



SAN MIGUEL CORPORATION

November 14, 2013

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

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

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period ended September 30, 2013.

Very truly yours,


MARY ROSE S. TAN
Assistant Corporate Secretary



111142013002710

**SECURITIES AND EXCHANGE COMMISSION**

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

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Company Information

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Company Name SAN MIGUEL CORP.
Industry Classification
Company Type Stock Corporation

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S. E. C. Registration Number

S A N

M I G U E L

C O R P O R A T I O N

(Company's Full Name)

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

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

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

1 2

Month

3 1

Day

SEC FORM (3rd Quarter-2013)

1 7 - Q

FORM TYPE

2nd Tuesday of June

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

S T A M P S

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

1. For the quarterly period ended **September 30, 2013**
2. Commission identification number **PW00000227**
3. BIR Tax Identification No **041-000-060-741**
4. Exact name of issuer as specified in its charter **SAN MIGUEL CORPORATION**
5. **Philippines**
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **No. 40 San Miguel Avenue,**
Mandaluyong City **1550**
Address of issuer's principal office Postal Code
8. **(632) 632-3000**
Issuer's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Number of shares of stock and
Debt outstanding (as of September 30, 2013)

Common Shares	2,376,899,350
Preferred Shares – Series “2”	
Subseries “A”	721,012,400
Subseries “B”	90,428,200
Subseries “C”	255,559,400

Total Liabilities	P789,758 million
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11. Are any or all of the securities listed on a Stock Exchange?
Yes [x] No []

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

**Common Shares and Series “2” Preferred Shares in three sub-series (2-A, 2-B
and 2-C) - Philippine Stock Exchange**

12. Indicate by check mark whether the registrant:

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

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes ☒ No ☐

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2013 (with comparative figures as of December 31, 2012 and for the period ended September 30, 2012) and Selected Notes to Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

PART II--OTHER INFORMATION

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

NONE

SIGNATURES

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

Issuer **SAN MIGUEL CORPORATION**

Signature and Title **FERDINAND K. CONSTANTINO**
Senior Vice President and
Chief Finance Officer/Authorized Signatory

Date November 14, 2013

Signature and Title **BELLA O. NAVARRA**
Comptrollership Manager/Authorized Signatory

Date November 14, 2013

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2013 and December 31, 2012
(In Millions)

ANNEX "A"

ASSETS

	2013 Unaudited	2012 As Restated (Note 2)
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	P 179,318	P 125,507
Trade and other receivables - net (Notes 4, 8 and 9)	136,800	122,544
Inventories	89,314	80,075
Current portion of biological assets - net	3,816	3,792
Prepaid expenses and other current assets (Notes 8 and 9)	35,651	31,600
	<u>444,899</u>	<u>363,518</u>
Assets held for sale	50,943	9,373
Total Current Assets	<u>495,842</u>	<u>372,891</u>
Noncurrent Assets		
Investments and advances - net	117,474	162,479
Available-for-sale financial assets (Notes 8 and 9)	6,199	1,570
Property, plant and equipment - net (Note 5)	413,583	370,016
Investment properties - net	4,161	3,780
Biological assets - net of current portion	1,929	1,932
Goodwill - net	40,053	49,953
Other intangible assets - net	11,773	34,075
Deferred tax assets	15,266	10,314
Other noncurrent assets - net (Notes 4, 8 and 9)	58,463	35,264
	<u>668,901</u>	<u>669,383</u>
Total Noncurrent Assets	<u>668,901</u>	<u>669,383</u>
	<u>P 1,164,743</u>	<u>P 1,042,274</u>

LIABILITIES AND EQUITY

	2013 Unaudited	2012 As Restated (Note 2)
Current Liabilities		
Loans payable (Notes 8 and 9)	P 155,313	P 151,097
Accounts payable and accrued expenses (Notes 4, 8 and 9)	106,912	84,622
Finance lease liabilities - current portion (Notes 8 and 9)	15,602	15,456
Income and other taxes payable	10,624	11,123
Dividends payable	1,880	3,247
Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9)	39,055	3,164
Total Current Liabilities	<u>329,386</u>	<u>268,709</u>
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9)	255,560	220,881
Deferred tax liabilities	12,565	12,929
Finance lease liabilities - net of current portion (Notes 8 and 9)	179,567	179,698
Other noncurrent liabilities (Notes 8 and 9)	12,680	11,775
Total Noncurrent Liabilities	<u>460,372</u>	<u>425,283</u>
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	16,411	16,408
Capital stock - preferred	10,187	10,187
Additional paid-in capital	178,035	177,762
Revaluation increment	991	1,352
Reserve for Retirement Plan (Note 2)	(51)	(193)
Cumulative translation adjustments	4,492	5,139
Retained earnings:		
Appropriated	27,955	27,219
Unappropriated	154,213	154,476
Treasury stock	(139,901)	(140,124)
	<u>252,332</u>	<u>252,226</u>
Non-controlling Interests	122,653	96,056
Total Equity	<u>374,985</u>	<u>348,282</u>
	<u>P 1,164,743</u>	<u>P 1,042,274</u>

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

CERTIFIED CORRECT:

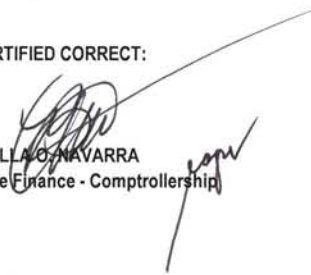

BELLA O. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Period Ended September 30, 2013 and 2012
(In Millions, Except Per Share Data)

			For the Quarter Ended	
	2013	2012	2013	2012
	Unaudited	As Restated (Note 2)	Unaudited	Unaudited (Note 2)
SALES (Note 3)	P 542,559	P 508,730	P 185,099	P 179,526
COST OF SALES	457,969	433,931	155,568	153,873
GROSS PROFIT	84,590	74,799	29,531	25,653
SELLING AND ADMINISTRATIVE EXPENSES	(38,624)	(38,001)	(12,501)	(13,267)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(23,654)	(22,519)	(7,514)	(7,121)
INTEREST INCOME	2,650	3,136	792	1,023
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND A JOINT VENTURE	(988)	2,338	(855)	200
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	10,436	1,860	9,846	670
OTHER INCOME (CHARGES) - Net	(14,555)	8,788	(2,182)	1,579
INCOME BEFORE INCOME TAX	19,855	30,401	17,117	8,737
INCOME TAX EXPENSE	2,177	4,704	2,392	1,168
NET INCOME	P 17,678	P 25,697	P 14,725	P 7,569
Net Income Attributable to :				
Equity Holders of the Parent Company	P 7,549	P 18,671	P 9,949	P 4,933
Non-controlling Interests	10,129	7,026	4,776	2,636
	P 17,678	P 25,697	P 14,725	P 7,569
Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6):				
Basic	P 1.25	P 5.97	P 3.55	P 1.40
Diluted	P 1.24	P 5.93	P 3.52	P 1.39

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

CERTIFIED CORRECT:


 BELLA O. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended September 30, 2013 and 2012
(In Millions)

			For the Quarter Ended	
	2013	2012	2013	2012
	Unaudited	As Restated (Note 2)	Unaudited	As Restated (Note 2)
NET INCOME	P 17,678	P 25,697	P 14,725	P 7,569
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	734	(948)	(912)	744
EQUITY RESERVE FOR RETIREMENT PLAN (Note 2)	203	(1,954)	203	(342)
INCOME TAX BENEFIT (EXPENSE)	(61)	586	(61)	102
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(165)	(136)	(96)	25
INCOME TAX EXPENSE	-	-	(1)	(2)
SHARE IN COMPREHENSIVE INCOME OF ASSOCIATES	104	484	-	40
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	815	(1,968)	(867)	567
TOTAL COMPREHENSIVE INCOME - NET OF TAX	P 18,493	P 23,729	P 13,858	P 8,136
Comprehensive Income Attributable to :				
Equity Holders of the Parent Company	P 7,044	P 17,605	P 9,277	P 5,360
Non-controlling Interests	11,449	6,124	4,581	2,776
	P 18,493	P 23,729	P 13,858	P 8,136

