SAN MIGUEL CORPORATION

August 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 June 30, 2013.

Very truly yours,

MARY ROSE S. TAN
Assistant Corporate Secretary

C O V E R S H E E T

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S. E. C. Registration Number

							S	A	N										

						M	I	G	U	E	L								

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(Company's Full Name)

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

Atty. Mary Rose S. Tan	(632) 632-3000
Contact Person	Company Telephone Number

SEC FORM (2nd Quarter-2013) 2nd Tuesday of June

1	2		3	1				1	7	-	Q							
Month			Day					FORM TYPE						Month		Day		

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.		Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number									

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

1. For the quarterly period ended **June 30, 2013**

2. Commission identification number **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 March 31, 2013)
Common Shares	**2,373,195,820**
Preferred Shares – Series "2"	
Subseries "A"	**721,012,400**
Subseries "B"	**90,428,200**
Subseries "C"	**255,559,400**
Total Liabilities	**P755,480 million**

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 [x] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [x] 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 June 30, 2013 (with comparative figures as of December 31, 2012 and for the period ended June 30, 2012) and Selected Notes to Consolidated Financial Statements 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.

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	August 14, 2013
Signature and Title	**BELLA C. NAVARRA** Comptrollership Manager/Authorized Signatory
Date	August 14, 2013

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 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)	₱ **133,919**	₱ 125,507
Trade and other receivables - net (Notes 4, 8 and 9)	**138,451**	122,544
Inventories	**76,159**	80,075
Current portion of biological assets - net	**4,056**	3,792
Prepaid expenses and other current assets (Notes 8 and 9)	**34,303**	31,600
	386,888	363,518
Assets held for sale	**9,857**	9,373
Total Current Assets	**396,745**	372,891
Noncurrent Assets		
Investments and advances - net	**166,988**	162,479
Available-for-sale financial assets (Notes 8 and 9)	**1,231**	1,570
Property, plant and equipment - net (Note 5)	**401,258**	370,016
Investment properties - net	**3,968**	3,780
Biological assets - net of current portion	**1,944**	1,932
Goodwill - net	**48,968**	49,953
Other intangible assets - net	**45,290**	34,075
Deferred tax assets	**14,344**	10,317
Other noncurrent assets - net (Notes 4, 8 and 9)	**48,888**	35,261
Total Noncurrent Assets	**732,879**	669,383
	₱ **1,129,624**	₱ 1,042,274

LIABILITIES AND EQUITY

	2013 Unaudited	2012 As Restated (Note 2)
Current Liabilities		
Loans payable (Notes 8 and 9)	₱ **158,301**	₱ 151,097
Accounts payable and accrued expenses (Notes 4, 8 and 9)	**85,594**	84,622
Finance lease liabilities - current portion (Notes 8 and 9)	**15,645**	15,456
Income and other taxes payable	**10,830**	11,123
Dividends payable	**3,517**	3,247
Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9)	**41,808**	3,164
Total Current Liabilities	**315,695**	268,709
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9)	**224,383**	220,881
Deferred tax liabilities	**12,283**	12,929
Finance lease liabilities - net of current portion (Notes 8 and 9)	**180,777**	179,698
Other noncurrent liabilities (Notes 8 and 9)	**22,342**	11,772
Total Noncurrent Liabilities	**439,785**	425,280
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	**16,410**	16,408
Capital stock - preferred	**10,187**	10,187
Additional paid-in capital	**178,012**	177,762
Revaluation increment	**1,216**	1,352
Reserve for Retirement Plan (Note 2)	**(196)**	(196)
Cumulative translation adjustments	**5,308**	5,141
Retained earnings:		
Appropriated	**27,969**	27,219
Unappropriated	**146,614**	154,483
Treasury stock	**(139,639)**	(140,124)
	245,881	252,232
Non-controlling Interests	**128,263**	96,053
Total Equity	**374,144**	348,285
	₱ **1,129,624**	₱ 1,042,274

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 June 30, 2013 and 2012
(In Millions, Except Per Share Data)

	For the Period Ended		For the Quarter Ended	
	2013 Unaudited	2012 As Restated (Note 2)	**2013 Unaudited**	2012 Unaudited (Note 2)
SALES (Note 3)	₱ **357,460**	₱ 329,204	₱ **179,204**	₱ 187,165
COST OF SALES	**302,401**	280,058	**152,509**	164,713
GROSS PROFIT	**55,059**	49,146	**26,695**	22,452
SELLING AND ADMINISTRATIVE EXPENSES	**(26,123)**	(24,734)	**(13,198)**	(12,533)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(16,140)**	(15,398)	**(8,003)**	(8,229)
INTEREST INCOME	**1,858**	2,113	**849**	1,011
EQUITY IN NET EARNINGS (LOSS) OF ASSOCIATES AND A JOINT VENTURE	**(133)**	2,138	**(277)**	788
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	**590**	1,190	**545**	652
OTHER INCOME (CHARGES) - Net	**(12,373)**	7,209	**(13,641)**	3,330
INCOME (LOSS) BEFORE INCOME TAX	**2,738**	21,664	**(7,030)**	7,471
INCOME TAX EXPENSE (BENEFIT)	**(215)**	3,536	**(2,397)**	780
NET INCOME (LOSS)	₱ **2,953**	₱ 18,128	₱ **(4,633)**	₱ 6,691
Net Income (Loss) Attributable to :				
Equity Holders of the Parent Company	₱ **(2,400)**	₱ 13,738	₱ **(6,637)**	₱ 5,495
Non-controlling Interests	**5,353**	4,390	**2,004**	1,196
	₱ **2,953**	₱ 18,128	₱ **(4,633)**	₱ 6,691
Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 6):				
Basic	₱ **(2.30)**	₱ 4.57	₱ **(3.44)**	₱ 1.71
Diluted	₱ **(2.28)**	₱ 4.54	₱ **(3.41)**	₱ 1.69

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 June 30, 2013 and 2012
(In Millions)

	For the Quarter Ended			
	2013 Unaudited	2012 As Restated (Note 2)	**2013**	2012 As Restated (Note 2)
NET INCOME (LOSS)	**₱ 2,953**	₱ 18,128	**₱ (4,633)**	₱ 6,691
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**1,646**	(1,692)	**2,059**	(1,302)
EQUITY RESERVE FOR RETIREMENT PLAN (Note 2)	**-**	(1,612)	**-**	(872)
INCOME TAX BENEFIT	**-**	484	**-**	262
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**(69)**	(161)	**5**	(417)
INCOME TAX BENEFIT	**1**	2	**-**	2
SHARE IN COMPREHENSIVE INCOME OF ASSOCIATES	**104**	444	**110**	288
OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	**1,682**	(2,535)	**2,174**	(2,039)
TOTAL COMPREHENSIVE INCOME (LOSS) - NET OF TAX	**₱ 4,635**	₱ 15,593	**₱ (2,459)**	₱ 4,652
Comprehensive Income (Loss) Attributable to :				
Equity Holders of the Parent Company	**₱ (2,233)**	₱ 12,245	**₱ (6,254)**	₱ 4,298
Non-controlling Interests	**6,868**	3,348	**3,795**	354
	₱ 4,635	₱ 15,593	**₱ (2,459)**	₱ 4,652

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 June 30, 2013 and 2012
(In Millions)

