sales volume. This was mainly due to increase in selling prices. Domestic operations contributed ₱14,839 million while international operations contributed US$81.7 million or ₱3,517 million.

Cost of sales amounted to ₱9,358 million in 2012, with domestic operations accounting for ₱7,072 million and US$53.4 million or ₱2,298 million for international operations.

Operating expenses amounted to ₱3,698 million, an increase of 6.8% from the same period in 2011 due to higher personnel expenses, increased advertising and promotional activities and freight charges. Domestic operations accounted for ₱2,764 million, higher by 10.8% from the same period in 2011 while international operations accounted for US$23.2 million or ₱999 million.

Income from operations increased by 4.7% to ₱5,289 million in the first quarter of 2012 with domestic operations contributing ₱5,003 million and US$5.1 million or ₱220 million from international operations.

Interest expense and other financing charges went up by 5.6% to ₱1,060 million in 2012 primarily due to the payment of consent fees to bondholders who consented to replace the financial covenant of the ₱38.8 billion fixed rate bonds to maintain a minimum current ratio of 1:1 with a minimum interest coverage ratio of 4.75:1.

Interest income is higher by 13.7% in 2012 compared to the same period in 2011 owing to higher cash balance of both domestic and international operations.

The impairment loss of ₱44 million pertains to PT Delta Jakarta, Tbk's ("PTD") investment in PT San Miguel Indonesia Foods and Beverages ("PTSMI") which ceased operation early 2012.

Other income amounted to ₱325 million, a ₱189 million increase from the same period in 2011 mainly due to foreign exchange gains from the strengthening of the peso over the US dollar.

Consolidated net income amounted to ₱3,344 million, an increase of 10.4% compared to the first quarter of 2011, ₱3,152 million of which came from domestic operations while international operations posted a US$4.35 million loss or ₱187 million net income.

Net income attributable to non-controlling interest increase is primarily due to PTD's higher net income and lower loss of SMBHK group.

The operating and financial highlights of each segment are as follows:

***Domestic Beer Operations***

Notwithstanding the 5.6% drop in domestic operations' sales volume, revenue increased from ₱14,616 million to ₱14,839 million due to a price increase in May 2011. However, operating costs went up by 10.7% largely due to higher personnel expenses and increased advertising and promotional expenses, resulting in a slightly lower operating income.

On the other hand, the increase in foreign exchange gain brought about by the strengthening of the peso over the US dollar and the considerable increase in interest income earned from money market placements compensated for the decline in operating profit, providing a 2.4% increase in net income at the end of the first quarter of 2012.

*International Beer Operations*

Owing to the strong volume performance from Indonesia, Hong Kong and SMBIL's Exports operations, total sales volume was 9% ahead of 2011. International operations' sales revenue increased by 22.6%, resulting in a first quarter operating income of US$5.10 million, a strong growth over 2011's operating income of US$1.1 million.

Net income for the first three months of 2012 reached US$4.35 million, a turnaround from the US$1.1 million net loss registered last year.

**III. FINANCIAL POSITION**

**2013 vs. 2012**

The Group's total assets slightly increased by 3.0% from ₱96,626 million in December 2012 to ₱99,564 million as of March 2013 primarily due to increases in current assets.

Cash and cash equivalents increased by 13.7% to ₱24,970 million as of March 2013. Domestic and international operations' balance increased by ₱2,680 million and US$8.7 million respectively, primarily due to higher cash generated from operations.

Trade and other receivables decreased by 13.7% from the ₱4,997 million in December 2012 to ₱4,310 million as of March 2013 largely due to lower revenues.

Inventories increased by 24.1% from ₱3,134 million in 2012 to ₱3,888 million primarily due to domestic operations' higher inventory levels of finished goods, containers and raw materials owing to the slowdown in sales volume for the first three months of 2013.

Prepaid expenses and other current assets balance decreased by 13.2% due to the reclassification of prepaid insurance to expense and lower prepaid taxes.

Accounts payable and accrued expenses increased by 20.4% primarily due to accruals of interest expense and unpaid dividends payable.

Income and other taxes payable amounted to ₱3,498 million as of March, a 26.7% increase over 2012 balance due to provisions for income tax for the first quarter of 2013.

Current maturities of long term debt increased by 32.9% or ₱151 million due to the reclassification of half of SMBHK's US$30 million loan which is payable within one year.

Cumulative translation adjustments of ₱1,399 million relates to the foreign currency translation adjustments of international operations' accounts.

**2012 vs. 2011**

The Group's total assets slightly increased by 3.3% from December 2011 balances of ₱92,089 million to ₱95,123 million as of March 2012.

Cash and cash equivalents increased by 19% to ₱21,750 million in March 2012. Domestic operations' balance increased by ₱2,079 million to ₱15,793 million primarily due to higher cash generated from operations. International operations' cash and cash equivalent balances increased by US$35 million to US$139 million primarily due to the proceeds of the long-term debt of SMBHK amounting to US$30 million drawn in March 2012.