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended September 30, 2013 and 2012
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity										
	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Reserve for Retirement Plan	Cumulative Translation Adjustments		Fair Value Reserve	Retained Earnings		Treasury Stock	Total														
	Common	Preferred				Translation Reserve			Appropriated	Unappropriated																
As of January 1, 2013 (Audited)	P	16,408	P	10,187	P	177,762	P	1,352	P	-	P	5,612	P	(524)	P	27,219	P	154,303	P	(140,124)	P	252,195	P	97,585	P	349,780
Adjustment due to PAS 19 and PFRS 11 (Note 2)		-		-		-		-		(193)		51		-		-		173		-		31		(1,529)		(1,498)
As of January 1, 2013 (As Restated)		16,408		10,187		177,762		1,352		(193)		5,663		(524)		27,219		154,476		(140,124)		252,226		96,056		348,282
Foreign currency translation differences		-		-		-		-		(592)		-		-		-		-		-		(592)		1,326		734
Share in comprehensive income of associates		-		-		-		-		-		104		-		-		-		-		104		-		104
Equity reserve for retirement plan		-		-		-		-		142		-		-		-		-		-		142		-		142
Net change in fair value of available-for-sale financial assets, net of tax		-		-		-		-		-		(159)		-		-		-		-		(159)		(6)		(165)
Other comprehensive income (loss)		-		-		-		-		142		(592)		(55)		-		-		-		(505)		1,320		815
Net income for the period		-		-		-		-		-		-		-		-		7,549		-		7,549		10,129		17,678
Total comprehensive income (loss) for the period		-		-		-		-		142		(592)		(55)		-		7,549		-		7,044		11,449		18,493
Issuance of common shares		3		-		21		-		-		-		-		-		-		-		24		-		24
Conversion of exchangeable bonds from treasury shares		-		-		183		-		-		-		-		-		-		223		406		-		406
Stock options		-		-		69		-		-		-		-		-		-		-		69		-		69
Net addition to non-controlling interests and others		-		-		-		(361)		-		-		-		-		-		-		(361)		24,057		23,696
Appropriations - net		-		-		-		-		-		-		-		736		(736)		-		-		-		-
Cash dividends (Note 7):		-		-		-		-		-		-		-		-		-		-		-		-		-
Common		-		-		-		-		-		-		-		-		(2,497)		-		(2,497)		(7,056)		(9,553)
Preferred		-		-		-		-		-		-		-		-		(4,579)		-		(4,579)		(1,853)		(6,432)
As of September 30, 2013 (Unaudited)	P	16,411	P	10,187	P	178,035	P	991	P	(51)	P	5,071	P	(579)	P	27,955	P	154,213	P	(139,901)	P	252,332	P	122,653	P	374,985
As of January 1, 2012 (Audited)	P	16,397	P	4,852	P	103,511	P	1,443	P	-	P	5,662	P	(451)	P	24,315	P	141,126	P	(67,441)	P	229,414	P	69,686	P	299,100
Adjustment due to PAS 19 and PFRS 11 (Note 2)		-		-		-		-		750		24		-		-		942		-		1,716		(681)		1,035
As of January 1, 2012 (As Restated)		16,397		4,852		103,511		1,443		750		5,686		(451)		24,315		142,068		(67,441)		231,130		69,005		300,135
Foreign currency translation differences		-		-		-		-		-		(607)		-		-		-		-		(607)		(341)		(948)
Share in comprehensive income of associates		-		-		-		-		-		-		484		-		-		-		484		-		484
Equity reserve for retirement plan, net of tax (Note 2)		-		-		-		-		(794)		-		-		-		-		-		(794)		(574)		(1,368)
Net change in fair value of available-for-sale financial assets, net of tax		-		-		-		-		-		-		(149)		-		-		-		(149)		13		(136)
Other comprehensive income (loss)		-		-		-		-		(794)		(607)		335		-		-		-		(1,066)		(902)		(1,968)
Net income for the period		-		-		-		-		-		-		-		-		18,671		-		18,671		7,026		25,697
Total comprehensive income (loss) for the period		-		-		-		-		(794)		(607)		335		-		18,671		-		17,605		6,124		23,729
Issuance of common shares		10		-		108		-		-		-		-		-		-		-		118		-		118
Issuance of Series "2" preferred shares		-		5,335		74,045		-		-		-		-		-		-		-		79,380		-		79,380
Conversion of exchangeable bonds from treasury shares		-		-		13		-		-		-		-		-		-		28		41		-		41
Stock options		-		-		160		-		-		-		-		-		-		-		160		-		160
Net addition to non-controlling interests and others		-		-		-		(88)		-		53		-		-		-		-		(35)		17,034		16,999
Appropriations - net		-		-		-		-		-		-		-		400		(400)		-		-		-		-
Cash dividends (Note 7):		-		-		-		-		-		-		-		-		-		-		-		-		-
Common		-		-		-		-		-		-		-		-		(2,488)		-		(2,488)		(4,291)		(6,779)
Preferred		-		-		-		-		-		-		-		-		(5,823)		-		(5,823)		(2,319)		(8,142)
As of September 30, 2012 (Unaudited)	P	16,407	P	10,187	P	177,837	P	1,355	P	(44)	P	5,132	P	(116)	P	24,715	P	152,028	P	(67,413)	P	320,088	P	85,553	P	405,641

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Period Ended September 30, 2013 and 2012
(In Millions)

	2013 Unaudited	2012 As Restated (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 19,855	P 30,401
Adjustments for :		
Depreciation, amortization and others - net	31,898	3,853
Interest expense and other financing charges	23,654	22,519
Interest income	(2,650)	(3,136)
Equity in net losses (earnings) of associates and a joint venture	988	(2,338)
Gain on sale of investments and property and equipment	(10,436)	(1,860)
Operating income before working capital changes	63,309	49,439
Changes in noncash current assets, certain current liabilities and others	(4,417)	(12,806)
Cash generated from operations	58,892	36,633
Interest and other financing charges paid	(13,817)	(11,452)
Income taxes paid	(8,886)	(7,314)
Net cash flows provided by operating activities	36,189	17,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(738)	(19,909)
Additions to investments and advances	(10,087)	(21,960)
Additions to property, plant and equipment	(52,017)	(27,604)
Payment of other liabilities	-	(2,122)
Decrease (increase) in other noncurrent assets and others	(23,291)	10,040
Proceeds from sale of investments and property and equipment	31,330	17,202
Interest received	2,884	2,634
Dividends received from associates	3,504	4,593
Net cash flows used in investing activities	(48,415)	(37,126)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from :		
Short-term borrowings	665,041	476,453
Long-term borrowings	136,561	44,825
Payments of:		
Short-term borrowings	(662,862)	(450,856)
Long-term borrowings	(70,653)	(59,297)
Payment of finance lease liabilities	(14,271)	(13,075)
Cash dividends paid	(8,352)	(8,260)
Dividends paid to non-controlling shareholders	(9,008)	(6,522)
Proceeds from issuance of Series "2" preferred shares	-	79,380
Proceeds from issuance of common shares	24	118
Proceeds from issuance of undated subordinated capital securities of a subsidiary	30,546	-
Decrease in non-controlling interests	(1,008)	-
Net proceeds from issuance of preferred shares of a subsidiary	-	14,216
Net cash flows provided by financing activities	66,018	76,982
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	19	(994)
NET INCREASE IN CASH AND CASH EQUIVALENTS	53,811	56,729
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (As restated, Note 2)	125,507	128,864
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 179,318	P 185,593

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

CERTIFIED CORRECT:

BELLA D. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION (Parent Only)
 ACCOUNTS RECEIVABLE - NON-TRADE
 SEPTEMBER 30, 2013
 (AMOUNTS IN MILLIONS)

		<u>TOTAL</u>	<u>OVER 90 DAYS</u>
ACCOUNTS RECEIVABLE - NON-TRADE	P	122	<u>122</u>
ALLOW. FOR DOUBTFUL ACCOUNTS		<u>(122)</u>	
NET	P	<u>0</u>	

SAN MIGUEL CORPORATION AND SUBSIDIARIES

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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated interim financial statements as of and for the period ended September 30, 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 (P000,000), except when otherwise indicated.

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

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

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

Adopted Effective 2013

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

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

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

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

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

- PFRS 10, *Consolidated Financial Statements*, introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008), *Consolidated and Separate Financial Statements*, and Philippine Interpretation Standards Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. The new standard is effective for annual periods beginning on or after January 1, 2013.

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

- PFRS 11, *Joint Arrangements*, focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). The new standard: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) eliminates the option of using the equity method or proportionate consolidation for jointly controlled entities that are now called joint ventures as it always requires the use of equity method. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures*, and Philippine Interpretation SIC 13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The new standard is effective for annual periods beginning on or after January 1, 2013.

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

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

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

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

- PFRS 13, *Fair Value Measurement*, replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance.

It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The new standard is effective for annual periods beginning on or after January 1, 2013. The adoption of the new standard did not have a significant effect on the measurement of the Group's assets and liabilities.

- PAS 19, *Employee Benefits* (Amended 2011), includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability of entities to recognize all changes in the defined benefit retirement obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit retirement obligation. The amendments are applied retrospectively and are effective for annual periods beginning on or after January 1, 2013.

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

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

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.
- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:
 - *Comparative Information beyond Minimum Requirements (Amendments to PAS 1)*. These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required. The amendments are effective for annual periods beginning on or after January 1, 2013.

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

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

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

- Classification of Servicing Equipment (*Amendments to PAS 16, Property, Plant and Equipment*). The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under this standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.
- Income Tax Consequences of Distributions (*Amendments to PAS 32, Financial Instruments Presentation*). The amendments clarify that PAS 12, *Income Taxes*, applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments*. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.
- Segment Assets and Liabilities (*Amendments to PAS 34*). This is amended to align the disclosure requirements for segment assets and segment liabilities in interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a)

the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.

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

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

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

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

- Recoverable Amount Disclosures for Non-Financial Assets (*Amendments to PAS 36, Impairment of Assets*). The amendments clarify that the recoverable amount disclosure only applies to impaired assets (or cash-generating unit) and require additional disclosures to be made on fair value measurement on impaired assets when the recoverable amount is based on fair value less costs of disposal. The amendments harmonize the disclosure requirement for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not plan to adopt these amendments early.
- Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32*). The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not plan to adopt these amendments early.
- PFRS 9, *Financial Instruments (2010) and (2009)*. PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The International Accounting Standards Board currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. PFRS 9 (2010 and 2009) is effective for annual periods beginning on or after January 1, 2015.