	2013 Unaudited	2012 As Restated (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	P 2,738	P 21,664
Adjustments for :		
Depreciation, amortization and others - net	23,376	1,164
Interest expense and other financing charges	16,140	15,398
Interest income	(1,858)	(2,113)
Equity in net losses (earnings) of associates and a joint venture	133	(2,138)
Gain on sale of investments and property and equipment	(590)	(1,190)
Operating income before working capital changes	39,939	32,785
Changes in noncash current assets, certain current liabilities and others	(14,181)	(21,761)
Cash generated from operations	25,758	11,024
Interest and other financing charges paid	(8,860)	(9,127)
Income taxes paid	(6,087)	(4,663)
Net cash flows provided by (used in) operating activities	10,811	(2,766)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	(751)	(19,787)
Additions to investments and advances	(7,055)	(21,428)
Additions to property, plant and equipment	(37,328)	(16,873)
Payment of other liabilities	-	(2,122)
Decrease (increase) in other noncurrent assets and others	(14,239)	11,016
Proceeds from sale of investments and property and equipment	1,609	14,896
Interest received	1,500	1,610
Dividends received from associates	2,534	2,846
Net cash flows used in investing activities	(53,730)	(29,842)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from :		
Short-term borrowings	445,678	299,129
Long-term borrowings	94,297	43,043
Payments of:		
Short-term borrowings	(440,443)	(277,045)
Long-term borrowings	(60,043)	(47,634)
Payment of finance lease liabilities	(9,414)	(8,840)
Cash dividends paid	(4,676)	(4,536)
Dividends paid to non-controlling shareholders	(4,687)	(4,446)
Proceeds from issuance of capital stock	23	29
Proceeds from issuance of undated subordinated capital securities of a subsidiary	30,546	-
Decrease in non-controlling interests	(544)	-
Net proceeds from issuance of preferred shares of a subsidiary	-	14,216
Net cash flows provided by financing activities	50,737	13,916
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	594	(620)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,412	(19,312)
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 133,919	P 109,552

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 June 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	Revaluation	Cumulative Translation Adjustments		Retained Earnings		Treasury			
	Common	Preferred	Capital	Increment	Reserve for Retirement Plan	Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated	Stock	Total		
As of January 1, 2013 (Audited)	₱ 16,408	₱ 10,187	₱ 177,762	₱ 1,352	₱ -	₱ 5,612	₱ (524)	₱ 27,219	₱ 154,303	₱ (140,124)	₱ 252,195	₱ 97,585	₱ 349,780
Adjustment due to PAS 19 and PFRS 11 (Note 2)	-	-	-	-	(196)	53	-	-	180	-	37	(1,532)	(1,495)
As of January 1, 2013 (As Restated)	16,408	10,187	177,762	1,352	(196)	5,665	(524)	27,219	154,483	(140,124)	252,232	96,053	348,285
Foreign currency translation differences	-	-	-	-	-	129	-	-	-	-	129	1,517	1,646
Share in comprehensive income of associates	-	-	-	-	-	-	104	-	-	-	104	-	104
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	(66)	-	-	-	(66)	(2)	(68)
Other comprehensive income	-	-	-	-	-	129	38	-	-	-	167	1,515	1,682
Net income (loss) for the period	-	-	-	-	-	-	-	-	(2,400)	-	(2,400)	5,353	2,953
Total comprehensive income (loss) for the period	-	-	-	-	-	129	38	-	(2,400)	-	(2,233)	6,868	4,635
Issuance of capital stock	2	-	21	-	-	-	-	-	-	-	23	-	23
Conversion of exchangeable bonds from treasury shares	-	-	183	-	-	-	-	-	-	485	668	-	668
Stock options	-	-	46	-	-	-	-	-	-	-	46	-	46
Net addition to non-controlling interests and others	-	-	-	(136)	-	-	-	-	-		(136)	30,251	30,115
Appropriations - net	-	-	-	-	-	-	-	750	(750)	-	-	-	-
Cash dividends (Note 7):													
Common	-	-	-	-	-	-	-	-	(1,666)	-	(1,666)	(3,833)	(5,499)
Preferred	-	-	-	-	-	-	-	-	(3,053)	-	(3,053)	(1,076)	(4,129)
As of June 30, 2013 (Unaudited)	₱ 16,410	₱ 10,187	₱ 178,012	₱ 1,216	₱ (196)	₱ 5,794	₱ (486)	₱ 27,969	₱ 146,614	₱ (139,639)	₱ 245,881	₱ 128,263	₱ 374,144
As of January 1, 2012 (Audited)	₱ 16,397	₱ 4,852	₱ 103,511	₱ 1,443	₱ -	₱ 5,662	₱ (451)	₱ 24,315	₱ 141,126	₱ (67,441)	₱ 229,414	₱ 69,686	₱ 299,100
Adjustment due to PAS 19 and PFRS 11 (Note 2)	-	-	-	-	746	28	-	-	949	-	1,723	(684)	1,039
As of January 1, 2012 (As Restated)	16,397	4,852	103,511	1,443	746	5,690	(451)	24,315	142,075	(67,441)	231,137	69,002	300,139
Foreign currency translation differences	-	-	-	-	-	(1,088)	-	-	-	-	(1,088)	(604)	(1,692)
Share in comprehensive income of associates	-	-	-	-	-	-	444	-	-	-	444	-	444
Equity reserve for retirement plan, net of tax (Note 2)	-	-	-	-	(694)	-	-	-	-	-	(694)	(434)	(1,128)
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	(155)	-	-	-	(155)	(4)	(159)
Other comprehensive income (loss)	-	-	-	-	(694)	(1,088)	289	-	-	-	(1,493)	(1,042)	(2,535)
Net income for the period	-	-	-	-	-	-	-	-	13,738	-	13,738	4,390	18,128
Total comprehensive income (loss) for the period	-	-	-	-	(694)	(1,088)	289	-	13,738	-	12,245	3,348	15,593
Issuance of capital stock	3	-	26	-	-	-	-	-	-	-	29	-	29
Reissuance of treasury stock	-	-	6	-	-	-	-	-	-	11	17	-	17
Stock options	-	-	114	-	-	-	-	-	-	-	114	-	114
Net addition to non-controlling interests and others	-	-	-	(88)	-	53	-	-	-	-	(35)	17,116	17,081
Appropriations - net	-	-	-	-	-	-	-	401	(401)	-	-	-	-
Cash dividends (Note 7):													
Common	-	-	-	-	-	-	-	-	(1,658)	-	(1,658)	(3,234)	(4,892)
Preferred	-	-	-	-	-	-	-	-	(2,912)	-	(2,912)	(1,076)	(3,988)
As of June 30, 2012 (Unaudited)	₱ 16,400	₱ 4,852	₱ 103,657	₱ 1,355	₱ 52	₱ 4,655	₱ (162)	₱ 24,716	₱ 150,842	₱ (67,430)	₱ 238,937	₱ 85,156	₱ 324,093

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

CERTIFIED CORRECT:

BELLA C. NAVARRA
VP, Corporate Finance - Comptrollership

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

		TOTAL	OVER 90 DAYS
ACCOUNTS RECEIVABLE - NON-TRADE	₱	126	126
ALLOW. FOR DOUBTFUL ACCOUNTS		(126)	
NET	₱	0	

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

The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest million (₱000,000), except when otherwise indicated.

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

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

Amendments to Standard and Interpretations Adopted in 2013

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

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

- Disclosures: Offsetting Financial Assets and Financial Liabilities *(Amendments to PFRS 7)*. These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are: (a) offset in the consolidated statements of financial position; or (b) subject to enforceable master netting arrangements or similar agreements. They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the consolidated statements of financial position. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2013.

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

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

  The Group adopted PFRS11 with December 31, 2012 financial statements restated for comparative purposes. The effects of the adoption on the financial statements are shown in Note 2.

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

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

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

- PFRS 13, *Fair Value Measurement,* replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and

sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

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

  The Group adopted the amendments to PAS 19 with December 31, 2012 financial statements restated for comparative purposes. The effects of the adoption on the financial statements are shown in Note 2.