Trade and other receivables decreased by 7.2% from ₱4,977 million last year to ₱4,621 million in 2012. Domestic operations' balance is lower by 11.2% while international operations' is lower by 4.8% largely due to effective collection efforts of both domestic and international operations.

Inventories increased by 5.6% from ₱3,370 million in 2011 to ₱3,559 million in 2012 primarily due to domestic operations' higher inventory levels of finished goods, containers and raw materials owing to the slowdown in sales volume for the first three months of 2012.

Investments decreased from ₱132 million to ₱86 million in 2012 due to the impairment of PTD's investment in PTSMI amounting to US$1 million.

Deferred tax assets is lower by ₱61 million from ₱1,106 million in 2011 to ₱1,045 million in 2012 primarily due to revaluation of domestic operations' long-term debt.

Income and other taxes payable amounted to ₱3,642 million in 2012, a 39.8% increase over 2011 due to provisions for income tax for the first quarter of 2012.

The 31.1% increase in current maturities of long-term debt or ₱4,228 million is due to the reclassification of a portion of the US$300 million loan in the amount of US$100 million that was paid on April 13, 2012. Conversely, long-term debt decreased by ₱3,180 million, net of the ₱1,288 million or US$30 million new loan of SMBHK.

Deferred tax liabilities decreased by ₱16 million from ₱35 million balance as at December 2011 due to the reclassification of deferred tax liability to deferred tax asset of PTD.

Cumulative translation adjustments of ₱851 million relates to the foreign currency translation adjustments of international operations' accounts.

The increase in equity is due to:

| | March 31 | |
|---|---|---|
| **(in Millions)** | **2013** | 2012 |
| Income during the period | **₱2,901** | ₱3,337 |
| Impact of PAS 19 | **-** | (65) |
| Effect of translation adjustments and others | **54** | (246) |
| Cash dividends declared | **(2,181)** | (2,157) |
| | **₱ 774** | ₱ 869 |

## IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| | March 31 | |
|---|---|---|
| | **2013** | 2012 |
| Net cash flows provided by operating activities | **₱ 3,360** | ₱ 4,845 |
| Net cash flows used in investing activities | **(302)** | (375) |
| Net cash flows used in financing activities | **(24)** | (894) |

Net cash flows from operations basically consist of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows used in (provided by) investing activities included the following:

| | March 31 | |
|---|---|---|
| | **2013** | **2012** |
| Interest received | **₽ 171** | ₽ 191 |
| Proceeds from sale of property and equipment | **6** | 1 |
| Additions to investment property | **(6)** | - |
| Additions to intangible assets | **-** | (1) |
| Additions to property and equipment | **(41)** | (68) |
| Additions to other noncurrent assets | **(432)** | (498) |

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

| | March 31 | |
|---|---|---|
| | **2013** | **2012** |
| Proceeds from long-term debt | **₽ -** | ₽ 1,288 |
| Payment of short-term borrowings | **-** | (18) |
| Decrease in other noncurrent liabilities | **-** | (7) |
| Cash dividends paid | **(24)** | (2,157) |

The effect of exchange rate changes on cash and cash equivalents amounted to (₽23 million) and (₽108 million) in March 31, 2013 and 2012, respectively.

## V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data on the periods indicated below:

| | **March 2013** | **December 2012** |
|---|---|---|
| Liquidity: | | |
| Current Ratio | 2.55 | 2.86 |
| Solvency: | | |
| Interest Coverage Ratio* | 6.38 | 6.33 |
| Debt-to-Equity Ratio | 2.17 | 2.16 |
| Interest-bearing Debt-to-Equity Ratio | 1.67 | 1.72 |
| Total Asset-to-Equity Ratio | 3.17 | 3.16 |
| Profitability: | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | 38.70% | 54.83% |

| | Period Ended March 31 | |
|---|---|---|
| | **2013** | **2012** |
| Operating Efficiency: | | |
| Volume Decline | (12.2%) | (3.6%) |
| Revenue Growth (Decline) | (4.4%) | 4.6% |
| Operating Margin | 27.6% | 28.8% |

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

| KPI | Formula |
|---|---|
| Current Ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Interest Coverage Ratio | $\frac{\text{Earnings before interest, taxes, depreciation and amortization (EBITDA)*}}{\text{Interest expense and other financing charges}}$ |
| Debt-to-Equity Ratio | $\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$ |
| Interest-bearing Debt-to-Equity Ratio | $\frac{\text{Total Interest-bearing Debt}}{\text{Equity}}$ |
| Total Asset-to-Equity Ratio | $\frac{\text{Total Asset (Current + Noncurrent)}}{\text{Total Equity}}$ |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | $\frac{\text{Net Income Attributable to Equity Holders of the Parent Company**}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$ |
| Volume Growth (Decline) | $\left(\frac{\text{Current Period Sales Volume}}{\text{Prior period Sales Volume}}\right) -1$ |
| Revenue Growth | $\left(\frac{\text{Current period Net Sales}}{\text{Prior Period Net Sales}}\right) -1$ |
| Operating Margin | $\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$ |

* Based on 12-month rolling EBITDA
** Annualized for quarterly reporting