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

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

2. Adoption of PFRS 11 and Amendments to PAS 19

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

Increase (decrease) in:

Consolidated Statements of Financial Position

	December 31, 2012			January 1, 2012		
	As Previously Reported	Restatement	As Restated	As Previously Reported	Restatement	As Restated
Total current assets	P373,229	(P338)	P372,891	P308,179	(P549)	P307,630
Total noncurrent assets	664,734	4,649	669,383	582,357	2,736	585,093
Total current liabilities	269,045	(336)	268,709	190,830	(401)	190,429
Total noncurrent liabilities	419,138	6,145	425,283	400,606	1,553	402,159
Total Equity	349,780	(1,498)	348,282	299,100	1,035	300,135

Consolidated Statement of Income

	For the Period Ended September 30, 2012		
	As Previously Reported	Restatement	As Restated
Sales	P509,175	(P445)	P 508,730
Income from operations	37,809	(1,011)	36,798
Net income	26,408	(711)	25,697

Attributable to:

Equity holders of the Parent			
Company	P19,248	(P577)	P18,671
Non-controlling interests	7,160	(134)	7,026
	<u>P26,408</u>	<u>(P711)</u>	<u>P25,697</u>

Earnings Per Common Share

Attributable to Equity Holders of the Parent Company:			
Basic	P6.22	(P0.25)	P5.97
Diluted	P6.17	(P0.24)	P5.93

Consolidated Statement of Comprehensive Income

	For the Period Ended September 30, 2012		
	As Previously Reported	Restatement	As Restated
Exchange differences on translation of foreign operations	(P962)	P14	(P948)
Equity reserve for retirement plan	-	(1,954)	(1,954)
Income tax benefit	-	586	586
Total comprehensive income (loss) - net of tax	25,794	(2,065)	23,729
Attributable to:			
Equity holders of the Parent Company	P18,965	(P1,360)	P17,605
Non-controlling interests	6,829	(705)	6,124
	<u>P25,794</u>	<u>(P2,065)</u>	<u>P23,729</u>

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 and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

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

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

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

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

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

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

Inter-segment Transactions

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

Financial information about reportable segments are as follows:

	Beverage		Food		Packaging		Power Generation and Distribution		Fuel and Oil		Infrastructure		Telecommunications		Others		Eliminations		Consolidated	
	2013	2012*	2013	2012*	2013	2012*	2013	2012*	2013	2012*	2013	2012*	2013	2012*	2013	2012*	2013	2012*	2013	2012*
Sales																				
External sales	P63,224	P64,263	P71,406	P69,351	P13,664	P13,316	P54,643	P56,789	P333,014	P304,012	P5,605	P85	P1,003	P914	P-	P-	P-	P-	P542,559	P508,730
Inter-segment sales	311	85	7	3	4,050	4,611	417	562	2,919	3,329	-	-	-	-	-	-	(7,704)	(8,590)	-	-
Total sales	P63,535	P64,348	P71,413	P69,354	P17,714	P17,927	P55,060	P57,351	P335,933	P307,341	P5,605	P85	P1,003	P914	P-	P-	(P7,704)	(P8,590)	P542,559	P508,730
Results																				
Segment results	P14,286	P14,685	P3,667	P3,220	P1,785	P1,644	P15,765	P13,851	P8,860	P6,007	P3,941	(P39)	(P162)	(P324)	(P2,377)	(P2,743)	P201	P497	P45,966	P36,798

* As Restated - Note 2

4. Related Party Disclosures

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

	Period	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement plans	September 30, 2013 December 31, 2012*	P18 -	P- -	P22,345 21,601	P- -	On demand; Interest bearing	Unsecured; No impairment
Associates	September 30, 2013 December 31, 2012*	45,075 53,210	650 481	22,957 10,680	53 61	On demand; Non-interest bearing	Unsecured; No impairment
	September 30, 2013 December 31, 2012*	- -	- -	- -	7,398 9,045	Less than 1 to 10 years; Interest bearing	Unsecured
Joint Venture Corporation	September 30, 2013 December 31, 2012*	- -	- -	317 215	- -	On demand; Non-interest bearing	Unsecured; No impairment
Shareholders in subsidiaries	September 30, 2013 December 31, 2012*	97 -	31 34	63 183	226 557	On demand; Non-interest bearing	Unsecured; No impairment
Others	September 30, 2013 December 31, 2012*	1 -	- -	1 24	15 18	On demand; Non-interest bearing	Unsecured; No impairment
Total	September 30, 2013	P45,191	P681	P45,683	P7,692		
Total	December 31, 2012*	P53,210	P515	P32,703	P9,681		

* As Restated - Note 2

- Amounts owed by related parties consist of trade and non-trade receivables and share in expenses.
- Amounts owed to related parties consist of trade payables and professional fees.
- The amounts owed to associates include interest bearing loans to Bank of Commerce (BOC) included as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

5. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2013

	January 1, 2013 (As Restated - Note 2)	Additions and Transfers	Acquisition of Subsidiaries, Disposals and Reclassifications	Currency Translation Adjustments	September 30, 2013
Cost:					
Land and land improvements	P20,878	P1,607	P2,477	P10	P24,972
Buildings and improvements	39,537	4,418	(56)	601	44,500
Power plants	214,319	7,296	-	-	221,615
Refinery and plant equipment	48,744	287	(13)	(30)	48,988
Service stations and other equipment	14,276	1,274	(213)	(15)	15,322
Machinery and equipment	85,110	2,312	(1,913)	1,377	86,886
Telecommunications equipment	7,526	196	(759)	-	6,963
Transportation equipment	12,252	440	(6)	32	12,718
Tools and small equipment	2,532	189	164	35	2,920
Office equipment, furniture and fixtures	5,278	152	(81)	7	5,356
Molds	703	191	(471)	3	426
Leasehold improvements	1,706	429	627	2	2,764
Construction in progress	66,645	33,226	1,124	(3)	100,992
	519,506	52,017	880	2,019	574,422
Accumulated depreciation and amortization:					
Land improvements	2,664	100	(7)	(9)	2,748
Buildings and improvements	16,933	1,086	(77)	171	18,113
Power plants	15,813	3,891	-	-	19,704
Refinery and plant equipment	28,096	1,791	(12)	(23)	29,852
Service stations and other equipment	9,152	830	(118)	(12)	9,852
Machinery and equipment	50,858	2,824	(1,362)	534	52,854
Telecommunications equipment	5,820	254	(714)	-	5,360
Transportation equipment	3,630	703	(110)	-	4,223
Tools and small equipment	1,825	162	183	17	2,187
Office equipment, furniture and fixtures	4,247	246	(80)	3	4,416
Molds	610	67	(377)	3	303
Leasehold improvements	737	82	670	2	1,491
	140,385	12,036	(2,004)	686	151,103
Accumulated impairment losses:					
Land improvements	385	-	-	-	385
Buildings and improvements	2,027	-	-	173	2,200
Machinery and equipment	6,585	(5)	-	504	7,084
Telecommunications equipment	45	-	(45)	-	-
Transportation equipment	12	-	(1)	1	12
Tools and small equipment	13	-	-	1	14
Office equipment, furniture and fixtures	37	-	-	3	40
Leasehold improvements	1	-	-	-	1
	9,105	(5)	(46)	682	9,736
Net book value	P370,016	P39,986	P2,930	P651	P413,583

September 30, 2012

	January 1, 2012 (As Restated)	Additions and Transfers	Acquisition of Subsidiaries, Disposals and Reclassifications	Currency Translation Adjustments	September 30, 2012 (As Restated)
Cost:					
Land and land improvements	P16,214	P439	P4,638	(P146)	P21,145
Buildings and improvements	32,524	141	8,225	(785)	40,105
Power plants	214,319	-	-	-	214,319
Refinery and plant equipment	37,810	22	11,565	(319)	49,078
Service stations and other equipment	6,070	702	7,196	(201)	13,767
Machinery and equipment	86,053	1,190	(166)	(1,312)	85,765
Telecommunications equipment	7,394	180	-	-	7,574
Transportation equipment	10,871	645	12	(26)	11,502
Tools and small equipment	2,494	141	(101)	(13)	2,521
Office equipment, furniture and fixtures	4,796	185	305	(48)	5,238
Molds	809	182	(299)	(3)	689
Leasehold improvements	1,550	32	94	(2)	1,674
Construction in progress	21,007	23,745	(81)	(11)	44,660
	441,911	27,604	31,388	(2,866)	498,037
Accumulated depreciation and amortization:					
Land improvements	2,581	101	(38)	(9)	2,635
Buildings and improvements	12,074	968	3,837	(273)	16,606
Power plants	10,628	3,890	-	-	14,518
Refinery and plant equipment	18,579	1,692	7,818	(218)	27,871
Service stations and other equipment	4,221	649	4,176	(116)	8,930
Machinery and equipment	48,465	2,835	(1)	(545)	50,754
Telecommunications equipment	5,406	333	27	-	5,766
Transportation equipment	2,939	635	(18)	(22)	3,534
Tools and small equipment	1,805	141	(102)	(12)	1,832
Office equipment, furniture and fixtures	3,716	252	355	(40)	4,283
Molds	638	159	(185)	(3)	609
Leasehold improvements	655	70	(5)	(2)	718
	111,707	11,725	15,864	(1,240)	138,056
Accumulated impairment losses:					
Land improvements	385	-	-	-	385
Buildings and improvements	3,812	-	(2)	(203)	3,607
Machinery and equipment	7,007	-	(49)	(340)	6,618
Telecommunications equipment	45	-	-	-	45
Transportation equipment	13	-	-	(1)	12
Tools and small equipment	20	-	-	(1)	19
Office equipment, furniture and fixtures	41	-	-	(2)	39
	11,323	-	(51)	(547)	10,725
Net book value	P318,881	P15,879	P15,575	(P1,079)	P349,256

Depreciation and amortization charged to operations amounted to P12,036 and P11,725 in September 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, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

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

Basic and diluted earnings (loss) per share is computed as follows:

	September 30	
		2012
		(As Restated -
	2013	Note 2)
Income attributable to equity holders of the Parent Company	P7,549	P18,672
Less dividends on preferred shares for the period † (a)	4,580	4,520
Net income attributable to common shareholders of the Parent Company (b)	P2,969	P14,152
Weighted average number of common shares outstanding (in millions) - basic (c)	2,379	2,370
Effect of dilution - common	15	16
Weighted average number of common shares outstanding (in millions) - diluted (d)	2,394	2,386
Common:		
Basic earnings per share (b/c)	P1.25	P5.97
Diluted earnings per share (b/d)	P1.24	P5.93

7. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to all Series "2" - Subseries "2-A", Subseries "2-B" and Subseries "2-C" preferred shareholders, amounted to P4.21875, P4.2890625 and P4.50 per share, respectively, for the nine months ended September 30, 2013. Cash dividend declared on August 12, 2013 at P1.40625, P1.4296875 and P1.50 per share for Subseries "2-A", Subseries "2-B" and Subseries "2-C", respectively, is payable on October 1, 2013 to the holders of the Series "2" preferred shares as of September 16, 2013.