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

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

  - Comparative Information beyond Minimum Requirements *(Amendments to PAS 1)*. These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

  - Presentation of the Opening Statement of Financial Position and Related Notes *(Amendments to PAS 1)*. The amendments clarify that: (a) the opening consolidated statement of financial position is required only if there is: (i) a change in accounting policy; (ii) a retrospective restatement; or (iii) a reclassification which has a material effect upon the information in that consolidated statement of financial position; (b) except for the disclosures

required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, notes related to the opening consolidated statement of financial position are no longer required; and (c) the appropriate date for the opening consolidated statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements. The amendments explain that the requirements for the presentation of notes related to additional comparative information and those related to the opening consolidated statement of financial position are different, because the underlying objectives are different. Consequential amendments have been made to PAS 34, *Interim Financial Reporting.* The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

- Classification of Servicing Equipment (*Amendments to PAS 16, Property, Plant and Equipment).* The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under this standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

- Income Tax Consequences of Distributions *(Amendments to PAS 32, Financial Instruments Presentation)*. The amendments clarify that PAS 12, *Income Taxes,* applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments.* The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

- Segment Assets and Liabilities *(Amendments to PAS 34)*. This is amended to align the disclosure requirements for segment assets and segment liabilities in interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a) the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

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

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

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

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

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

- Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32).* The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PFRS 9, *Financial Instruments (2010) and (2009).* PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. PFRS 9 (2010 and 2009) is effective for annual periods beginning on or after January 1, 2015.

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

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

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

Increase (decrease) in:

Consolidated Statements of Financial Position

	As of December 31, 2012	As of January 1, 2012
Total current assets	(P338)	(P549)
Total noncurrent assets	4,649	2,736
Total current liabilities	(336)	(401)
Total noncurrent liabilities	6,142	1,549
Total Equity	(1,495)	1,039

Consolidated Statement of Income

	For the Period Ended June 30, 2012
Sales	(P343)
Income from operation	(678)
Net income	(P475)
Attributable to:	
Equity holders of the Parent Company	(P385)
Non-controlling interests	(90)
	(P475)
Earnings Per Common Share Attributable to Equity Holders of the Parent Company:	
Basic	(P0.16)
Diluted	(P0.16)

Consolidated Statement of Comprehensive Income

	For the Priod Ended June 30, 2012
Exchange differences on translation of foreign operations	P23
Equity reserve for retirement plan	(1,612)
Income tax benefit	484
	(P1,105)
Attributable to:	
Equity holders of the Parent Company	(P676)
Non-controlling interests	(429)
	(P1,105)

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		Infra-structure		Telecommu-nications		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	**P42,571**	P43,728	**P47,075**	P45,348	**P9,171**	P9,249	**P37,309**	P39,103	**P216,933**	P191,121	**P3,746**	P53	**P655**	P602	**P-**	P-	**P-**	P-	**P357,460**	P329,204
Inter-segment sales	**291**	59	**6**	2	**2,307**	2,630	**295**	389	**1,848**	2,178	**-**	-	**-**	-	**-**	-	**(4,747)**	(5,258)	**-**	-
Total sales	**P42,862**	P43,787	**P47,081**	P45,350	**P11,478**	P11,879	**P37,604**	P39,492	**P218,781**	P193,299	**P3,746**	P53	**P655**	P602	**P-**	P-	**(P4,747)**	(P5,258)	**P357,460**	P329,204
Results																				
Segment results	**P9,746**	P10,408	**P2,399**	P1,826	**P1,150**	P1,117	**P11,012**	P8,833	**P3,795**	P4,043	**P2,562**	(P19)	**(P115)**	(P219)	**(P1,795)**	(P1,925)	**P182**	P348	**P28,936**	P24,412

** 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	**June 30, 2013**	**P12**	**P-**	**P22,149**	**P-**	On demand; Interest bearing	Unsecured; No impairment
	December 31, 2012*	-	-	21,601	-		
Associates	**June 30, 2013**	**30,015**	**207**	**20,166**	**53**	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2012*	53,210	481	10,680	61		
	June 30, 2013	**-**	**-**	**-**	**11,071**	Less than 1 to 10 years; Interest bearing	Unsecured
	December 31, 2012*	-	-	-	9,045		
Joint Venture Corporation	**June 30, 2013**	**-**	**-**	**248**	-	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2012*	-	-	215	-		
Shareholders in subsidiaries	**June 30, 2013**	**62**	**31**	**145**	**384**	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2012*	-	34	183	557		
Others	**June 30, 2013**	**1**	**-**	**1**	**15**	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2012*	-	-	24	18		
Total	**June 30, 2013**	**P30,090**	**P238**	**P42,709**	**P11,523**		
Total	December 31, 2012*	P53,210	P515	P32,703	P9,681		

** As Restated - Note 2*

a. Amounts owed by related parties consist of trade and non-trade receivables and share in expenses.

b. Amounts owed to related parties consist of trade payables and professional fees.

c. 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:

June 30, 2013

	January 1, 2013 (As Restated - Note 2)	Additions and Transfers	Acquisition of Subsidiaries, Disposals and Reclassifications	Currency Translation Adjustments	June 30, 2013
Cost:					
Land and land improvements	**P20,878**	**P1,700**	**P1,914**	**P93**	**P24,585**
Buildings and improvements	**39,537**	**586**	**15**	**660**	**40,798**
Power plants	**214,319**	**-**	**-**	**-**	**214,319**
Refinery and plant equipment	**48,744**	**199**	**5,002**	**157**	**54,102**
Service stations and other equipment	**14,276**	**543**	**(104)**	**98**	**14,813**
Machinery and equipment	**85,110**	**1,031**	**3,238**	**1,306**	**90,685**
Telecommunications equipment	**7,526**	**41**	**-**	**-**	**7,567**
Transportation equipment	**12,252**	**344**	**14**	**43**	**12,653**
Tools and small equipment	**2,532**	**157**	**1**	**3**	**2,693**
Office equipment, furniture and fixtures	**5,278**	**56**	**(46)**	**26**	**5,314**
Molds	**703**	**168**	**(124)**	**3**	**750**
Leasehold improvements	**1,706**	**47**	**1**	**2**	**1,756**
Construction in progress	**66,645**	**32,456**	**(420)**	**12**	**98,693**
	519,506	**37,328**	**9,491**	**2,403**	**568,728**
Accumulated depreciation and amortization:					
Land improvements	**2,664**	**59**	**(7)**	**(1)**	**2,715**
Buildings and improvements	**16,933**	**740**	**(67)**	**235**	**17,841**
Power plants	**15,813**	**2,594**	**-**	**-**	**18,407**
Refinery and plant equipment	**28,096**	**1,194**	**4,407**	**112**	**33,809**
Service stations and other equipment	**9,152**	**526**	**(60)**	**62**	**9,680**
Machinery and equipment	**50,858**	**1,889**	**3,402**	**575**	**56,724**
Telecommunications equipment	**5,820**	**172**	**44**	**-**	**6,036**
Transportation equipment	**3,630**	**427**	**(49)**	**14**	**4,022**
Tools and small equipment	**1,825**	**107**	**(5)**	**(15)**	**1,912**
Office equipment, furniture and fixtures	**4,247**	**165**	**(45)**	**18**	**4,385**
Molds	**610**	**80**	**(56)**	**2**	**636**
Leasehold improvements	**737**	**56**	**(2)**	**2**	**793**
	140,385	**8,009**	**7,562**	**1,004**	**156,960**
Accumulated impairment losses:					
Land improvements	**385**	**-**	**-**	**-**	**385**
Buildings and improvements	**2,027**	**-**	**-**	**144**	**2,171**
Refinery and plant equipment	**-**	**-**	**573**	**-**	**573**
Machinery and equipment	**6,585**	**-**	**306**	**424**	**7,315**
Telecommunications equipment	**45**	**-**	**(45)**	**-**	**-**
Transportation equipment	**12**	**-**	**(1)**	**1**	**12**
Tools and small equipment	**13**	**-**	**-**	**1**	**14**
Office equipment, furniture and fixtures	**37**	**-**	**-**	**2**	**39**
Leasehold improvements	**1**	**-**	**-**	**-**	**1**
	9,105	**-**	**833**	**572**	**10,510**
Net book value	**P370,016**	**P29,319**	**P1,096**	**P827**	**P401,258**

June 30, 2012

	January 1, 2012 (As Restated)	Additions and Transfers	Acquisition of Subsidiaries, Disposals and Reclassifications	Currency Translation Adjustments	June 30, 2012 (As Restated)
Cost:					
Land and land improvements	P16,214	P440	P4,304	(P69)	P20,889
Buildings and improvements	32,524	136	7,621	(473)	39,808
Power plants	214,319	-	-	-	214,319
Refinery and plant equipment	37,810	2	10,905	-	48,717
Service stations and other equipment	6,070	507	6,805	-	13,382
Machinery and equipment	86,053	1,011	197	(1,160)	86,101
Telecommunications equipment	7,394	164	-	-	7,558
Transportation equipment	10,871	304	363	(20)	11,518
Tools and small equipment	2,494	93	(92)	(41)	2,454
Office equipment, furniture and fixtures	4,796	191	257	(27)	5,217
Molds	809	108	(226)	(2)	689
Leasehold improvements	1,550	20	102	(2)	1,670
Construction in progress	21,007	13,897	(375)	(4)	34,525
	441,911	16,873	29,861	(1,798)	486,847
Accumulated depreciation and amortization:					
Land improvements	2,581	74	(23)	(11)	2,621
Buildings and improvements	12,074	626	3,655	(248)	16,107
Power plants	10,628	2,593	-	-	13,221
Refinery and plant equipment	18,579	1,042	7,632	(204)	27,049
Service stations and other equipment	4,221	422	4,032	(110)	8,565
Machinery and equipment	48,465	1,916	(106)	(531)	49,744
Telecommunications equipment	5,406	222	27	-	5,655
Transportation equipment	2,939	438	(6)	(17)	3,354
Tools and small equipment	1,805	97	(93)	(31)	1,778
Office equipment, furniture and fixtures	3,716	174	403	(38)	4,255
Molds	638	106	(165)	(2)	577
Leasehold improvements	655	46	2	(1)	702
	111,707	7,756	15,358	(1,193)	133,628
Accumulated impairment losses:					
Land improvements	385	-	-	-	385
Buildings and improvements	3,812	-	(1)	(163)	3,648
Machinery and equipment	7,007	-	(47)	(264)	6,696
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	-	(48)	(431)	10,844
Net book value	P318,881	P9,117	P14,551	(P174)	P342,375

Depreciation and amortization charged to operations amounted to P8,009 and P7,756 in June 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:

	June 30	
	2013	2012 (As Restated - Note 2)
Income (loss) attributable to equity holders of the Parent Company	**(P2,400)**	P13,738
Less dividends on preferred shares for the period (a)	**3,053**	2,912
Net income (loss) attributable to common shareholders of the Parent Company (b)	**(P5,453)**	P10,826
Weighted average number of common shares outstanding (in millions) - basic (c)	**2,373**	2,369
Effect of dilution - common	**16**	16
Weighted average number of common shares outstanding (in millions) - diluted (d)	**2,389**	2,385
Common:		
Basic earnings (loss) per share (b/c)	**(P2.30)**	P4.57
Diluted earnings (loss) per share (b/d)	**(P2.28)**	P4.54

7. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to P0.70 per share both in June 2013 and 2012. Cash dividend declared on June 11, 2013 at P0.35 per share is payable on July 15, 2013 to all common shareholders as of June 28, 2013.

On January 17, 2013, the Parent Company's BOD declared cash dividends on the Series "2" preferred shares, as follows: P1.40625 per share for Subseries "2-A", P1.4296875 per share for Subseries "2-B", and P1.50 per share for Subseries "2-C", payable on April 4, 2013 to the holders of the Series "2" preferred shares as of March 20, 2013.

On May 10, 2013, the Parent Company's BOD declared cash dividends on the Series "2" preferred shares, as follows: P1.40625 per share for Subseries "2-A", P1.4296875 per share for Subseries "2-B", and P1.50 per share for Subseries "2-C", payable on July 3, 2013 to the holders of the Series "2" preferred shares as of June 18, 2013. This is the third cash dividend payment to the Series "2" preferred shareholders from the time of issuance on September 21, 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 P1,246 and P979 for the period ending June 30, 2013 and December 31, 2012, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

June 30, 2013	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	**P31,053**	**P2,453**	**P8,118**	**P3,036**	**P20,036**	**P23,194**	**P87,890**
Interest rate	**6.3212% - 9.33%**	**6.3212% - 9.33%**	**5.4885% - 9.33%**	**6.05% - 7.18%**	**6.32% - 7.18%**	**5.93% - 10.5%**	
Foreign currency-denominated (expressed in Philippine peso)	**9,824**	**-**	**12,960**	**-**	**-**	**34,560**	**57,344**
Interest rate	**2%**		**7%**			**4.875%**	
Floating Rate							
Philippine peso-denominated	**514**	**714**	**12,213**	**1,212**	**1,212**	**2,370**	**18,235**
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)	**648**	**25,665**	**11,911**	**8,949**	**59,153**	**-**	**106,326**
Interest rate	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**		
	P42,039	**P28,832**	**P45,202**	**P13,197**	**P80,401**	**P60,124**	**P269,795**

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:

	June 30, 2013		December 31, 2012 (As Restated - Note 2)	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,139**	**P49,253**	US$861	P35,323
Trade and other receivables	**1,128**	**48,710**	1,331	54,644
Prepaid expenses and other current assets	**29**	**1,214**	28	1,138
AFS financial assets	**12**	**509**	12	491
Noncurrent receivables	**53**	**2,319**	59	2,445
	2,361	**102,005**	2,291	94,041
Liabilities				
Loans payable	**1,177**	**50,815**	1,098	45,072
Accounts payable and accrued expenses	**928**	**40,097**	1,212	49,705
Long-term debt (including current maturities)	**3,788**	**163,670**	2,849	116,967
Finance lease liabilities	**2,413**	**104,217**	2,474	101,506
Other noncurrent liabilities	**460**	**19,900**	249	10,207
	8,766	**378,699**	7,882	323,457
Net foreign currency-denominated monetary liabilities	**(US$6,405)**	**(P276,694)**	(US$5,591)	(P229,416)

The Group reported net foreign exchange (losses) gains amounting to (P13,155) and P7,051 for the period ended June 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
June 30, 2012	42.12
December 31, 2012	41.05
June 30, 2013	43.20

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 June 30, 2013 and December 31, 2012:

June 30, 2013	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	**(P719)**	**(P924)**	**P719**	**P924**
Trade and other receivables	**(333)**	**(1,028)**	**333**	**1,028**
Prepaid expenses and other current assets	**(29)**	**(20)**	**29**	**20**
AFS financial assets	**-**	**(12)**	**-**	**12**
Noncurrent receivables	**(37)**	**(41)**	**37**	**41**
	(1,118)	**(2,025)**	**1,118**	**2,025**
Loans payable	**465**	**1,037**	**(465)**	**(1,037)**
Accounts payable and accrued expenses	**402**	**809**	**(402)**	**(809)**
Long-term debt (including current maturities)	**3,762**	**2,660**	**(3,762)**	**(2,660)**
Finance lease liabilities	**2,412**	**1,688**	**(2,412)**	**(1,688)**
Other noncurrent liabilities	**402**	**339**	**(402)**	**(339)**
	7,443	**6,533**	**(7,443)**	**(6,533)**
	P6,325	**P4,508**	**(P6,325)**	**(P4,508)**

December 31, 2012 (As Restated - Note 2)	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(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 June 30, 2013 and December 31, 2012.