Cash dividends declared by the Parent Company's BOD to common shareholders amounted to P1.05 per share for the nine months ended September 30, 2013 and 2012, respectively. Cash dividend declared on September 19, 2013 at P0.35 per share is payable on November 8, 2013 to all common shareholders as of October 18, 2013.

Cash dividends declared by the Parent Company's BOD to Series "1" preferred shareholders amounted to P6.00 per share for the nine months ended September 30, 2012.

8. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

The Group's principal non-trade related financial instruments include cash and cash equivalents, option deposit, available-for-sale (AFS) financial assets, financial assets at FVPL, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The Group's trade-related financial assets and financial liabilities such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

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

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

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

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

The BOD constituted the Group's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance processes relating to the:

- a) quality and integrity of the Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls;
- b) performance of the internal auditors;
- c) annual independent audit of the Group's financial

statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance by the Group with legal and regulatory requirements, including the Group's disclosure controls and procedures; e) evaluation of management's process to assess and manage the Group's enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report.

The Group's accounting policies in relation to 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 and investment securities. Investments acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,460 and P979 for the period ending September 30, 2013 and December 31, 2012, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

September 30, 2013	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P29,284	P1,558	P8,250	P4,438	P21,438	P30,243	P95,211
Interest rate	6.3212% - 9.33%	6.3131% - 9.33%	5.4885% - 9.33%	6.05% - 7.18%	6.3131% - 7.18%	5.93% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	9,352	-	13,062	-	-	34,832	57,246
Interest rate	2%		7%			4.875%	
Floating Rate							
Philippine peso-denominated	514	714	12,487	1,212	1,240	2,038	18,205
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	-	16,670	12,005	9,019	90,097	-	127,791
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin		
	P39,150	P18,942	P45,804	P14,669	P112,775	P67,113	P298,453

December 31, 2012 (As Restated - Note 2)	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P2,282	P31,054	P3,038	P7,817	P24,681	P23,194	P92,066
Interest rate	6.3212% - 9.33%	6.3212% - 9.33%	5.4885% - 9.33%	6.1451% - 9.33%	6.05% - 7.18%	5.93% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	-	24,400	-	12,315	-	-	36,715
Interest rate		2%		7%			
Floating Rate							
Philippine peso-denominated	514	914	11,664	1,097	1,098	2,404	17,691
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	462	11,494	56,216	8,855	3,225	-	80,252
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin		
	P3,258	P67,862	P70,918	P30,084	P29,004	P25,598	P226,724

Foreign Currency Risk

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

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

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

	September 30, 2013		December 31, 2012 (As Restated - Note 2)	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$1,283	P55,911	US\$861	P35,323
Trade and other receivables	992	43,258	1,331	54,644
Prepaid expenses and other current assets	26	1,158	28	1,138
AFS financial assets	8	330	12	491
Noncurrent receivables	177	7,701	59	2,445
	2,486	108,358	2,291	94,041
Liabilities				
Loans payable	747	32,529	1,098	45,072
Accounts payable and accrued expenses	1,146	49,945	1,212	49,705
Long-term debt (including current maturities)	4,250	185,036	2,849	116,967
Finance lease liabilities	2,383	103,746	2,474	101,506
Other noncurrent liabilities	162	7,021	249	10,207
	8,688	378,277	7,882	323,457
Net foreign currency- denominated monetary liabilities	(US\$6,202)	(P269,919)	(US\$5,591)	(P229,416)

The Group reported net foreign exchange (losses) gains amounting to (P15,561) and P9,192 for the period ended September 30, 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:

	Philippine Peso to US Dollar
December 31, 2011	43.84
September 30, 2012	41.70
December 31, 2012	41.05
September 30, 2013	43.54

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

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of September 30, 2013 and December 31, 2012:

September 30, 2013	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P963)	(P993)	P963	P993
Trade and other receivables	(198)	(932)	198	932
Prepaid expenses and other current assets	(26)	(18)	26	18
AFS financial assets	-	(8)	-	8
Noncurrent receivables	(159)	(131)	159	131
	(1,346)	(2,082)	1,346	2,082
Loans payable	305	656	(305)	(656)
Accounts payable and accrued expenses	374	1,033	(374)	(1,033)
Long-term debt (including current maturities)	4,250	2,976	(4,250)	(2,976)
Finance lease liabilities	2,383	1,667	(2,383)	(1,667)
Other noncurrent liabilities	96	132	(96)	(132)
	7,408	6,464	(7,408)	(6,464)
	P6,062	P4,382	(P6,062)	(P4,382)

December 31, 2012 (As Restated - Note 2)	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on		Effect on	
	Income before Income Tax	Effect on Equity	Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P563)	(P694)	P563	P694
Trade and other receivables	(223)	(1,263)	223	1,263
Prepaid expenses and other current assets	(28)	(20)	28	20
AFS financial assets	-	(12)	-	12
Noncurrent receivables	(36)	(48)	36	48
	(850)	(2,037)	850	2,037
Loans payable	317	1,003	(317)	(1,003)
Accounts payable and accrued expenses	566	1,043	(566)	(1,043)
Long-term debt (including current maturities)	2,819	2,004	(2,819)	(2,004)
Finance lease liabilities	2,473	1,731	(2,473)	(1,731)
Other noncurrent liabilities	124	211	(124)	(211)
	6,299	5,992	(6,299)	(5,992)
	P5,449	P3,955	(P5,449)	(P3,955)

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

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

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

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

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

September 30, 2013

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P179,318	P179,318	P179,318	P-	P-	P-
Trade and other receivables - net	136,800	136,800	136,800	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,089	1,089	1,089	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	259	259	259	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	142	142	142	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	6,558	6,579	400	6,108	71	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position) (forward)	23,144	23,144	-	23,144	-	-

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Loans payable	P155,313	P155,313	P155,313	P-	P-	P-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	104,219	104,219	104,219	-	-	-
Derivative liabilities (included under “Accounts payable and accrued expenses” account in the consolidated statements of financial position)	1,838	1,838	1,838	-	-	-
Long-term debt (including current maturities)	294,615	358,735	52,308	30,223	197,192	79,012
Finance lease liabilities (including current portion)	195,169	269,802	19,783	21,339	68,990	159,690
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	5,587	5,591	-	5,293	25	273

December 31, 2012
(As Restated - Note 2)

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P125,507	P125,507	P125,507	P-	P-	P-
Trade and other receivables - net	122,544	122,544	122,544	-	-	-
Option deposit (included under “Prepaid expenses and other current assets” account in the consolidated statements of financial position)	1,026	1,026	1,026	-	-	-
Derivative assets (included under “Prepaid expenses and other current assets” account in the consolidated statements of financial position)	91	91	91	-	-	-
Financial assets at FVPL (included under “Prepaid expenses and other current assets” account in the consolidated statements of financial position)	147	147	147	-	-	-
AFS financial assets (including current portion presented under “Prepaid expenses and other current assets” account in the consolidated statements of financial position)	1,621	1,735	181	1,155	399	-
Noncurrent receivables and deposits - net (included under “Other noncurrent assets” account in the consolidated statements of financial position) (forward)	14,934	14,934	-	14,934	-	-

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Loans payable	P151,097	P151,705	P151,705	P-	P-	P-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	84,193	84,193	84,193	-	-	-
Derivative liabilities (included under “Accounts payable and accrued expenses” account in the consolidated statements of financial position)	315	315	315	-	-	-
Long-term debt (including current maturities)	224,045	267,126	14,898	77,078	145,243	29,907
Finance lease liabilities (including current portion)	195,154	276,600	18,836	19,421	65,964	172,379
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	3,985	3,990	342	3,376	30	242

Credit Risk

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

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

Trade and Other Receivables

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

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

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group’s standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group’s review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the Group’s benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include

a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

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

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

	September 30, 2013	December 31, 2012 (As Restated - Note 2)
Cash and cash equivalents	P179,318	P125,507
Trade and other receivables - net	136,800	122,544
Option deposit	1,089	1,026
Derivative assets	259	91
Financial assets at FVPL	142	147
AFS financial assets	6,558	1,621
Noncurrent receivables and deposits - net	23,144	14,934
	P347,310	P265,870

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

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

Financial and Other Risks Relating to Livestock

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

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing plants and meat plants and issue certificates

accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

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

Capital Management

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

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

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

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

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

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

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 or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned shall be recognized as part of “Interest income” in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL shall be recognized in profit or loss when the right to receive payment has been established.

The Group’s derivative assets and financial assets at FVPL are classified under this category.

The combined carrying amounts of financial assets under this category amounted to P401, P561 and P238 as of September and June 30, 2013 and December 31, 2012, respectively.

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

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

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

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

The combined carrying amounts of financial assets under this category amounted to P340,351, P287,792 and P264,011 as of September and June 30, 2013 and December 31, 2012, respectively.

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

The Group has no investments accounted for under this category as of September and June 30, 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 "Fair value reserve" in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest Income" in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

The Group's investments in equity and debt securities included under "Available-for-sale financial assets" account are classified under this category.

The carrying amounts of financial assets under this category amounted to P6,558, P1,592 and P1,621 as of September and June 30, 2013 and December 31, 2012, respectively.

Financial Liabilities

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

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

part of “Interest expense and other financing charges” account 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 P1,838, P1,839 and P315 as of September and June 30, 2013 and December 31, 2012, respectively.

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

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

The combined carrying amounts of financial liabilities under this category amounted to P754,903, P718,821 and P658,474 as of September and June 30, 2013 and December 31, 2012, respectively.