June 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	**P133,919**	**P133,919**	**P133,919**	**P-**	**P-**	**P-**
Trade and other receivables - net	**138,451**	**138,451**	**138,451**	**-**	**-**	**-**
Option deposit (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**1,080**	**1,080**	**1,080**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**411**	**411**	**411**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**150**	**150**	**150**	**-**	**-**	**-**
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**1,592**	**1,625**	**412**	**1,141**	**72**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**14,342**	**14,342**	**-**	**14,342**	**-**	**-**

(forward)

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Loans payable	**P158,301**	**P159,095**	**P159,095**	**P-**	**P-**	**P-**
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**82,779**	**82,779**	**82,779**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**1,839**	**1,839**	**1,839**	**-**	**-**	**-**
Long-term debt (including current maturities)	**266,191**	**323,092**	**54,153**	**38,157**	**159,241**	**71,541**
Finance lease liabilities (including current portion)	**196,422**	**273,659**	**19,588**	**20,791**	**68,339**	**164,941**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**15,128**	**15,132**	**-**	**14,873**	**27**	**232**

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)	14,934	14,934	-	14,934	-	-
(forward)						

	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Loans payable	151,097	151,705	151,705	-	-	-
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)	3,982	3,987	342	3,373	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 June 30, 2013 and December 31, 2012, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	June 30, 2013	December 31, 2012 (As Restated - Note 2)
Cash and cash equivalents	**P133,919**	P125,507
Trade and other receivables - net	**138,451**	122,544
Option deposit	**1,080**	1,026
Derivative assets	**411**	91
Financial assets at FVPL	**150**	147
AFS financial assets	**1,592**	1,621
Noncurrent receivables and deposits - net	**14,342**	14,934
	P289,945	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.

<u>*Financial Assets*</u>
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 P561, P215 and P238 as of June 30 and March 31, 2013 and December 31, 2012, respectively.

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

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

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

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

The combined carrying amounts of financial assets under this category amounted to P287,792, P298,274 and P264,011 as of June 30 and March 31, 2013 and December 31, 2012, respectively.

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

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

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "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 P1,592, P1,668 and P1,621 as of June 30 and March 31, 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 P1,839, P269 and P315 as of June 30 and March 31, 2013 and December 31, 2012, respectively.

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

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 P718,821, P681,802 and P658,471 as of June 30 and March 31, 2013 and December 31, 2012, respectively.

Debt Issue Costs

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Impairment of Financial Assets

The Group assesses at 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 June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012 (As Restated - Note 2)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P133,919**	**P133,919**	P125,507	P125,507
Trade and other receivables - net	**138,451**	**138,451**	122,544	122,544
Option deposit (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**1,080**	**1,080**	1,026	1,026
Derivative assets (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**411**	**411**	91	91
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**150**	**150**	147	147
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account in the consolidated statements of financial position)	**1,592**	**1,592**	1,621	1,621
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**14,342**	**14,342**	14,934	14,934
Financial Liabilities				
Loans payable	**158,301**	**158,301**	151,097	151,097
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**82,779**	**82,779**	84,193	84,193
Derivative liabilities (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position)	**1,839**	**1,839**	315	315
Long-term debt (including current maturities)	**266,191**	**286,939**	224,045	239,453
Finance lease liabilities (including current portion)	**196,422**	**196,422**	195,154	195,154
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**15,128**	**15,128**	3,982	3,982

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 1.9% to 4.2% and 0.5% to 4.3% as of June 30, 2013 and December 31, 2012, respectively. The discount rates used for foreign currency-denominated loans range from 0.3% to 2.5% and 0.2% to 0.8% as of June 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 June 30 and March 31, 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 under the "Hedging reserve" account 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 June 30 and March 31, 2013 and December 31, 2012, the Group has no outstanding derivatives accounted for as cash flow hedge.

Net Investment Hedge. As of June 30 and March 31, 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 June 30 and March 31, 2013 and December 31, 2012, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,074, US$448 and US$963, respectively, and with various maturities in 2013. As of June 30 and March 31, 2013 and December 31, 2012, the net positive (negative) fair value of these currency forwards amounted to P175, P2 and (P217), respectively.

Currency Options
The Group entered into short-term currency options with an aggregate notional amount as of June 30 and March 31, 2013 of US$1,260 and US$1,290, respectively. The net negative fair value of these currency options as of June 30 and March 31, 2013 amounted to P1,169 and P109, 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 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 June 30 and March 31, 2013 and December 31, 2012 is 1,635, 1,800 and 525 metric tons, respectively. As of June 30 and March 31, 2013 and December 31, 2012, the net positive (negative) fair value of these swaps amounted to (P11), (P4) 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 June 30 and March 31, 2013 and December 31, 2012 is 6.7, 9.8 and 0.5 million barrels, respectively. As of June 30 and March 31, 2013 and December 31, 2012, the positive fair value of these swaps amounted to P530, P845 and P30, respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as of June 30 and March 31, 2013 and December 31, 2012 of 203,981, 95,527 and 85,457 metric tons, respectively. These options can be exercised at various calculation dates in 2013 with specified quantities on each calculation date. As of June 30 and March 31, 2013 and December 31, 2012, the net negative fair value of these options amounted to P117, P88 and P41, respectively.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 35,000 and 195,000 barrels as of March 31, 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 March 31, 2013 and December 31, 2012 amounted to P7 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 June 30 and March 31, 2013 and December 31, 2012, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$250, US$303 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 June 30 and March 31, 2013 and December 31, 2012, the net positive (negative) fair value of these embedded currency forwards amounted to (P305), P9 and P38, respectively.

Embedded Currency Options

As of June 30 and March 31, 2013 and December 31, 2012, the total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$9, US$11 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 P1, P5 and P6 as of June 30 and March 31, 2013 and December 31, 2011, respectively.

For the periods ended June 30, 2013 and 2012 and March 31, 2013 and 2012, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P1,075, (P435), P936 and (P76), 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 June 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.

June 30, 2013

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P-**	**P411**	**P411**
Financial assets at FVPL	**150**	**-**	**150**
AFS financial assets	**758**	**834**	**1,592**
Financial Liabilities			
Derivative liabilities	**-**	**1,839**	**1,839**

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 June 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. Event After the Reporting Date

- *Sale of Shares in Meralco*

  On July 19, 2013, the Parent Company sold 64,333,330 shares of common stock in Meralco at P270.00 per share for total gross proceeds of P17,370 and net gain of P9,619.

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 June 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 June 30, 2013.

h. The effects of seasonality or cyclicality 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 June 30, 2013. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

SAN MIGUEL CORPORATION

ANNEX "B"

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 June 30, 2013 (with comparative figures as of December 31, 2012 and for the period ended June 30, 2012). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2013, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2013 TRANSACTIONS

A. INVESTMENTS

- On May 6, 2013, the Department of Public Works and Highways awarded to Optimal Infrastructure Development, Inc., a wholly-owned subsidiary of San Miguel Holdings Corporation (SMHC), the NAIA Expressway Project which links the three (3) NAIA terminals to the Skyway Project, the Manila-Cavite Toll Expressway and the Entertainment City of the Philippine Amusement Gaming Corporation. The concession period will be thirty (30) years and the estimated project cost is ₱15 billion. On June 5, 2013, an upfront payment of ₱11 billion was paid to the National Treasury for the project.

- 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.

- 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., a wholly-owned subsidiary of SMYPC, for ₱420 million.

- On January 11, 2013, Clariden Holdings, Inc. (Clariden) entered into separate Deeds of Absolute Sale of Shares for the purchase of 100% of the outstanding capital stock of New Manila Properties Inc., Excelon Asia Holding Corporation and Philnico Holdings Limited. Total cost of investments amounts to ₱769 million. The Group recognized the value of the mining rights amounting to ₱13,146 million as a result of the acquisition.

B. EQUITY / FINANCING

- On April 29, 2013, the Parent Company has drawn US$1,000 million 5-year loan to pay in full and refinance its existing US$1,000 million loan. The refinancing of the loan lengthens the maturity schedules from 2015 to 2018. On June 13, 2013, the Parent Company availed of an additional US$300 million loan, proceeds of which are to be used for general corporate purposes.

- On April 26, 2013, the Parent Company issued US$800 million bond with a 10-year maturity, and noncallable for 5 years (10NC5) at an interest rate of 4.875% proceeds of which are to be used for refinancing, working capital requirements and general corporate purposes of the SMC Group.

- Pursuant to the resolution of the Board of Directors (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 Singapore Exchange Securities Trading Limited, 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 of the first semester of 2013, the Parent Company repurchased Bonds with an aggregate principal amount of US$350.6 million. 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$385.6 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 Corporation (Petron) issued undated subordinated capital securities at an issue price of 100% amounting to US$500 million and at the 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 will be 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 will be used partly to finance the capital expenditure requirements of RMP-2 Project.

C. OTHERS

- Following the Securities and Exchange Commission's denial of all requests made (including the request of San Miguel Properties, Inc. (SMPI) and San Miguel Brewery Inc. (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, the BOD of SMPI and SMB approved and authorized on February 5 and February 15, 2013, respectively, the voluntary delisting of SMPI and SMB shares from the PSE.

  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 June 30, 2013, the certificate authorizing registration for 27,120,000 shares (53% of the total tendered) were secured and presented to SMB and accordingly were transferred in 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 first semester of 2013 amounted to ₱357,460 million, 9% higher than 2012. The increase is mainly due to the revenue contribution of Petron Malaysia which was consolidated in the SMC Group beginning April 2012 and San Miguel Pure Foods Company, Inc. (SMPFC) revenue increase.

The corresponding 2013 consolidated operating income amounted to ₱28,936 million, 19% higher than the previous year. Growth came mainly from improved results of SMC Global Power Holdings Corp. (SMC Global) with lower generation costs and SMPFC's improved sales performance coupled with improved efficiencies and availability of low cost raw material alternatives. Respectively, SMC Global and SMPFC increased their operating income by 25% and 31%, respectively. These cushioned the effects of the increase in excise tax affecting beer and liquor, and decline in regional crude and product prices that affected Petron during the second quarter.

Net financing charges increased to ₱14,282 million from ₱13,285 million mainly due to higher debt balance in 2013.

The strengthening of the US dollar against the peso in June redounded to foreign exchange losses in 2013, a sharp contrast from last year's foreign exchange gains. Excluding net foreign exchange losses, SMC posted a net income attributable to equity holders of the Parent Company of ₱7,804 million in the first half of the year. Net loss attributable to equity holders of the Parent Company amounted to ₱2,400 million.

The foreign exchange loss was also covered by the gain on sale of 64.3 million Meralco shares sold at ₱270 per share in July. Total proceeds amounted to ₱17,370 million with estimated gain to SMC of ₱9,619 million, net of the previously recognized equity in reported net income of Meralco.

2012 vs. 2011

San Miguel Corporation's consolidated sales revenue for the first semester of 2012 amounted to about ₱329,204 million, 25% higher than 2011. Most of the businesses continued to post revenue growth versus 2011 with increased volumes and selling prices. However, June 2012 year-to-date consolidated operating income amounted to ₱24,412 million, 22% lower than 2011. The Group's performance in the second quarter was weighed down by Petron's performance due to lower retail prices of fuel coupled with high costs of inventory being used in production.

With the gains in other investments coupled with favorable foreign exchange rates, though partially offset by higher financing charges, SMC's resulting June year-to-date 2012 net income attributable to the equity holders of the Parent Company amounted to ₱13,738 million, 26% higher than 2011.

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' first semester 2013 consolidated revenues amounted to ₱36,811 million, at par with last year. This was on a sales volume of 101 million cases, 9% lower than last year. Lower volume is a result of the price increase implemented in February 2013 to offset the increased excise taxes. The decline in volume was narrowed down to 7% in the second quarter from 12% in the first quarter.

With this, consolidated first semester operating income amounted to₱10,683 million, slightly lower than last year.

b. Ginebra San Miguel Inc. (GSMI)

For the first semester of 2013, GSMI posted a volume of 9.1 million cases, 22% lower than last year's level. The Hard Liquor Industry took a temporary dip in the first semester owing to the increase in retail prices resulting from higher excise tax. June year-to-date sales revenue, hence, fell short from last year by 12% and ended at ₱6,051 million. As a result, operating loss for the first semester of the year reached ₱811 million.

2012 vs. 2011

a. SMB

San Miguel Brewery Inc. and Subsidiaries' first semester 2012 consolidated revenues reached about ₱36,884 million, 4% higher than 2011. This was achieved on sales volumes of about 112 million cases, 3% below 2011 level. June 2012 year-to-date selling prices were higher with the price increase in May 2011.

With continued domestic beer's management of fixed costs and beer international's improved operating performance, consolidated operating income for the first semester of 2012 ended at ₱10,808 million, 6% higher than 2011.

b. GSMI

With continued soft demand for GSMI's GSM Blue and Gran Matador, GSMI's hard liquor sales volume for the first semester of 2012 reached only about 12 million cases, lower than 2011 level. This resulted to June year-to-date sales revenue of about ₱6,882 million, 12% lower than 2011 level.

Despite the overall decline in volume, flagship Ginebra San Miguel surpassed 2011 volume level by 13%, and showed improvement in the second quarter 2012 performance. This resulted to a June year-to-date 2012 consolidated operating loss of about ₱148 million, lower than 2011 loss owing to improved alcohol and container costs and managed fixed costs. GSMI expects much more improvement in profitability with more aggressive sales and marketing campaigns and incremental contribution of new products.

2. FOOD

2013 vs. 2012

For the first semester of 2013, SMPFC reached consolidated revenues of ₱47,081 million, 4% higher than 2012 level. Both the commodity and value added businesses contributed to the increase. Poultry and fresh meat businesses benefitted from better selling prices and volume growth resulting from stable-priced channels, the feeds business enjoyed higher selling prices, while the core brands with appropriate advertising and promotional support delivered strong sales. This resulted to a consolidated operating income amounting to ₱2,399 million, 31% better than last year. 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 consolidated revenues for the first semester of 2012 was ₱45,350 million, 7% higher than 2011. Most domestic food clusters continued to grow their revenues from 2011 level with increased volumes led by the coffee and value-added businesses' sustained strong volume performance and aided by better poultry, meats and feeds prices.

Consolidated operating income for the 1st semester of 2012 reached about ₱1,826 million. This is still lower than 2011 level with the high costs of feeds particularly wheat and corn and lower supply of cassava during the first quarter of 2012. On a positive note, raw materials prices improved in the second quarter of 2012 and already made an impact in the Group's performance during the quarter where operating income increased almost double its first quarter performance.

3. PACKAGING

2013 vs. 2012

The San Miguel Yamamura Packaging Group (SMYPG) consolidated revenues for the first semester of 2013 reached ₱11,478 million, 3% lower than 2012. The company continued to experience lower glass volumes as demand coming from SMB and GSMI declined. 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 good cost management, SMYPG's operating income for June year-to-date amounted to ₱ 1,150 million, 3% higher than last year.