Debt Issue Costs

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by

another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

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

	September 30, 2013		December 31, 2012 (As Restated - Note 2)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P179,318	P179,318	P125,507	P125,507
Trade and other receivables - net	136,800	136,800	122,544	122,544
Option deposit (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	1,089	1,089	1,026	1,026
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	259	259	91	91
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	142	142	147	147
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	6,558	6,558	1,621	1,621
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	23,144	23,144	14,934	14,934
Financial Liabilities				
Loans payable	155,313	155,313	151,097	151,097
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	104,219	104,219	84,193	84,193
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	1,838	1,838	315	315
Long-term debt (including current maturities)	294,615	300,195	224,045	239,453
Finance lease liabilities (including current portion)	195,169	195,169	195,154	195,154
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	5,587	5,587	3,985	3,985

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

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

active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 0.7% to 6.1% and 0.5% to 4.3% as of September 30, 2013 and December 31, 2012, respectively. The discount rates used for foreign currency-denominated loans range from 1.2% to 5.8% and 0.2% to 0.8% as of September 30, 2013 and December 31, 2012, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Instruments Accounted for as Hedges

Freestanding Derivatives

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair

value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

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

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

As of September and June 30, 2013 and December 31, 2012, the Group has no outstanding derivatives accounted for as fair value hedges.

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

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

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

As of September and June 30, 2013 and December 31, 2012, the Group has no outstanding derivatives accounted for as cash flow hedge.

Net Investment Hedge. As of September and June 30, 2013 and December 31, 2012, the Group has no hedge of a net investment in a foreign operation.

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards

As of September and June 30, 2013 and December 31, 2012, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,282, US\$1,074 and US\$963, respectively, and with various maturities in 2013. As of September and June 30, 2013 and December 31, 2012, the net positive (negative) fair value of these currency forwards amounted to (P482), P175 and (P217), respectively.

Currency Options

The Group entered into short-term currency options with an aggregate notional amount as of September and June 30, 2013 of US\$2,269 and US\$1,260, respectively. The net negative fair value of these currency options as of September and June 30, 2013 amounted to P1,010 and P1,169, respectively. The Group has no outstanding currency option agreements as of December 31, 2012.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2014 and 2013. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps as of September and June 30, 2013 and December 31, 2012 is 1,560, 1,635 and 525 metric tons, respectively. As of September and June 30, 2013 and December 31, 2012, the net positive (negative) fair value of these swaps amounted to (P5), (P11) and P2, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2013. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps as of September and June 30, 2013 and December 31, 2012 is 4.3, 6.7 and 0.5 million barrels, respectively. As of September and June 30, 2013 and December 31, 2012, the positive fair value of these swaps amounted to P588, P530 and P30, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of September and June 30, 2013 and December 31, 2012 of 220,310, 203,981 and 85,457 metric tons, respectively. These options can be exercised at various calculation dates in 2014 and 2013 with specified quantities on each calculation date. As of September and June 30, 2013 and December 31, 2012, the net negative fair value of these options amounted to P93, P117 and P41, respectively.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 2.6 and 0.2 million barrels as of September 30, 2013 and December 31, 2012, respectively. These call and put options can be exercised at various calculation dates in 2013 with specified quantities on each calculation date. The net positive fair value of these options as of September 30, 2013 and December 31, 2012 amounted to P73 and P15, respectively. As of June 30, 2013, the Group has no outstanding commodity options on the purchase of crude oil.

Embedded Derivatives

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

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

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

Embedded Currency Forwards

As of September and June 30, 2013 and December 31, 2012, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$188, US\$250 and US\$182, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As of September and June 30, 2013 and December 31, 2012, the net positive (negative) fair value of these embedded currency forwards amounted to (P7), (P305) and P38, respectively.

Embedded Currency Options

As of September and June 30, 2013 and December 31, 2012, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$7, US\$9 and US\$14, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. The net negative fair value of these embedded currency options amounted to P2, P1 and P6 as of September and June 30, 2013 and December 31, 2011, respectively.

For the periods ended September 30, 2013 and 2012 and June 30, 2013 and 2012, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P1,208, (P953), P1,075 and (P435), respectively.

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method as of September 30, 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.

September 30, 2013

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P-	P259	P259
Financial assets at FVPL	142	-	142
AFS financial assets	853	5,705	6,558
Financial Liabilities			
Derivative liabilities	-	1,838	1,838

December 31, 2012

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P-	P91	P91
Financial assets at FVPL	147	-	147
AFS financial assets	741	880	1,621
Financial Liabilities			
Derivative liabilities	-	315	315

As of September 30, 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

▪ Declaration of Property Dividends by the Parent Company

On October 17, 2013, the Parent Company's BOD approved the declaration, by way of property dividends, of 240,196,000 common shares of stock of Top Frontier Investment Holdings, Inc. (Top Frontier) (the "Dividend Shares") to San Miguel Corporation (SMC) common shareholders of record (the "Receiving Shareholders") as of November 5, 2013 (the "Record Date"). The payment of the dividend declaration is still subject to approval by the SEC.

The Receiving Shareholder shall be entitled to receive one (1) common share of Top Frontier for every ten (10) common shares of SMC. Fractional shares below 10 will be dropped. The fair value of the Top Frontier shares shall be about P178.00 per share, based on the Valuation and Fairness Opinion rendered by an independent advisor engaged by the Parent Company.

The property dividend distribution will result to SMC public shareholders owning about 11.8% of Top Frontier. Top Frontier proposes to list its common shares, including the

treasury shares, through a listing by way of introduction on the main board of the Philippine Stock Exchange.

- *Concession Agreement for Albay Electric Cooperative (ALECO)*

On October 29, 2013, SMC Global Power Holdings Corp. signed a concession agreement to operate and manage the power distribution facilities of ALECO for a period of 25 years. While a lot of work needs to be done to upgrade the facilities and the level of service, ALECO offers many opportunities for synergies in the future and will be of great value to power business over the long term.

- *Sale of Davao Polyethylene Terephthalate (PET) Plant and Other Properties*

On November 4, 2013, the Parent Company, Brewery Properties Inc. and San Miguel Yamamura Packaging Corporation signed a Sale and Purchase Agreement with Coca-Cola Bottlers Philippines, Inc. and subsidiary, Luzviminda Land Holdings, Inc. for the sale of the PET Plant and other properties located in Davao under “Asset held for sale” amounting to P1,181.

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 Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior financial years.
- c. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.
- d. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group’s liquidity.
- e. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- f. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual statements of financial position date, except for Note 26 (cI-1) of the 2012 Audited Consolidated Financial Statements that remain outstanding as of September 30, 2013. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the

outstanding derivative transactions entered by the Group as of and for the period ended September 30, 2013.

- h. The effects of seasonality or cyclicalities on the interim operations of the Group's businesses are not material.
- i. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of September 30, 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, short and long-term loans.



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

INTRODUCTION

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

I. 2013 TRANSACTIONS

A. INVESTMENTS

- On May 6, 2013, the Department of Public Works and Highways (DPWH) issued the Notice of Award to Optimal Infrastructure Development, Inc., a wholly-owned subsidiary of San Miguel Holdings Corporation (SMHC), awarding the Ninoy Aquino International Airport (NAIA) Expressway Project which links the three NAIA terminals to the Skyway Project, the Manila-Cavite Toll Expressway and the Entertainment City of the Philippine Amusement and Gaming Corporation. The Notice of Award provides, among others, the incorporation of a special-purpose company for the NAIA Expressway Project. The concession period will be thirty years and the project cost will be approximately ₱15,000 million.

In accordance with the provisions of the Notice of Award, SMHC incorporated Vertex Tollways Development Inc. (Vertex) on May 31, 2013, a wholly-owned subsidiary, with an initial authorized capital stock of ₱100 million divided into 100,000,000 shares and paid-up capital of ₱6 million. Vertex's primary purpose of business is to engage in and carry on a construction, development and contracting business involving tollways, its facilities, interchanges, roads, highways, bridges, tunnels, airports, airfield, railroads, infrastructure works and other related public works.

On July 5, 2013, Vertex paid an upfront fee to the DPWH amounting to ₱11,000 million for the NAIA Expressway Project. The concession agreement was signed on July 8, 2013.

- On March 1, 2013, San Miguel Yamamura Packaging Corporation (SMYPC) completed the acquisition of 104,500,000 common shares, equivalent to 35% equity interest in Northern Cement Corporation (NCC), for ₱3,500 million.

NCC is primarily engaged in manufacturing, developing, processing, exploiting, buying and selling cement and/or other products derived therefrom.

- On January 15, 2013, CAN-PACK S.A., a corporation duly organized and existing under the laws of Poland, purchased 35% equity interest in Can Asia, Inc. (CAI), a wholly-owned subsidiary of SMYPC, for ₱420 million.

B. DIVESTMENTS

- On July 19, 2013, the Parent Company sold 64,333,330 shares of common stock in Manila Electric Company (Meralco), which accounts to about 5% of Meralco's outstanding shares, at ₱270.00 per share and recognized a net gain of ₱9,619 million, included as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income.
- On August 15, 2013, Top Frontier Investments Holdings, Inc. (Top Frontier) executed a Share Purchase Agreement (the Agreement) with the Parent Company, for Top Frontier's purchase of 100% of the outstanding and issued shares of stock of Clariden Holdings, Inc. (Clariden), the assignment of the subscription rights of the Parent Company in Clariden to Top Frontier, and the assignment of the Parent Company's receivables in Clariden and certain subsidiaries of Clariden in favor of Top Frontier. The Parent Company's sale of Clariden and all of its rights and interests therein was authorized by the Board of Directors (BOD) of the Parent Company during its meeting held on August 12, 2013. On August 30, 2013 (the Closing Date), the transaction was completed with the Parent Company and Top Frontier executing the following: (i) the Deed of Absolute Sale of Shares covering 100% of the Clariden shares owned by the Parent Company for a total consideration of ₱2,135 million; and (ii) the Deed of Assignment of Receivables covering the Parent Company's receivables in Clariden and its subsidiaries totaling ₱725 million. On September 6, 2013, the Parent Company and Top Frontier, with the conformity of Clariden, executed the Deed of Assignment of Subscription Rights for ₱604 million.