2012 vs. 2011

SMYPG's June 2012 year-to-date sales revenue amounted to ₱11,879 million, slightly lower than 2011 level. Offshore operations faced difficulties and weaknesses in international market resulting to lower volumes particularly on Cospak and SMPP Malaysia. This was, however, offset by growth in the domestic businesses lead by metal cans, composites and plastic businesses.

With the domestic business favorable June 2012 performance and continuing efficiency initiatives to lower fixed costs, consolidated operating income for 2012 reached ₱1,117 million, 6% above 2011.

4. POWER GENERATION AND DISTRIBUTION

2013 vs. 2012

SMC Global's off take volume for the first semester of 2013 reached 8.4 million megawatt hours, slightly higher than last year. The increase was mainly due to higher Wholesale Electricity Spot Market (WESM) volumes. With lower average bilateral price agreements as well as lower WESM average prices, consolidated revenues were down by 5% at ₱37,604 million. The business managed to deliver June year-to-date consolidated operating income of ₱11,012 million, 25% higher than last year with lower generation cost for both Sual and Ilijan.

2012 vs. 2011

As of June 2012, SMC Global's net generation from the power plants grew 12% over 2011 to 8.1 million megawatt hours. All plants were better utilized with the increased demand from bilateral customers resulting to consolidated revenues of about ₱39,492 million in the first semester of 2012, an 11% improvement from 2011.

The resulting June year-to-date 2012 consolidated operating income was ₱8,833 million, 17% higher than 2011.

5. FUEL AND OIL

2013 vs. 2012

Petron's first semester consolidated volume posted 22% increase from last year with Petron Malaysia's volume contribution of 17 million barrels – a full six months sales versus only three months last year. As a result, consolidated revenue for the first half of the year grew by 13% and reached ₱218,781 million. Petron Malaysia's revenue contribution amounted to ₱88,015 million while Petron Philippines generated revenue of ₱130,766 million, 10% lower than last year on volume of 22.7 million barrels. This was a result of decline in prices and export sales partly offset by stronger volume performance of key domestic markets.

Consolidated operating income reached ₱ 3,795 million, lower than last year by 6%. Petron's margins were adversely affected by the decline in regional crude and product prices. Dubai crude which averaged US$108/bbl in first quarter fell to US$101/bbl in the second quarter, causing Petron to sell high cost inventories at lower prices. Petron Malaysia cushioned the decline posting operating income of ₱ 1,352 million. Also, Philippine operations started to recover this July with the increases in the selling prices of gasoline.

2012 vs. 2011

Petron Corporation delivered first semester 2012 volumes of over 32 million barrels, 40% above 2011 with the contribution of Petron Malaysia of almost 9 million barrels. Petron Philippines' domestic volumes, on the other hand, grew by 9% contributing about 22 million barrels. With these, six months' consolidated revenue amounted to ₱193,299 million, 43% higher than 2011.

Despite the volume growth, volatility in global oil markets led to substantial margin contraction. Prices of both crude oil and finished products declined steeply from April to the first week of July. In the Philippines alone, this meant thirteen (13) weeks of consecutive price roll backs in local pump prices totaling ₱10.50 per liter for gasoline and nearly ₱9.0 per liter for diesel. With higher-cost inventory sold at reduced prices, Petron Philippines reported much lower operating income in the second quarter of 2012, rounding to only ₱5,214 million in the first semester. Petron Malaysia even reported an operating loss equivalent to ₱1,171 million. Consolidated operating income as of June 2012 thus reached ₱4,043 million, significantly lower than 2011. Improvements are expected in the third quarter as retail prices begin to recover.

III. FINANCIAL POSITION

2013 vs. 2012

The Group's consolidated total assets as of June 30, 2013 amounted to ₱1,129,624 million, ₱87,350 million higher than 2012, mainly due to the increase in noncurrent assets particularly property, plant and equipment and the consolidation of the assets of Philnico Group.

Cash and cash equivalents increased by ₱8,412 million in 2013 primarily due to net proceeds from short-term and long-term borrowings and issuance of undated subordinated capital securities by Petron; net of a) the major capital expenditures of Petron Philippines [namely, the RMP-2 Project and Refinery Solid Fuel Fired Power Plant] and Petron Malaysia, b) investment

in NCC by SMYPC, and c) payment of financing charges, dividends, taxes and finance lease liabilities.

The increase in trade and other receivables of ₱15,907 million in 2013 is due to the a) increase in South Premier Power Corp.'s and San Miguel Energy Corporation's receivable from Meralco on sale of electricity, b) advances of the Parent Company to Atlantic Aurum Investments BV and c) increase in Petron's receivables.

Inventories decreased by ₱3,916 million due to lower volume and price of crude oil inventory as well as price of finished product importations of Petron.

Prepaid expenses and other current assets increased by ₱2,703 million due to the higher input VAT of Petron on foreign purchases of crude oil and finished products.

Assets held for sale increased by ₱484 million due to the reclassification of the fixed assets of Davao Beverage Packaging Plant as assets held for sale, net of the completion of the sale of Petron Mega Plaza.

Available-for-sale (AFS) financial assets decreased by ₱ 339 million mainly due to the reclassification of Petron's investment to current asset.

Property, plant and equipment increased by ₱31,242 million due to major capital projects of Petron Philippines namely, the RMP-2 Project and Refinery Solid Fuel Fired Power Plant, and Petron Malaysia.

Investment properties increased by ₱188 million due to the increase in the investment properties of SMPI particularly the Manila Diamond Residences Project.

Biological assets increased by ₱276 million mainly due to the purchase of day-old-chicks and piglets and improved growing efficiencies.

Other intangible assets increased by ₱ 11,215 million in 2013 mainly due to Clariden's recognition of mining rights upon consolidation of Philnico Group.

Deferred tax assets increased by ₱4,027 million mainly 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 ₱13,627 million mainly due to upfront payment to the government for NAIA Expressway Project.

Loans payable increased by ₱7,204 million in 2013 mainly due to the net availments made during the period for the Group's working capital requirements.

Dividends payable increased by ₱270 million due to the declaration of dividends by PT Delta Djakarta Tbk.

Long-term debt increased by ₱42,146 million in 2013 mainly due to a) the net availments by Parent Company, b) availment from an existing loan facility of Petron, and c) forex revaluation; net of the loan payments made by Citra Metro Manila Tollways Corporation.

Deferred tax liabilities decreased by ₱646 million in 2013 due to the effect of recognition of deferred income tax on lower undistributed net earnings of foreign subsidiaries during the period.

Other noncurrent liabilities increased by ₱ 10,570 million in 2013 mainly due to the consolidation of Philnico Group.

Revaluation increment decreased by ₱136 million in 2013 mainly due to the tender offer of SMB shares.

Non-controlling interests (NCI) increased by ₱32,210 million in 2013 mainly due to the issuance of undated subordinated capital securities by Petron and the share of NCI in the net income of mainly Petron, SMB, SMPFC and SMHC, net of dividends declared.

2012 vs. 2011

The Group's consolidated total assets as of June 30, 2012 amounted to ₱961,803 million, ₱69,080 million higher than 2011, mainly due to the consolidation of the total assets of Petron Malaysia:

Cash and cash equivalents decreased by 15% to ₱109,552 million in 2012 mainly due to the a) investments made in Trustmark Holdings Corporation (Trustmark) and Zuma Holdings and Management Corporation (Zuma) 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 of Petron, construction of Golden Bay Grain Terminal Corporation's (GBGTC) grains terminal in Batangas and of Cavite Plant's breaded, butter, fried nuggets line by PF-Hormel; c) net payment of long-term debt, dividends, finance lease liabilities and payment in full of liabilities related to the acquisition of Meralco shares of stock by SMC Global, net of the proceeds from a) issuance of preferred shares by Petron Global; b) the net availment of short-term loans; c) redemption of Top Frontier Investment Holdings, Inc.'s (Top Frontier) preferred shares; d) net collection of noncurrent receivables from Petron Corporation Employee Retirement Plan (PCERP); and e) dividends received from associates.