Pursuant to the Agreement, as partial payment of the consideration for the purchase of the Clariden shares and the assignment of the subscription rights, Top Frontier paid an initial payment of ₱427 million on September 9, 2013 to the Parent Company. The remaining balance of the total consideration for the purchase of the shares and the assignment of the subscription rights, presented as part of "Other noncurrent assets" account in the consolidated statements of financial position, is ₱2,312 million and is collectible in two installments. The first payment amounting to ₱1,099 million, inclusive of 5.75% interest per annum, is collectible at the end of 5th year from Closing Date, while the remaining balance of ₱1,213 million, inclusive of 6.00% interest per annum, is to be collected at the end of 7th year from Closing Date.

The consideration for the assignment of receivables amounting to ₱725 million, presented as part of "Other noncurrent assets" account in the consolidated statements of financial position, is collectible in five equal installments beginning the first anniversary of commercial operations of the Nonoc Project, a project primarily focused in extracting nickel deposits in Nonoc Island, Surigao City, Surigao del Norte. These amounts are subject to 5.75% interest per annum and shall accrue upon commencement of commercial operations.

The Nonoc Project has not yet resumed commercial operations as of September 30, 2013.

The Group recognized a net gain amounting to ₱806 million, included as part of "Gain on sale of investments and property and equipment" account in the consolidated statements of income, as a result of the transactions.

- On September 30, 2013, SMHC, through Terramino Holdings, Inc. (THI) sold to Atlantic Aurum Investments Philippines Corporation, a wholly-owned subsidiary of Atlantic Aurum Investments BV (Atlantic), 25,409,482 common shares representing 37.33% of the outstanding capital stock of Citra Metro Manila Tollways Corporation (CMMTC) for a total consideration of ₱13,759 million. The Group recognized a net loss of ₱674 million, included as part of “Gain on sale of investments and property and equipment” account in the consolidated statements of income, from the sale.
- On September 30, 2013, the Parent Company, together with San Miguel Pure Foods Company, Inc. (SMPFC) and SMC Global Power Holdings Corp. (SMC Global), agreed to sell to JG Summit Holdings, Inc. (JGS) the remaining shareholdings in Meralco, which accounts to about 27.1% of Meralco’s total outstanding shares, for approximately ₱72,000 million, subject to the satisfaction of closing conditions mutually agreed upon by the parties. The Parent Company received a deposit amounting to ₱4,400 million, presented as part of “Accounts payable and accrued expenses” account in the consolidated statements of financial position as of September 30, 2013.

Accordingly, the carrying amount of the investment in Meralco amounting to ₱40,977 million was reclassified to “Assets held for sale” account in the consolidated statements of financial position as of September 30, 2013.

C. EQUITY / FINANCING

- On September 30, 2013, SMC Powergen Inc. (Powergen), a wholly-owned subsidiary of SMC Global, has drawn ₱12,300 million from the ₱13,800 million 10-year term loan with fixed interest rate of 6.3131%. The proceeds of the loan was used for the acquisition of Co-Generation Solid Fuel-Fired Power Plant in Limay, Bataan from Petron Corporation (Petron).
- In September 2013, SMC Global has drawn US\$500 million 5-year floating rate loan from the US\$650 million facility agreement. The loan proceed was used to refinance SMC Global’s existing US\$200 million 3-year term loan and to finance new investments in power-related assets. The refinancing of the loan lengthens the maturity schedule from 2014 to 2018 and lowers the interest rate margin from 2.15% to 1.90%. The remaining balance of US\$300 million is still part of the cash balance of SMC Global as of September 30, 2013.
- On April 29, 2013, the Parent Company has drawn US\$1,000 million 5-year loan to pay in full and refinance the US\$1,000 million loan availed in 2010. The refinancing of the loan lengthens the maturity schedule from 2015 to 2018. Also, the Parent Company availed of US\$300 and US\$200 million loan, on June 13 and August 14, 2013, respectively, to be used for general corporate purposes.
- On April 19, 2013, the Parent Company has drawn US\$800 million from the US\$2,000 million Medium Term Note Programme (Notes) which was issued and listed in the Singapore Exchange Securities Trading Limited (SGX-ST) on the same date. The Notes bear interest at the rate of 4.875% per annum, payable semi-annually in arrears every 26th of April and October of each year.
- Pursuant to the resolution of the BOD of the Parent Company authorizing management to refinance its existing financial obligations under such terms and conditions which are favorable and advantageous to the Parent Company, the Parent Company solicited from the holders of the

outstanding US\$600 million, 2.0% Exchangeable Bonds due on 2014, listed on the SGX-ST, their consent to tender their bonds for repurchase. The bonds are exchangeable for common shares of stock of the Parent Company, to be issued out of the Parent Company's treasury shares.

On various dates in 2013, the Parent Company repurchased Bonds with an aggregate principal amount of US\$363 million at redemption rates ranging from 99.75% to 118.20%. The aggregate cash amount paid by the Parent Company based on the aggregate principal amount of the Bonds repurchased, as well as accrued but unpaid interest, is US\$398 million.

On various dates during the first semester of 2013, additional 6,540,959 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from ₱108.43 to ₱109.80 per share. The additional 6,540,959 common shares of stock of the Parent Company were transacted and crossed at the Philippine Stock Exchange (PSE) on various dates via special block sales.

- On February 6 and March 11, 2013, Petron issued undated subordinated capital securities at an issue price of 100% amounting to US\$500 million and at an issue price of 104.25% amounting to US\$250 million, respectively. At the option of the issuer, the securities may be redeemed after five and a half years or on any distribution payment date thereafter. The proceeds were applied by Petron towards capital and other expenditures in respect of Refinery Master Plan Phase 2 (RMP-2) Project and used for general corporate purposes. The securities were listed on the Hong Kong Stock Exchange.
- On January 2013, Petron availed of the remaining US\$210 million of the US\$485 million five-year term loan facility which was signed and executed on October 31, 2012. The proceeds were used partly to finance the capital expenditure requirements of RMP-2 Project.

D. OTHERS

- On September 23, 2013, Petron sold its 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant (Power Plant Phase 1) and all other pertinent machineries, equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant (Power Plant Phase 2) to Powergen for ₱15,000 million.
- On August 23, 2013, Powerone Ventures Energy Inc., a wholly-owned subsidiary of SMC Global, signed a Memorandum of Agreement with Korea Water Resources Corporation (K-Water) for the acquisition, operation and maintenance of the 218 megawatt Angat Dam Project.
- On February 5 and February 15, 2013, the BOD of San Miguel Properties, Inc. (SMPI) and San Miguel Brewery Inc. (SMB), respectively, approved the voluntary delisting of SMPI's and SMB's common shares from the PSE, following the Securities and Exchange Commission's denial of all requests made (including the request of SMPI and SMB) for the extension of the grace period for listed companies to comply with the PSE's minimum public ownership and the PSE's imposition of a trading suspension on the common shares of SMPI and SMB effective January 1, 2013.

To comply with the PSE requirements on voluntary delisting, SMPI and SMB 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 ₱134.12 and ₱20.00 per common share, respectively.

SMPI's tender offer commenced on March 6, 2013 and ended on April 5, 2013. A total of 1,072 SMPI common shares representing 0.00088% of the total outstanding shares of SMPI were tendered and accepted for payments on April 15, 2013 for ₱144 thousand.

The tender offer of SMB commenced on March 4, 2013 and ended on April 3, 2013. A total of 51,425,799 SMB common shares were tendered equivalent to 0.3337% of the total outstanding shares of SMB. As of September 30, 2013, the certificate authorizing registration (CAR) for 27,794,900 shares (54% of the total tendered or equivalent to 0.1668% of the outstanding common shares of SMB) were secured and presented to SMB. The CAR for the remaining shares have yet to be issued by the Bureau of Internal Revenue. Accordingly, these tendered shares have been registered in the SMB books as treasury shares.

The PSE has approved the petition of the voluntary delisting of SMPI and SMB in its April 24 board meeting and has authorized SMPI's and SMB's delisting effective May 6 and May 15, 2013, respectively.

II. FINANCIAL PERFORMANCE

2013 vs. 2012

San Miguel Corporation's consolidated sales revenue for the nine months of 2013 amounted to about ₱542,559 million, 7% higher than 2012. As previously reported, the increase is mainly due to the revenue contribution of Petron Malaysia which was consolidated in SMC Group beginning April 2012 and the San Miguel Pure Foods revenue increase.

The corresponding 2013 consolidated operating income amounted to about ₱45,966 million, 25% higher than the previous year. Petron, beer and liquor businesses showed improved performance during the third quarter reversing the decline in operating income reported in the first semester. Petron Philippines benefitted from the increase in product prices during the quarter. SMB's improvement came from improved margins for the international operation and controlled costs. GSMI operating loss during the third quarter was substantially reduced with the increase in liquor sales during the quarter. SMC Global and the Food Group, on the other hand, continued to show year-to-date improved performance.

Equity in net earnings (losses) of associates and joint ventures represents mainly share in the net income of Meralco, net of the share in the losses in Top Frontier, Philippine Airlines, Inc. and Air Philippines Corporation.

Net financing charges increased to ₱21,004 million from ₱19,383 million mainly due to higher debt balance in 2013.

The US dollar further strengthened against the peso in September, increasing the foreign exchange losses to ₱12,289 million, a sharp contrast from last year's foreign exchange gains. However, with the ₱9,619 million gain on sale from the 64,333,330 Meralco shares sold at ₱270.00 per share in July, net income attributable to equity holders' of the Parent Company

amounted to ₱7,549 million. Excluding foreign exchange losses, SMC posted a recurring net income of ₱11,096 million as of September 2013, 15% higher than last year.

2012 vs. 2011

San Miguel Corporation's consolidated sales revenue for the nine months ended September 2012 amounted to about ₱508,730 million, 29% higher than 2011. Most of the businesses continued to post revenue growth versus 2011 with increased volumes and selling prices.

The corresponding September 2012 year-to-date consolidated operating income is ₱36,798 million, 13% lower than 2011. This already showed an improvement from the Group's first semester's performance with Petron's margin improvement that started to recover in August. San Miguel Pure Foods Group also sustained improvements in profitability in the third quarter.

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

Net financing charges increased to ₱19,383 million from ₱16,828 million mainly due to higher debt balance in 2012.

With higher gains in other investments and favorable foreign exchange rates, partially offset by higher financing charges, the Group's resulting September 2012 year-to-date net income attributable to the equity holders of the Parent Company amounted to ₱18,671 million.

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

1. BEVERAGES

2013 vs. 2012

a. San Miguel Brewery Inc. (SMB)

San Miguel Brewery, Inc. and Subsidiaries' consolidated revenues as of the end of the third quarter reached ₱53,624 million, at par with last year. Sales volume of about 147.6 million cases is lower – still, as a result of the price increase implemented in February 2013 to offset the increased excise taxes.

In spite of lower volume, consolidated operating income as of the end of third quarter is still at par with last year's, at ₱15,371 million with cost containment measures as well as improved margin for the international business.

b. Ginebra San Miguel Inc. (GSMI)

Ginebra San Miguel Inc.'s volume has substantially improved for the third quarter, increasing by 27% from prior quarter and posting 5.6 million cases. This and the effect of the price increase resulted to a 7% growth in third quarter sales revenues as it reached ₱3,860 million. This brings year-to-date revenues to a total of ₱9,911 million, 5% lower than the prior year.

Operating loss for the quarter has been reduced significantly to ₱58 million as compared to the first and second quarter's respective losses of ₱392 million and ₱419 million. However, year-to-date operating loss is still at ₱869 million.

2012 vs. 2011

a. SMB

SMB and subsidiaries' September 2012 year-to-date consolidated revenues reached ₱53,849 million, 3% higher than 2011. This was achieved on sales volumes of about 164 million cases.

With continued domestic beer's management of fixed costs and beer international's managing to maintain its improved operating performance, consolidated operating income for the September 2012 year-to-date ended at ₱15,410 million, 5% higher than 2011 performance.

b. GSMI

GSMI's third quarter 2012 performance exhibited much improvement quarter-on-quarter as volumes grew 14% above same period in 2011. This resulted to revenue growth of 11% for the 2012 quarter reducing the September 2012 year-to-date decline from 2011 to just 5%. GSMI's September 2012 year-to-date sales revenue reached ₱10,478 million.

Lower molasses and alcohol costs, along with better efficiencies at the distillery, significantly contributed to improving margins. Gross contribution for the 2012 quarter is a strong 26% driving 2012 year-to-date figures to 25%. With better margins and managed fixed costs, September 2012 year-to-date operating loss was reduced by 26% to ₱302 million.

2. FOOD

2013 vs. 2012

Most domestic businesses contributed to the 3% increase in San Miguel Pure Foods Corporation's September 2013 year-to-date consolidated revenues of ₱71,413 million. Fresh meats and feeds businesses benefitted from higher selling prices. On the other hand, the core brands – Purefoods, Tender Juicy, Star, Magnolia and San Mig Coffee delivered strong sales with better selling prices and volume growth as supported by appropriate advertising and promotional activities as well as product launches. This resulted to a consolidated operating income amounting to ₱3,667 million, 14% higher than 2012 level. Improved hog growing efficiencies for Basic Meat business, and improved cassava availability for Feeds also contributed to the much better performance.

2012 vs. 2011

San Miguel Pure Foods Group's September 2012 year-to-date sales revenue amounted to ₱69,354 million, 8% higher than 2011. Most domestic food cluster sustained their volume growth performance, and benefitted from better selling prices. Increased usage of raw materials substitute in the third quarter drove improvement in the Agro Cluster's

profitability and the Food Group's operating income for the quarter reached ₱1,394 million. September 2012 year-to-date consolidated operating income ended at ₱3,220 million. This is lower than 2011 level with the low first quarter income contribution due to the high costs of feeds particularly wheat and corn and lower supply of cassava during the period. Raw materials prices and profitability, however, started to improve in the second quarter and was sustained in the third quarter.

3. PACKAGING

2013 vs. 2012

The San Miguel Yamamura Packaging Group (SMYPG) consolidated revenues as of September 2013 reached ₱17,714 million, 1% lower than 2012. The business continued to experience low demands on glass and metal volumes due to lower requirements from Beer, Coca-cola, RC Cola and GSML. The decline was however partly offset by increased demand for plastic crates and PET bottles. With improved performance of Plastic and PET business, coupled with better fixed cost management, the Packaging Group's operating income for September year-to-date amounted to ₱1,785 million, 9% higher than last year.

2012 vs. 2011

SMYPG's September 2012 year-to-date sales revenue amounted to ₱17,927 million, 1% higher than 2011 level. Metal cans, PET products, composites and plastic businesses continued to deliver higher sales while weak international markets started to improve in August 2012.

With the continuing efficiency initiatives to lower fixed costs, consolidated operating income for the period reached ₱1,644 million.

4. POWER GENERATION AND DISTRIBUTION

2013 vs. 2012

SMC Global's off take volume as of September 2013 reached 12.5 million megawatt hours, 3% higher than last year. This is primarily due to higher Wholesale Electricity Spot Market (WESM) volumes from Sual and Ilijan. With lower average bilateral price agreements as well as lower WESM average prices, consolidated revenues were down by 4% at ₱55,060 million. September year-to-date consolidated operating income amount at ₱15,765 million surpassed last year's level by 14% resulting from Ilijan's and Sual's lower generation costs.

2012 vs. 2011

SMC Global's net generation increased by 9% to reach 11.7 million megawatt hours as of September 2012. Despite some forced outages throughout 2012, sustained growth in bilateral nominations drove overall capacity factor to 72% from 66% in 2011. The business thus continues to generate healthy returns with consolidated revenues of ₱57,351 million and operating income of ₱13,851 million, 7% and 26% higher than 2011, respectively.

5. FUEL AND OIL

2013 vs. 2012

Petron's volume grew by 13% as of the end of the third quarter, finishing at 60.2 million barrels. This resulted to a September year-to-date consolidated revenues of about ₱335,933 million, an increase of 9% versus last year. Petron Philippines contributed volume of 34.5 million barrels with corresponding revenues of ₱200,227 million, 6% lower than last year's. This decline in revenues has already been narrowed down due to the recovery of selling prices during the third quarter. Petron Malaysia contributed 25.7 million barrels or revenues reaching ₱135,706 million, significantly higher than last year due to this year's full nine-month-consolidation versus last year's 6 months.

Refinery margins across the region significantly improved as products "cracks" or the price differential between crude and finished products widened beginning July. This resulted to an operating income of ₱8,860 million for the first nine months of 2013, 47% higher than last year.

2012 vs. 2011

Petron delivered September 2012 year-to-date volumes of about 53.2 million barrels, 55% above 2011 with the contribution of Petron Malaysia of almost 18 million barrels. Petron Philippines' domestic volumes, on the other hand, grew by 4% contributing about 36 million barrels. With these, nine months' consolidated revenue amounted to more than ₱307,341 million, 52% higher than 2011. However, with the volatility in global oil markets that led to substantial margin contraction particularly in April to July, consolidated operating income as of September 2012 amounted to ₱6,007 million, significantly lower than 2011.

III. FINANCIAL POSITION

2013 vs. 2012

The Group's consolidated total assets as of September 30, 2013 amounted to ₱1,164,743 million, ₱122,469 million higher than 2012, mainly due to the proceeds from the availment of short-term and long-term debt which was used primarily to finance capital expenditure projects of Petron, SMC Global and SMC Shipping and Lighterage Corporation.

Cash and cash equivalents increased by ₱53,811 million in 2013 primarily due to net proceeds from long-term borrowings, issuance of undated subordinated capital securities by Petron, sale of investments in Meralco, CMMTC and CAI; net of a) Petron's major capital projects such as the RMP-2 Project and b) payment of financing charges, finance lease liabilities and dividends.

Trade and other receivables increased by ₱14,256 million in 2013 due to the increase in receivables of the Parent Company; increase in receivable of SMC Global from Meralco on sale of electricity; and Petron's higher receivables from the government pertaining to input Value-added Tax (VAT) and withholding tax certificates.

Inventories increased by ₱9,239 million mainly due to higher volume of crude and finished product importations of Petron Philippines coupled with the appreciation of the US dollar; and

higher inventory level of Poultry's frozen products and Meats' pork and beef products in anticipation of year-end requirements.

Prepaid expenses and other current assets increased by ₱4,051 million due to higher input VAT of Petron on foreign purchases of crude oil and finished products; and SMC Global's input VAT on the purchase of the power plant from Petron.

Assets held for sale increased by ₱41,570 million due to the reclassification of the remaining 27% investment in Meralco and fixed assets of Davao Beverage Packaging Plant and other properties, net of the completion of the sale of Petron Mega Plaza.

Investments and advances decreased by ₱45,005 million due to the sale of the 5% equity interest in Meralco and the reclassification of the remaining 27% investment in Meralco to assets held for sale; net of SMYPC's investment in NCC.

Available-for-sale financial assets increased by ₱4,629 million mainly due to the Parent Company's investment in preferred shares in relation to the infrastructure business.

Property, plant and equipment increased by ₱43,567 million mainly due to major capital projects of Petron Philippines namely, the RMP-2 Project and additional service stations; and SMC Global's Refinery Solid Fuel Fired Power Plant.