Trade and other receivables increased by 20% to ₱100,906 million in 2012 mainly due to the consolidation of Petron Malaysia's balance; increase in a) receivable from Meralco on the sale of power and b) trade receivables of GSMI on account of extension of longer credit terms to dealers to support volume generation.

Inventories increased by 36% to ₱88,849 million in 2012 mainly due to the increase in the price of finished products and increase in volume of crude oil inventory of Petron, consolidation of Petron Malaysia's balance and the increase in purchases of corn, meat materials and importations of coffee to cover the second half of the year requirements of SMPFC.

Biological assets increased by 4% to ₱6,179 million due to higher feed costs and increase in volume of growing poultry livestock and hogs in anticipation of demand surge in the second half of the year.

Prepaid expenses and other current assets increased by 52% to ₱34,270 million mainly due to the excess input tax over VAT payable of Petron and SMC Global, consolidation of Petron

Malaysia's prepaid expenses and other current assets balance, short-term investments of more than 90 days of Petron and increase in tax certificates on hand of SMC Global.

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.

Investments and advances increased by 4% to ₱174,601 million mainly due to the investments made in Trustmark and Zuma and equity in net earnings of Meralco, net of the redemption of Top Frontier's preferred shares and dividends received from Meralco and Top Frontier.

AFS financial assets increased by 60% to ₱3,310 million in 2012 mainly due to the Rockwell Land Shares received as property dividend from Meralco, net of the fair value adjustment on the investment in shares of stock of Indophil Resources NL (Indophil).

Property, plant and equipment increased by 7% to ₱342,375 million in 2012 mainly due to the consolidation of Petron Malaysia and East Pacific Star Bottlers Phils Inc.'s (EPSBPI) property balance, major capital projects such as the RMP-2 Project and Refinery Solid Fuel Fired Power Plant of Petron and the construction of GBGTC's grains terminal in Batangas and of Cavite Plant's breaded, butter, fried nuggets line by PF-Hormel, net of the depreciation for the period.

Investment properties increased by 16% to ₱3,308 million mainly due to the acquisition by SMPI of a property in Alabang, Muntinlupa City and consolidation of Alloy Manila Toll Expressway's balance.

Goodwill increased by 33% to ₱41,254 million in 2012 mainly due to the recognition of additional goodwill upon the consolidation of Petron Malaysia with Petron and of EPSBPI with GSMI, net of translation adjustments.

Other intangible assets increased by 15% to ₱13,026 million in 2012 mainly due to the consolidation of Petron Malaysia's leasehold rights balance.

Deferred tax assets increased by 14% to ₱9,582 million in 2012 mainly due to the recognition of NOLCO, net of the effect of recognition of deferred tax on unrealized foreign exchange gains of the Parent Company.

Other noncurrent assets decreased by 16% to ₱34,581 million in 2012 mainly due to the net payments made by PCERP, net of the consolidation of Petron Malaysia's balance and the purchase of new bottles for domestic operations of SMB.

Loans payable increased by 43% to ₱117,761 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 33% to ₱81,850 million mainly due to the consolidation of Petron Malaysia's balance, higher liabilities for crude and petroleum products of Petron, increase in payable to Power Sector Assets and Liabilities Management Corporation for the power rate adjustments and increase in trade payables for power purchases, energy fees and

coal supplies of SMC Global, net of the payment in full of the liability related to the acquisition of Meralco shares of stock by SMC Global.

Dividends payable decreased by 5% to ₱2,050 million in 2012 mainly due to the dividend payments made by SMYPC, San Miguel Yamamura Packaging International Limited and GSMI to non-controlling stockholders, which were outstanding as of December 31, 2011.

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.

Long-term debt decreased by 4% to ₱203,649 million in 2012 mainly due to a) loan payments made by Petron, SMB, San Miguel Yamamura Asia Corporation, the Parent Company and GSMI; b) SMB's redemption of Series A bonds and c) translation adjustments, net of the issuance of a) ₱20 billion bonds by SMB, b) corporate notes by Petron and San Miguel Brewery Hong Kong Limited and c) consolidation of EPSBPI's balance.

Deferred tax liabilities increased by 9% to ₱12,953 million in 2012 mainly due to the consolidation of Petron Malaysia's balance.

Finance lease liabilities decreased by 4% to ₱200,890 million 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 65% to ₱9,188 million in 2012 mainly due to the consolidation of Petron Malaysia's balance.

Cumulative translation adjustments decreased by 15% to ₱4,493 million in 2012 mainly due to the translation adjustment on the net assets of foreign subsidiaries, particularly from Petron International, and the effect of fair value adjustments on the investment in shares of stock of Indophil, net of the share in comprehensive income of associates.

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 23% to ₱85,156 million in 2012 mainly due to the recognition of NCI upon the consolidation of Petron Malaysia, issuance of preferred shares by Petron Global Limited and the share of NCI in the net income of mainly SMB, SMPFC and Petron, net of dividends declared.

Equity

The increase (decrease) in equity is due to:

(In millions)	**June 30**	
	2013	2012 (As Restated)
Income during the period	**₱2,953**	₱18,128
Addition to non-controlling interests and others	**30,115**	17,081
Issuance of capital stock	**737**	160
Effect of translation adjustments	**1,682**	(2,535)
Restatement due to PAS 19 and PFRS 11	**(1,495)**	1,039
Cash dividends	**(9,628)**	(8,880)
	₱24,364	₱24,993

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**June 30**	
	2013	2012 (As Restated)
Net cash flows provided by (used in) operating activities	**₱10,811**	(₱2,766)
Net cash flows used in investing activities	**(53,730)**	(29,842)
Net cash flows provided by financing activities	**50,737**	13,916

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:

(In millions)	**June 30**	
	2013	2012 (As Restated)
Dividends received from associates	**₱2,534**	₱2,846
Proceeds from sale of investments and property and equipment	**1,609**	14,896
Interest received	**1,500**	1,610
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(751)**	(19,787)
Additions to investments and advances	**(7,055)**	(21,428)
Decrease (increase) in other noncurrent assets and others	**(14,239)**	11,016
Additions to property, plant and equipment	**(37,328)**	(16,873)
Payment of other liabilities	**-**	(2,122)

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

(In millions)	**June 30**	
	2013	2012
Proceeds from issuance of undated subordinated capital securities of a subsidiary	**₱30,546**	₱ -
Proceeds from (payment of) long-term debt - net	**34,254**	(4,591)
Proceeds from short-term loans - net	**5,235**	22,084
Proceeds from issuance of capital stock	**23**	29
Payments of dividends	**(9,363)**	(8,982)
Payment of finance lease liabilities	**(9,414)**	(8,840)
Decrease in non-controlling interest	**(544)**	-
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 ₱594 million and (₱620 million) in June 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.

	June 2013	December 2012 (As Restated)
Liquidity:		
Current Ratio	**1.26**	1.39
Solvency:		
Total Debt to Equity Ratio	**2.02**	1.99
Asset to Equity Ratio	**3.02**	2.99
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**2.59%**	11.09%
Interest Rate Coverage Ratio	**2.53**	2.57

	Period Ended June 30	
	2013	2012 (As Restated)
Operating Efficiency:		
Volume Growth	**13%**	22%
Revenue Growth	**9%**	25%
Operating Margin	**8.09%**	7.42%

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	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}}\right)\text{-1}$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right)\text{-1}$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*