The increase in investment properties of ₱381 million in 2013 is mainly due to additional investments of SMPI in the Manila Diamond Residences Project.

Goodwill decreased by ₱9,900 million mainly due to the deconsolidation of CMMTC as a result of the sale of THI's investment and adjustment in the goodwill recognized for the acquisition of Petron Malaysia pertaining to revaluation adjustment for property, plant and equipment.

The decrease in other intangible assets of ₱22,302 million in 2013 is mainly due to the deconsolidation of CMMTC's toll road concession rights.

Deferred tax assets increased by ₱4,952 million due to the recognition of deferred tax on a) unrealized foreign exchange losses of the Parent Company, SMC Global and SMB, and b) Net Operating Loss Carry Over (NOLCO) of the Parent Company and GSMI.

Other noncurrent assets increased by ₱23,199 million in 2013 primarily due to the upfront payment to the government for the NAIA Expressway Project, Parent Company's receivable from Atlantic and from Top Frontier for the sale of Clariden, and SMC Global's escrow fund to K-Water for the Angat Dam Project.

Accounts payable and accrued expenses increased by ₱22,290 mainly due to the increase in Petron's liability for purchases of crude oil, deposit received from JGS for the sale of Meralco shares and higher marked-to-market values of derivative financial instruments.

The decrease in dividends payable of ₱1,367 million is mainly due to the payments made by the Parent Company.

Long-term debt increased by ₱70,570 million in 2013 mainly due to a) the net availments by the Parent Company, SMC Global and Petron, and b) forex revaluation; net of loan payments made by SMB and the deconsolidation of CMMTC.

Other noncurrent liabilities increased by ₱905 million in 2013 mainly due to higher retention payable to the contractors of Petron, net of the decrease in retirement liability of SMPFC and SMB.

Revaluation increment decreased by ₱361 million in 2013 mainly due to the Group's share in the price difference on the SMB tendered shares against the carrying value, net of Petron Malaysia's appraisal adjustment of property, plant and equipment.

The increase in reserve for retirement plan of ₱142 million is mainly due to the Parent Company's actuarial gain on remeasurement of defined benefit obligation.

The decrease in cumulative translation adjustments of ₱647 million is mainly due to the translation of foreign subsidiaries' net assets.

Non-controlling interests (NCI) increased by ₱26,597 million in 2013 due to the issuance of undated subordinated capital securities by Petron, share of NCI in the net income mainly of Petron, SMB, SMPFC and SMHC and translation adjustments, net of dividends declared and the deconsolidation of CMMTC.

2012 vs. 2011

The Group's consolidated total assets as of September 30, 2012 amounted to ₱1,046,367 million, ₱153,644 million higher than 2011. This is mainly due to the consolidation of the total assets of Petron Malaysia and the net proceeds from the issuance of Series "2" preferred shares of the Parent Company.

Cash and cash equivalents increased by 44% to ₱185,593 million in 2012 mainly due to the proceeds from the: a) issuance of Series "2" preferred shares of the Parent Company; b) issuance of preferred shares by Petron Global Limited (PGL); c) net availment of short-term loans; d) redemption of Top Frontier's preferred shares; e) net collection of noncurrent receivables from Petron Corporation Employee Retirement Plan (PCERP); and f) cash provided by operations, net of the a) investments made in Trustmark Holdings Corporation and Zuma Holdings and Management Corporation and the acquisition of Petron Malaysia by Petron; b) major capital expenditures such as the RMP-2 Project and Refinery Solid Fuel Fired Power Plant; c) net payment of long-term debt, dividends and finance lease liabilities.

Trade and other receivables increased by 27% to ₱106,955 million in 2012 mainly due to the consolidation of Petron Malaysia's balance and increase in receivables of: a) SMC Global from Meralco on the sale of electricity and b) trade receivables of GSMI on account of extension of longer credit terms to dealers to support volume generation.

Inventories increased by 42% to ₱92,952 million in 2012 mainly on account of higher price and volume of crude and finished products of Petron, consolidation of Petron Malaysia's balance and the purposive buying by SMPFC of corn, feed wheat and coco oil to take advantage of breaks in raw material costs, and the seasonal build-up of meat materials in preparation for the Christmas season.

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

Prepaid expenses and other current assets increased by 33% to ₱30,044 million in 2012 mainly due to the excess input tax over VAT payable of SMC Global and Petron, consolidation of Petron Malaysia's prepaid expenses and other current assets balance and increase in prepaid taxes of SMC Global, Petron, SMPFC and the Parent Company.

Assets held for sale decreased by ₱2,258 million mainly due to the completion of the sale of San Miguel (Thailand) Co. Ltd. (SMTCL) and PT San Miguel Yamamura Utama Indoplas (SMYUI) on February 15 and January 31, 2012, respectively, and of San Miguel (Vietnam) Co. Ltd.'s building and land use rights in Amata Industrial Zone, Vietnam on February 23, 2012.

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

Property, plant and equipment increased by 10% to ₱349,256 million in 2012 mainly due to the consolidation of Petron Malaysia's balance, major capital projects of Petron such as the RMP-2 Project and Refinery Solid Fuel Fired Power Plant, net of the depreciation for the period.

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

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

Other intangible assets increased by 21% to ₱13,712 million in 2012 mainly due to the consolidation of Petron Malaysia's leasehold rights balance.

Deferred tax assets increased by 13% to ₱9,558 million in 2012 mainly due to the recognition of NOLCO by the Parent Company and GSMI, net of the effect of recognition of deferred tax on unrealized foreign exchange gains of the Parent Company and SMC Global.

Other noncurrent assets decreased by 22% to ₱32,116 million in 2012 mainly due to the net payments made by PCERP, net of the consolidation of Petron Malaysia's balance.

Loans payable increased by 36% to ₱111,837 million in 2012 mainly due to the consolidation of Petron Malaysia's balance and the net availments made during the period for the Group's working capital requirements.

Accounts payable and accrued expenses increased by 57% to ₱97,000 million mainly due to the consolidation of Petron Malaysia's balance, higher liabilities of Petron on account of its crude and petroleum products importations, increase in trade payables and other current liabilities of SMPFC and SMB due to purposive buying of raw materials in anticipation of higher production and sales requirements for the last quarter of 2012.

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

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

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

Finance lease liabilities decreased by 5% to ₱198,312 million in 2012 mainly due to payments and the effect of favorable foreign exchange rates, net of the recognition of effective interest for the period.

Other noncurrent liabilities increased by 35% to ₱7,551 million in 2012 mainly due to the consolidation of Petron Malaysia's balance.

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

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

Cumulative translation adjustments decreased by 5% to ₱5,016 million in 2012 mainly due to the fair value adjustment on the investment in shares of stock of Indophil. The exchange rates used are ₱47.10 to US\$1 in Sept. 30, 2012 (₱43.84 in December 31, 2011) for net assets and ₱42.57 to US\$1 as of Sept. 30, 2012 (₱43.26 as of Sept. 30, 2011) for income and expense items.

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

Non-controlling interests (NCI) increased by 24% to ₱85,553 million in 2012 mainly due to the recognition of NCI upon the consolidation of Petron Malaysia, issuance of preferred shares by PGL and the share of NCI in the net income of mainly SMB, Petron and SMPFC, net of dividends declared and translation adjustments during the period.

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	September 30	
	2013	2012 (As Restated)
Income during the period	₱17,678	₱25,697
Addition to non-controlling interests and others	23,696	16,999
Issuance of capital stock	499	79,699
Effect of translation adjustments	815	(1,968)
Restatement due to PAS 19 and PFRS 11	(1,498)	1,035
Cash dividends	(15,985)	(14,921)
	₱25,205	₱106,541

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	September 30	
	2013	2012 (As Restated)
Net cash flows provided by operating activities	₱36,189	₱17,867
Net cash flows used in investing activities	(48,415)	(37,126)
Net cash flows provided by financing activities	66,018	76,982

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

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

<i>(In millions)</i>	September 30	
	2013	2012 (As Restated)
Proceeds from sale of investments and property and equipment	₱31,330	₱17,202
Dividends received from associates	3,504	4,593
Interest received	2,884	2,634
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(738)	(19,909)
Additions to investments and advances	(10,087)	(21,960)
Decrease (increase) in other noncurrent assets and others	(23,291)	10,040
Additions to property, plant and equipment	(52,017)	(27,604)
Payment of other liabilities	-	(2,122)

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

<i>(In millions)</i>	September 30	
	2013	2012
Proceeds from (payments of) long-term debt - net	₱65,908	(₱14,472)
Proceeds from issuance of undated subordinated capital securities of a subsidiary	30,546	-
Proceeds from short-term loans - net	2,179	25,597
Proceeds from issuance of common shares	24	118
Decrease in non-controlling interest	(1,008)	-
Payment of finance lease liabilities	(14,271)	(13,075)
Payments of dividends	(17,360)	(14,782)
Proceeds from issuance of “Series 2” preferred shares	-	79,380
Net proceeds from issuance of preferred shares of a subsidiary	-	14,216

The effect of exchange rate changes on cash and cash equivalents amounted to ₱19 million and (₱994 million) in September 30, 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 of the current period against the same period of previous year. Please refer to Item II “Financial Performance” of the MD&A for the discussion of the computed certain Key Performance Indicators.

	September 2013	December 2012 (As Restated)
<u>Liquidity:</u>		
Current Ratio	1.51	1.39
<u>Solvency:</u>		
Total Debt to Equity Ratio	2.11	1.99
Asset to Equity Ratio	3.11	2.99
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	4.46%	11.09%
Interest Rate Coverage Ratio	2.64	2.57

	Period Ended September 30	
		2012
	2013	(As Restated)
<u>Operating Efficiency:</u>		
Volume Growth	8%	30%
Revenue Growth	7%	29%
Operating Margin	8.47%	7.23%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting