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S. E. C. Registration Number

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(Company's Full Name)

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

SEC FORM (1st Quarter-2014)

2nd Tuesday of June

1	2
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Month

3	1
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Day

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FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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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 **March 31, 2014**
2. Commission identification number **PW-277**
3. BIR Tax Identification No **000-060-741-000**
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, 2014)

Common Shares
Preferred Shares – Series “1”
Preferred Shares – Series “2”
Subseries “A”
Subseries “B”
Subseries “C”

Total Liabilities

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 ☒ 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 March 31, 2014 (with comparative figures as of December 31, 2013 and for the period ended March 31, 2013) and Selected Notes to Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

PART II--OTHER INFORMATION

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

NONE

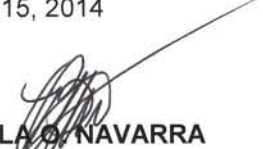
SIGNATURES

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

Issuer **SAN MIGUEL CORPORATION**

Signature and Title 
FERDINAND K. CONSTANTINO
Chief Finance Officer and Treasurer

Date May 15, 2014

Signature and Title 
BELLA O. NAVARRA
Comptrollership Manager/
Principal Accounting Officer

Date May 15, 2014

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2014 and December 31, 2013
(In Millions)

ANNEX "A"

ASSETS

	2014 Unaudited	2013 Audited
Current Assets		
Cash and cash equivalents (Notes 7 and 8)	P 225,317	P 191,613
Trade and other receivables - net (Notes 3, 7 and 8)	133,598	168,141
Inventories	88,947	79,391
Current portion of biological assets - net	3,443	3,427
Prepaid expenses and other current assets (Notes 7 and 8)	40,178	37,636
	491,483	480,208
Assets held for sale	8,798	8,798
Total Current Assets	500,281	489,006
Noncurrent Assets		
Investments and advances - net	64,477	60,654
Available-for-sale financial assets (Notes 7 and 8)	41,815	42,048
Property, plant and equipment - net (Note 4)	431,945	425,832
Investment property - net	5,504	4,176
Biological assets - net of current portion	2,002	1,911
Goodwill - net	41,940	41,752
Other intangible assets - net	38,142	36,032
Deferred tax assets	16,875	15,608
Other noncurrent assets - net (Notes 3, 7 and 8)	47,614	53,068
Total Noncurrent Assets	690,314	681,081
	P 1,190,595	P 1,170,087

LIABILITIES AND EQUITY

	2014 Unaudited	2013 Audited
Current Liabilities		
Loans payable (Notes 3, 7 and 8)	P 149,507	P 143,226
Accounts payable and accrued expenses (Notes 3, 7 and 8)	123,637	117,490
Finance lease liabilities - current portion (Notes 7 and 8)	15,861	15,654
Income and other taxes payable	13,367	13,058
Dividends payable	4,110	3,311
Current maturities of long-term debt - net of debt issue costs (Notes 3, 7 and 8)	42,267	42,807
Total Current Liabilities	348,749	335,546
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 3, 7 and 8)	271,844	264,690
Deferred tax liabilities	11,233	11,061
Finance lease liabilities - net of current portion (Notes 7 and 8)	177,868	179,394
Other noncurrent liabilities (Notes 3, 7 and 8)	13,839	13,619
Total Noncurrent Liabilities	474,784	468,764
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	16,414	16,414
Capital stock - preferred	10,187	10,187
Additional paid-in capital	178,086	178,085
Revaluation increment	764	764
Reserve for retirement plan	860	862
Cumulative translation adjustments	5,069	4,863
Retained earnings:		
Appropriated	28,603	28,230
Unappropriated	140,037	138,256
Treasury stock	(139,954)	(139,954)
	240,066	237,707
Non-controlling Interests	126,996	128,070
Total Equity	367,062	365,777
	P 1,190,595	P 1,170,087

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

CERTIFIED CORRECT:

BELLARDO NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Periods Ended March 31, 2014 and 2013
(In Millions, Except Per Share Data)

	2014 Unaudited	2013 Unaudited
SALES (Note 2)	P 194,836	P 178,531
COST OF SALES	<u>166,483</u>	<u>150,167</u>
GROSS PROFIT	28,353	28,364
SELLING AND ADMINISTRATIVE EXPENSES	(12,828)	(12,925)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(7,424)	(8,137)
INTEREST INCOME	991	1,009
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	(323)	144
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	132	45
OTHER INCOME (CHARGES) - Net	<u>(1,159)</u>	<u>1,268</u>
INCOME BEFORE INCOME TAX	7,742	9,768
INCOME TAX EXPENSE	<u>1,726</u>	<u>2,182</u>
NET INCOME	<u>P 6,016</u>	<u>P 7,586</u>
Net Income Attributable to :		
Equity Holders of the Parent Company	P 2,154	P 4,237
Non-controlling Interests	<u>3,862</u>	<u>3,349</u>
	<u>P 6,016</u>	<u>P 7,586</u>
Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 5):		
Basic	P 0.26	P 1.14
Diluted	P 0.26	P 1.13

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

CERTIFIED CORRECT:

BELLARMINA NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Periods Ended March 31, 2014 and 2013
(In Millions)

	<u>2014</u> <u>Unaudited</u>	<u>2013</u> <u>Unaudited</u>
NET INCOME	P 6,016	P 7,586
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
EQUITY RESERVE FOR RETIREMENT PLAN	(3)	-
INCOME TAX BENEFIT	1	-
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	<u>193</u>	<u>(6)</u>
	<u>191</u>	<u>(6)</u>
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	677	(413)
NET LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(346)	(74)
INCOME TAX BENEFIT	<u>23</u>	<u>1</u>
	<u>354</u>	<u>(486)</u>
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	<u>545</u>	<u>(492)</u>
TOTAL COMPREHENSIVE INCOME - Net of tax	<u>P 6,561</u>	<u>P 7,094</u>
Attributable to :		
Equity Holders of the Parent Company	P 2,358	P 4,021
Non-controlling Interests	<u>4,203</u>	<u>3,073</u>
	<u>P 6,561</u>	<u>P 7,094</u>

Note: See accompanying Management Discussion and Analysis and Selected Notes to the 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 Periods Ended March 31, 2014 and 2013
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Reserve for Retirement Plan	Cumulative Translation Adjustments		Fair Value Reserve	Retained Earnings		Treasury Stock	Total	
	Common	Preferred				Translation Reserve			Appropriated	Unappropriated			
As of January 1, 2014 (Audited)	P 16,414	P 10,187	P 178,085	P 764	P 862	P 4,079	P 784	P 28,230	P 138,256	P (139,954)	P 237,707	P 128,070	P 365,777
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	309	-	-	-	-	309	368	677
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	193	-	-	-	193	-	193
Equity reserve for retirement plan	-	-	-	-	(2)	-	-	-	-	-	(2)	-	(2)
Net loss on available-for-sale financial assets	-	-	-	-	-	-	(296)	-	-	-	(296)	(27)	(323)
Other comprehensive income (loss)	-	-	-	-	(2)	309	(103)	-	-	-	204	341	545
Net income for the period	-	-	-	-	-	-	-	-	2,154	-	2,154	3,862	6,016
Total comprehensive income (loss) for the period	-	-	-	-	(2)	309	(103)	-	2,154	-	2,358	4,203	6,561
Issuance of common shares	-	-	1	-	-	-	-	-	-	-	1	-	1
Net addition to non-controlling interests and others	-	-	-	-	-	-	-	-	-	-	-	216	216
Appropriations - net	-	-	-	-	-	-	-	373	(373)	-	-	-	-
Cash dividends:													
Common	-	-	-	-	-	-	-	-	-	-	-	(5,193)	(5,193)
Preferred	-	-	-	-	-	-	-	-	-	-	-	(300)	(300)
As of March 31, 2014 (Unaudited)	P 16,414	P 10,187	P 178,086	P 764	P 860	P 4,388	P 681	P 28,603	P 140,037	P (139,954)	P 240,066	P 126,996	P 367,062
As of January 1, 2013 (Audited)	P 16,408	P 10,187	P 177,762	P 1,467	P (176)	P 5,522	P (491)	P 27,219	P 154,475	P (140,124)	P 252,249	P 96,688	P 348,937
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	(140)	-	-	-	-	(140)	(273)	(413)
Share in other comprehensive loss of associates - net	-	-	-	-	-	-	(6)	-	-	-	(6)	-	(6)
Net loss on available-for-sale financial assets, net of tax	-	-	-	-	-	-	(70)	-	-	-	(70)	(3)	(73)
Other comprehensive loss	-	-	-	-	-	(140)	(76)	-	-	-	(216)	(276)	(492)
Net income for the period	-	-	-	-	-	-	-	-	4,237	-	4,237	3,349	7,586
Total comprehensive income (loss) for the period	-	-	-	-	-	(140)	(76)	-	4,237	-	4,021	3,073	7,094
Issuance of common shares	2	-	16	-	-	-	-	-	-	-	18	-	18
Conversion of exchangeable bonds from treasury shares	-	-	180	-	-	-	-	-	-	480	660	-	660
Stock options	-	-	23	-	-	-	-	-	-	-	23	-	23
Net addition to non-controlling interests and others	-	-	-	(2)	-	-	-	-	-	-	(2)	30,842	30,840
Appropriations - net	-	-	-	-	-	-	-	110	(110)	-	-	-	-
Cash dividends (Note 6):													
Common	-	-	-	-	-	-	-	-	-	-	-	(1,705)	(1,705)
Preferred	-	-	-	-	-	-	-	-	(1,527)	-	(1,527)	(776)	(2,303)
As of March 31, 2013 (Unaudited)	P 16,410	P 10,187	P 177,981	P 1,465	P (176)	P 5,382	P (567)	P 27,329	P 157,075	P (139,644)	P 255,442	P 128,122	P 383,564

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Periods Ended March 31, 2014 and 2013
(In Millions)

	2014 Unaudited	2013 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 7,742	P 9,768
Adjustments for:		
Depreciation, amortization and others - net	8,106	3,816
Interest expense and other financing charges	7,424	8,137
Interest income	(991)	(1,009)
Equity in net losses (earnings) of associates and joint ventures	323	(144)
Gain on sale of investments and property and equipment	(132)	(45)
Operating income before working capital changes	22,472	20,523
Changes in noncash current assets, certain current liabilities and others	(5,004)	(11,393)
Cash generated from operations	17,468	9,130
Interest and other financing charges paid	(3,713)	(3,407)
Income taxes paid	(1,251)	(1,229)
Net cash flows provided by operating activities	12,504	4,494
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	-	(751)
Additions to investments and advances	(3,903)	(1,904)
Additions to property, plant and equipment	(7,593)	(16,261)
Increase in other noncurrent assets and others	(871)	(498)
Proceeds from sale of investments and property and equipment	31,616	426
Interest received	930	1,265
Dividends received from associates	-	240
Net cash flows provided by (used in) investing activities	20,179	(17,483)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	205,803	220,807
Long-term borrowings	6,035	8,266
Payments of:		
Short-term borrowings	(199,914)	(195,610)
Long-term borrowings	(1,470)	(15,976)
Payment of finance lease liabilities	(5,043)	(4,679)
Cash dividends paid	(789)	(2,332)
Dividends paid to non-controlling shareholders	(3,906)	(1,379)
Proceeds from issuance of capital stock	1	18
Proceeds from issuance of undated subordinated capital securities of a subsidiary	-	30,614
Net cash flows provided by financing activities	717	39,729
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	304	(35)
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,704	26,705
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	191,613	125,631
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 225,317	P 152,336

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2014
(Amounts in Millions)

			Past Due		
	Total	Current	1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	₱ 62,560	₱ 47,623	₱ 3,943	₱ 4,524	₱ 6,470
Non-trade	60,231	31,430	5,580	3,701	19,520
Others	18,935	18,908	8	11	8
Total	141,726	97,961	9,531	8,236	25,998
Less allowance for impairment losses	8,128				
Net	₱ 133,598				

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 interim consolidated financial statements as of and for the period ended March 31, 2014 and comparative financial statements for the same period in 2013 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 consolidated 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 2014

The Group has adopted the following PFRS starting January 1, 2014 and accordingly, changed its accounting policies in the following areas:

- Recoverable Amount Disclosures for Non-financial Assets (*Amendments to PAS 36, Impairment of Assets*). The amendments clarify that the recoverable amount disclosure only applies to impaired assets (or cash-generating unit) and require additional disclosures to be made on fair value measurement on impaired assets when the recoverable amount is based on fair value less costs of disposal. The amendments harmonize the disclosure requirement for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32, Financial Instruments Presentation*). 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.
- Philippine Interpretation IFRIC 21, *Levies*. The interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an

entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date even if it has no realistic opportunity to avoid the triggering event. Other standards should be applied to determine whether the debit side is an asset or expense. Outflows within the scope of PAS 12, *Income Taxes*, fines and penalties and liabilities arising from emission trading schemes are explicitly excluded from the scope. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- Novation of Derivatives and Continuation of Hedge Accounting (*Amendments to PAS 39, Financial Instruments: Recognition and Measurement*). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). The amendments are effective for annual periods beginning on or after January 1, 2014. Early application is permitted. However, if an entity applies the amendments for an earlier period, then it should disclose that fact. Although the amendments are applied retrospectively, if an entity had previously discontinued hedge accounting as a result of a novation, then the previous hedge accounting for that relationship cannot be reinstated.

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.

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, 2014, and have not been applied in preparing the interim consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the interim 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:

- Defined Benefit Plans: Employee Contributions (*Amendments to PAS 19, Employee Benefits*). The amendments apply to contributions from employees or third parties to the defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (i.e., employee contributions that are calculated according to a fixed percentage of salary). The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted.
- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations.
 - Definition relating to vesting condition (*Amendment to PFRS 2, Share-based Payment*). The amendment provided for the separate definitions of a 'performance condition' and a 'service condition' from the definition of a 'vesting condition' and thus made the description of each condition clearer. Performance condition and service condition are defined in order to clarify various issues,

including the following: (a) a performance condition must contain a service condition; (b) a performance target must be met while the counterparty is rendering service; (c) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (d) a performance condition may be a market or non-market condition and; (e) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The adoption of the amendments is required to be applied for annual periods beginning July 1, 2014.

- Accounting for contingent consideration in a business combination (*Amendment to PFRS 3, Business Combinations*). The amendment clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9, *Financial Instruments*. The adoption of the amendments is required to be applied for annual periods beginning July 1, 2014.
- Aggregation of operating segments (*Amendment to PFRS 8, Operating Segment*). The amendment clarifies that operating segments may be combined or aggregated if they are consistent with the core principle of the standard, if the segments have similar economic characteristics and if they are similar in other qualitative respects. If they are combined, the entity must disclose the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. The adoption of the amendments is required to be applied for annual periods beginning July 1, 2014.
- Reconciliation of the total of the reportable segment assets to the entity's total assets (*Amendment to PFRS 8*). The amendment clarifies that the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. The adoption of the amendments is required to be retrospectively applied for annual periods beginning July 1, 2014.
- Short-term receivables and payables (*Amendment to PFRS 13, Fair Value Measurement*) clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of the discounting is immaterial. The adoption of the amendments is required to be applied for annual periods beginning July 1, 2014.
- Key management personnel (*Amendment to PAS 24, Related Parties*). The amendment clarifies that a management entity—an entity that provides key management personnel services—is a related party subject to the related party disclosures. In addition, an entity that uses management entity is required to disclose the expenses incurred for management services. The adoption of the amendments is required to be retrospectively applied for annual periods beginning July 1, 2014.
- Scope exceptions for joint ventures (*Amendment to PFRS 3*). The amendment clarifies that: (a) joint arrangements are outside the scope of PFRS 3, not just joint ventures and; (b) the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The adoption of the amendments is required to be retrospectively applied for annual periods beginning July 1, 2014.
- Scope paragraph 52 (portfolio exception) (*Amendment to PFRS 13*). The amendment clarifies that the portfolio exception in PFRS 13 can be applied to

financial assets, financial liabilities and other contracts. The adoption of the amendments is required to be retrospectively applied for annual periods beginning July 1, 2014.

- Clarifying the interrelationship of PFRS 3 and PAS 40, *Investment Property*, when classifying property as investment property of owner-occupied property. The amendment clarifies that the description of ancillary services in PAS 40 differentiates between investment property and owner-occupied property. PFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination. The adoption of the amendments is required to be retrospectively applied for annual periods beginning July 1, 2014.
- PFRS 9, *Financial Instruments (2009, 2010 and 2013)*. 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. PFRS 9 (2013) introduces the following amendments: (a) a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the consolidated financial statements; (b) changes to address the so-called ‘own credit’ issue that were already included in PFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and (c) removes the January 1, 2015 mandatory effective date of PFRS 9, to provide sufficient time for the companies to make the transition to the new requirements. The International Accounting Standards Board (IASB) is currently discussing some limited amendments to the classification and measurement requirements and the expected credit loss impairment model to be included. Once the deliberations are complete, the IASB expects to publish a final version of the standard that will include all of the phases: (a) Classification and Measurement, (b) Impairment, and (c) Hedge Accounting. That version of the standard will include a new mandatory effective date. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets but will potentially have no impact on the classification and measurement of financial liabilities.
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, ‘off plan’; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The Philippine Securities and Exchange Commission (SEC) issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

2. Segment Information

Operating Segments

The reporting format of the Group’s operating segments is determined based on 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, energy, 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 packaging products including, 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 energy segment is engaged in power generation, distribution and trading and coal mining. The power generation assets supply electricity to a variety of customers, including Manila Electric Company, electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market.

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 transactions are eliminated in consolidation.

Financial information about reportable segments are as follows:

	Beverage		Food		Packaging		Energy		Fuel and Oil		Infra-structure		Telecommu- nications		Others		Eliminations		Consolidated	
	2014	2013	201	2013	2014	2013	2014	2013	2014	2013	20	2	20	20	2014	2013	2014	2013	2014	2013
Sales																				
External sales	P21,09	P20,541	P24,22	P22,963	P4,683	P4,340	P18,589	P17,308	P123,728	P111,033	P1	P	P		P277	P275	P –	P –	P194,836	P178,531
Inter-segment sales	63	108	5	4	889	1,156	1,370	202	1,446	965	–	–	–	–	1,287	1,086	(5,060)	(3,521)	–	–
Total sales	P21,156	P20,649	P24,227	P22,967	5,572	5,496	P19,959	P17,510	P125,174	P111,998	P1	P	P		P1,564	P1,361	(P5,060)	(P3,521)	P194,836	P178,531
Results																				
Segment results	P4,650	P4,357	P1,33	P916	P439	P520	P6,640	P5,540	P3,236	P3,679	(	P	(		(P969)	(P875	P334	P69	P15,525	P15,439

3. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders and associates and joint ventures 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 year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of March 31, 2014 and December 31, 2013:

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	March 31, 2014	P -	P -	P5,683	P -	On demand;	Unsecured;
	December 31, 2013	-	-	5,659	-	Non-interest bearing	No impairment
Retirement plans	March 31, 2014	6	-	18,442	-	On demand;	Unsecured;
	December 31, 2013	25	-	22,604	-	Interest bearing	No impairment
Associates	March 31, 2014	3,995	4	10,688	1	On demand;	Unsecured;
	December 31, 2013	11,078	332	10,173	1	Non-interest bearing	No impairment
	March 31, 2014	-	-	-	13,817	Less than 1	Unsecured and
	December 31, 2013	-	-	-	11,751	to 10 years; Interest bearing	secured
Joint Ventures	March 31, 2014	-	54	672	13	On demand;	Unsecured;
	December 31, 2013	-	137	325	28	Non-interest bearing	No impairment
Shareholders in subsidiaries	March 31, 2014	-	4	85	250	On demand;	Unsecured;
	December 31, 2013	-	36	61	239	Non-interest bearing	No impairment
Others	March 31, 2014	2	-	9	1,099	On demand;	Unsecured;
	December 31, 2013	10	-	10	1,078	Non-interest bearing	No impairment
Total	March 31, 2014	P4,003	P62	P35,579	P15,180		
Total	December 31, 2013	P11,113	P505	P38,832	P13,097		

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

4. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2014

	January 1, 2014	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	March 31, 2014
Cost:					
Land and land improvements	P25,474	P24	P2,121	P182	P27,8
Buildings and improvements	47,504	166	(19)	238	47,8
Power plants	221,760	-	-	-	221,7
Refinery and plant equipment	49,648	17	(7)	207	49,8
Service stations and other equipment	15,669	306	(104)	132	16,0
Machinery and equipment	94,752	555	(316)	239	95,2
Telecommunications equipment	6,995	18	-	-	7,0
Transportation equipment	12,774	37	27	17	12,8
Tools and small equipment	2,806	176	1	35	3,0
Office equipment, furniture and fixtures	5,364	86	(49)	21	5,4
Molds	829	185	(75)	4	9
Leasehold improvements	2,176	24	3	-	2,2
Construction in progress	108,494	5,999	998	40	115,5
	594,245	7,593	2,580	1,115	605,5
Accumulated depreciation and amortization:					
Land improvements	2,812	43	421	15	3,2
Buildings and improvements	18,637	443	(16)	120	19,1
Power plants	21,125	1,424	-	-	22,5
Refinery and plant equipment	30,285	463	(9)	292	31,0
Service stations and other equipment	9,673	314	(86)	73	9,9
Machinery and equipment	56,466	1,049	(85)	162	57,5
Telecommunications equipment	5,444	82	-	-	5,5
Transportation equipment	4,426	249	2	8	4,6
Tools and small equipment	2,099	58	(1)	17	2,1
Office equipment, furniture and fixtures	4,388	233	(8)	(125)	4,4
Molds	459	26	(47)	-	4
Leasehold improvements	1,152	34	-	1	1,1
	156,966	4,418	171	563	162,1
Accumulated impairment losses:					
Land improvements	266	-	-	-	2
Buildings and improvements	2,663	-	-	1	2,6
Machinery and equipment	8,445	-	-	23	8,4
Transportation equipment	12	-	(2)	-	
Tools and small equipment	18	-	-	1	
Office equipment, furniture and fixtures	42	-	-	-	
Leasehold improvements	1	-	-	-	
	11,447	-	(2)	25	11,4
Net book value	P425,832	P3,175	P2,411	P527	P431,9

March 31, 2013

	January 1, 2013	Additions and Transfers	Acquisition of Subsidiaries, Disposals and Reclassifications	Currency Translation Adjustments	March 31, 2013
Cost:					
Land and land improvements	P21,065	P248	P129	(P23)	P21,4
Buildings and improvements	39,670	193	1,260	(167)	40,9
Power plants	214,319	-	-	-	214,3
Refinery and plant equipment	48,744	47	5,865	(181)	54,4
Service stations and other equipment	14,276	119	(32)	(114)	14,2
Machinery and equipment	85,702	576	4,173	(59)	90,3
Telecommunications equipment	7,526	23	-	-	7,5
Transportation equipment	12,257	284	53	(7)	12,5
Tools and small equipment	2,546	107	21	3	2,6
Office equipment, furniture and fixtures	5,286	20	(10)	(15)	5,2
Molds	703	83	(47)	-	7
Leasehold improvements	1,707	34	(1)	-	1,7
Construction in progress	66,650	14,527	(131)	(13)	81,0
	520,451	16,261	11,280	(576)	547,4
Accumulated depreciation and amortization:					
Land improvements	2,697	30	-	1	2,7
Buildings and improvements	16,965	365	(19)	(89)	17,2
Power plants	15,813	1,297	-	-	17,1
Refinery and plant equipment	28,096	599	4,404	(128)	32,9
Service stations and other equipment	9,152	257	(25)	(70)	9,3
Machinery and equipment	51,047	952	3,887	(33)	55,8
Telecommunications equipment	5,820	109	44	-	5,9
Transportation equipment	3,633	221	(7)	(3)	3,8
Tools and small equipment	1,832	49	(1)	(4)	1,8
Office equipment, furniture and fixtures	4,255	85	(25)	(12)	4,3
Molds	610	43	(20)	-	6
Leasehold improvements	737	30	-	-	7
	140,657	4,037	8,238	(338)	152,5
Accumulated impairment losses:					
Land improvements	385	-	-	-	3
Buildings and improvements	2,027	-	-	(7)	2,0
Refinery and plant equipment	-	-	573	-	5
Machinery and equipment	6,585	-	307	(31)	6,8
Telecommunications equipment	45	-	(45)	-	-
Transportation equipment	12	-	(1)	-	-
Tools and small equipment	13	-	-	-	-
Office equipment, furniture and fixtures	37	-	-	-	-
Leasehold improvements	1	-	-	-	-
	9,105	-	834	(38)	9,9
Net book value	P370,689	P12,224	P2,208	(P200)	P384,9

Depreciation and amortization charged to operations amounted to P4,418 and P4,037 in March 2014 and 2013, respectively.

5. 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 LTIP of the Parent Company, 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 stock purchase and option plans of the Parent Company would be anti-dilutive, diluted EPS is not presented.

Basic and Diluted EPS is computed as follows:

	March 31	
	2014	2013
Income attributable to equity holders of the Parent Company	P2,154	P4,237
Less dividends on preferred shares for the period (a)	1,527	1,527
Net income attributable to common shareholders of the Parent Company (b)	P627	P2,710
Weighted average number of common shares outstanding (in millions) - basic (c)	2,377	2,373
Effect of dilution - common	14	16
Weighted average number of common shares outstanding (in millions) - diluted (d)	2,391	2,389
Common:		
Basic EPS (b/c)	P0.26	P1.14
Diluted EPS (b/d)	P0.26	P1.13

6. Dividends

On April 10, 2014, the Board of Directors (BOD) of the Parent Company declared cash dividend at P0.35 per share, payable on May 16, 2014 to all common shareholders as of April 29, 2014.

On January 17, 2013, the BOD of the Parent Company 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 April 11, 2013, the BOD of the Parent Company declared cash dividend at P0.35 per share, payable on May 6, 2013 to all common shareholders as of April 26, 2013.

7. 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, AFS financial assets, financial assets at fair value through profit or loss (FVPL), restricted cash, 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 process relating to the: a) quality and integrity of the Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the Group's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance by the Group with legal and regulatory requirements, including the Group's disclosure control and procedures; e) evaluation of management's process to assess and manage the Group's enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report.

The Group's accounting policies in relation to derivatives are set out in Note 8 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 P1,654 and P1,579 for the period ending March 31, 2014 and for the year ended December 31, 2013, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at March 31, 2014 and December 31, 2013, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

March 31, 2014	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P28,359	P2,501	P7,450	P24,438	P2,080	P28,863	P93,691
Interest rate	6.3131% - 9.33%	5.4885% - 9.33%	6.145% - 9.33%	6.05% - 7.1827%	6.3131% - 7.1827%	5.93% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	9,626	13,445	-	-	-	35,852	58,923
Interest rate	2.00%	7.00%				4.875%	
Floating Rate							
Philippine peso-denominated	1,464	12,869	2,653	2,972	3,221	8,923	32,102
Interest rate	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	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)	3,105	12,356	13,043	6,897	97,936	-	133,337
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin		
	P42,554	P41,171	P23,146	P34,307	P103,237	P73,638	P318,053

December 31, 2013	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P29,457	P2,494	P7,450	P24,438	P2,080	P29,214	P95,133
Interest rate	6.3131% - 9.33%	5.4885% - 9.33%	6.145% - 9.33%	6.05% - 7.1827%	6.3131% - 7.1827%	5.93% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	9,536	-	13,319	-	-	35,516	58,371
Interest rate	2.00%		7.00%			4.875%	
Floating Rate							
Philippine peso-denominated	1,019	12,180	2,181	2,341	2,618	7,528	27,867
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)	3,076	12,240	12,240	6,152	96,337	-	130,045
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin		
	P43,088	P26,914	P35,190	P32,931	P101,035	P72,258	P311,416

Foreign Currency Risk

The 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 monetary liabilities and their Philippine peso equivalents is as follows:

	March 31, 2014		December 31, 2013	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$1,519	P68,058	US\$1,354	P60,037
Trade and other receivables	1,143	51,323	1,160	51,472
Prepaid expenses and other current assets	52	2,338	51	2,285
AFS financial assets	7	318	7	314
Noncurrent receivables	181	8,082	191	8,464
	2,902	130,119	2,763	122,572
Liabilities				
Loans payable	445	19,932	478	21,230
Accounts payable and accrued expenses	1,495	67,039	1,509	66,971
Long-term debt (including current maturities)	4,290	192,260	4,244	188,416
Finance lease liabilities (including current portion)	2,319	103,911	2,351	104,392
Other noncurrent liabilities	573	25,692	507	22,494
	9,122	408,834	9,089	403,503
Net foreign currency- denominated monetary liabilities	(US\$6,220)	(P278,715)	(US\$6,326)	(P280,931)

The Group reported net foreign exchange gains (losses) amounting to (P2,814) and P1,357 for the period ended March 31, 2014 and 2013, 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, 2012	41.05
March 31, 2013	40.80
December 31, 2013	44.395
March 31, 2014	44.815

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 March 31, 2014 and December 31, 2013:

March 31, 2014	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	(P1,160)	(P1,171)	P1,160	P1,171
Trade and other receivables	(196)	(1,085)	196	1,085
Prepaid expenses and other current assets	(52)	(36)	52	36
AFS financial assets	-	(7)	-	7
Noncurrent receivables	(166)	(128)	166	128
	(1,574)	(2,427)	1,574	2,427
Loans payable	-	446	-	(446)
Accounts payable and accrued expenses	542	1,332	(542)	(1,332)
Long-term debt (including current maturities)	4,244	3,017	(4,244)	(3,017)
Finance lease liabilities (including current portion)	2,319	1,623	(2,319)	(1,623)
Other noncurrent liabilities	518	418	(518)	(418)
	7,623	6,836	(7,623)	(6,836)
	P6,049	P4,409	(P6,049)	(P4,409)

December 31, 2013

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,003)	(P1,053)	P1,003	P1,053
Trade and other receivables	(209)	(1,097)	209	1,097
Prepaid expenses and other current assets	(51)	(36)	51	36
AFS financial assets	-	(7)	-	7
Noncurrent receivables	(174)	(139)	174	139
	(1,437)	(2,332)	1,437	2,332
Loans payable	30	469	(30)	(469)
Accounts payable and accrued expenses	548	1,344	(548)	(1,344)
Long-term debt (including current maturities)	4,244	2,971	(4,244)	(2,971)
Finance lease liabilities (including current portion)	2,351	1,645	(2,351)	(1,645)
Other noncurrent liabilities	74	128	(74)	(128)
	7,247	6,557	(7,247)	(6,557)
	P5,810	P4,225	(P5,810)	(P4,225)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign 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 March 31, 2014 and December 31, 2013.

March 31, 2014	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	P225,317	P225,317	P225,317	P -	P -	P -
Trade and other receivables - net	133,598	133,598	133,598	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account)	1,120	1,120	1,120	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	390	390	390	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	124	124	124	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	41,815	41,825	34	41,738	53	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	21,345	21,345	-	21,345	-	-
Restricted cash (included under "Other noncurrent assets" account)	1,766	1,766	1,766	-	-	-
Financial Liabilities						
Loans payable	149,507	150,399	150,399	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	122,926	122,926	122,926	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	480	480	480	-	-	-
Long-term debt (including current maturities)	314,111	381,308	55,885	53,590	185,676	86,157

(forward)

March 31, 2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Finance lease liabilities (including current portion)	193,729	263,629	20,705	22,383	70,765	149,776
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	5,222	5,228	-	4,933	14	281
December 31, 2013	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P191,613	P191,613	P191,613	P -	P -	P -
Trade and other receivables - net	168,141	168,141	168,141	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account)	1,110	1,110	1,110	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	681	681	681	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	117	117	117	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	42,406	42,431	411	41,895	125	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	25,297	25,297	-	25,297	-	-
Restricted cash (included under "Other noncurrent assets" account)	1,800	1,800	1,800	-	-	-
Financial Liabilities						
Loans payable	143,226	143,787	143,787	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	116,919	116,919	116,919	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	455	455	455	-	-	-
Long-term debt (including current maturities)	307,497	372,608	56,270	38,984	193,287	84,067
Finance lease liabilities (including current portion)	195,048	267,467	20,140	22,036	70,036	155,255
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	5,086	5,119	-	4,849	13	257

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 losses 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 without considering the effects of collaterals and other risk mitigation techniques is presented below.

	March 31, 2014	December 31, 2013
Cash and cash equivalents	P225,317	P191,613
Trade and other receivables - net	133,598	168,141
Option deposit	1,120	1,110
Derivative assets	390	681
Financial assets at FVPL	124	117
AFS financial assets	41,815	42,406
Noncurrent receivables and deposits - net	21,345	25,297
Restricted cash	1,766	1,800
	P425,475	P431,165

The credit risk for cash and cash equivalents, option deposit, derivative assets, financial assets at FVPL, AFS financial assets and restricted cash 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 counterparties. 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 shares 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.

8. Financial Assets and Financial Liabilities

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

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at 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.

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

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

Financial Assets

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is 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.

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 is recognized as part of "Interest income" account 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" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and

receivables are derecognized or impaired.

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, noncurrent receivables and deposits, and restricted cash are included under this category.

HTM Investments. HTM investments are 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 is recognized as part of "Interest income" account 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" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired.

The Group has no investments accounted for under this category as of March 31, 2014 and December 31, 2013.

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" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the 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 are classified under this category.

Financial Liabilities

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

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

consolidated statements of changes in equity. Any interest expense incurred is recognized as part of “Interest expense and other financing charges” account in the consolidated statements of income.

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

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

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

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 primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; 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 or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. 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 there is objective evidence that 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 financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether 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 with similar 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 is reduced either directly or through the use of an allowance account. The impairment loss for the period is 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. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

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 of impairment losses 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 the 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 March 31, 2014 and December 31, 2013:

	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P225,317	P225,317	P191,613	P191,613
Trade and other receivables - net	133,598	133,598	168,141	168,141
Option deposit (included under "Prepaid expenses and other current assets" account)	1,120	1,120	1,110	1,110

(forward)

	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivative assets (included under "Prepaid expenses and other current assets" account)	P390	P390	P681	P681
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	124	124	117	117
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	41,815	41,815	42,406	42,406
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	21,345	21,345	25,297	25,297
Restricted cash (included under "Other noncurrent assets" account)	1,766	1,766	1,800	1,800
Financial Liabilities				
Loans payable	149,507	149,507	143,226	143,226
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	122,926	122,926	116,919	116,919
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	480	480	455	455
Long-term debt (including current maturities)	314,111	335,357	307,497	326,940
Finance lease liabilities (including current portion)	193,729	193,729	195,048	195,048
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	5,222	5,222	5,086	5,086

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, Noncurrent Receivables and Deposits and Restricted Cash. 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 and restricted cash, 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 1.7% to 4.4% and 0.4% to 3.8% as of March 31, 2014 and December 31, 2013, respectively. The discount rates used for foreign currency-denominated loans range from 0.1% to 2.6% and 0.2% to 2.9% as of March 31, 2014 and December 31, 2013, 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 Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

The Group discontinues fair value hedge accounting if: (a) the hedging instrument expires, is sold, is terminated or is exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as fair value hedges as of March 31, 2014 and December 31, 2013.

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

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

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

The Group has no outstanding derivatives accounted for as a cash flow hedge as of March 31, 2014 and December 31, 2013.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in equity is transferred to and recognized in profit or loss.

The Group has no hedge of a net investment in a foreign operation as of March 31, 2014 and December 31, 2013.

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

The Group has outstanding foreign currency forward contracts with aggregate notional amount

of US\$1,688 and US\$1,445 as of March 31, 2014 and December 31, 2013, respectively, and with various maturities in 2014. The net positive fair value of these currency forwards amounted to P82 and P640 as of March 31, 2014 and December 31, 2013, respectively.

Currency Options

The Group entered into short-term currency options with an aggregate notional amount of US\$1,350 and net negative fair value of P157 as of March 31, 2014. The Group has no outstanding currency option agreements as of December 31, 2013.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2014. 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 is 1,205 and 960 metric tons as of March 31, 2014 and December 31, 2013, respectively. The net positive (negative) fair value of these swaps amounted to P2 and (P6) as of March 31, 2014 and December 31, 2013, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2014. 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 is 12.8 and 2.0 million barrels as of March 31, 2014 and December 31, 2013, respectively. The positive fair value of these swaps amounted to P638 and P6 as of March 31, 2014 and December 31, 2013, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities of 108,658 and 174,248 metric tons as of March 31, 2014 and December 31, 2013, respectively. These options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The net negative fair value of these options amounted to P31 and P186 as of March 31, 2014 and December 31, 2013, respectively.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 0.8 and 1.0 million barrels as of March 31, 2014 and December 31, 2013, respectively. These call and put options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The net positive (negative) fair value of these options amounted to P5 and (P41) as of March 31, 2014 and December 31, 2013, respectively.

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from the 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 as 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

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$106 and US\$183 as of March 31, 2014 and December 31, 2013, 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. The net negative fair value of these embedded currency forwards amounted to P72 and P163 as of March 31, 2014 and December 31, 2013, respectively.

Embedded Currency Options

The total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$2 and US\$3 as of March 31, 2014 and December 31, 2013, 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 as of March 31, 2014 and December 31, 2013.

For the periods ended March 31, 2014 and 2013 and December 31, 2013 and 2012, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P1,573, P936, P2,448 and (P1,270), 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 Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The table below analyzes financial instruments carried at fair value by valuation method:

	March 31, 2014			December 31, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P390	P390	P -	P681	P681
Financial assets at FVPL	124	-	124	117	-	117
AFS financial assets	1,122	40,693	41,815	1,711	40,694	42,406
Financial Liabilities						
Derivative liabilities	-	480	480	-	455	455

The Group has no financial instruments valued based on Level 3 as of March 31, 2014 and December 31, 2013. 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.

9. Events After the Reporting Date

a) Completion of the P15,000 Fixed Rate Bond Offering by San Miguel Brewery Inc. (SMB)

In March 2014, SMB launched the P15,000 fixed rate bond offering, intended to partly refinance the Series B fixed rate bonds amounting to P22,400 maturing on April 4, 2014.

On April 2, 2014, SMB issued the following bonds amounting to P15,000:

- a) Series G Bonds with an aggregate principal amount of P12,462 having a term of 7 years beginning on April 2, 2014 and ending on April 2, 2021, with a fixed interest rate of 5.50% per annum; and
- b) Series H Bonds with an aggregate principal amount of P2,538 having a term of 10 years beginning on April 2, 2014 and ending on April 2, 2024, with a fixed interest rate of 6% per annum.

The Series G Bonds and Series H Bonds were listed for trading on the Philippine Dealing & Exchange Corp. on April 2, 2014.

b) Payment of Series B Fixed Rate Bonds amounting to P22,400 maturing on April 4, 2014 by SMB

On April 4, 2014, SMB completed the payment of the aggregate principal amount of the Series B fixed rate bonds (“Series B Bonds”) amounting to P22,400 which matured on April 4, 2014. The Series B Bonds were part of the P38,800 fixed rate bonds issued by SMB in 2009.

The net proceeds from the issuance of the P15,000 fixed rate bonds by SMB were used to partially refinance the Series B Bonds maturity. The balance of P7,400 was funded by internally generated funds of SMB.

c) Issuance of the US\$300 Undated Subordinated Capital Securities by SMC Global Power Holdings Corp. (SMC Global)

On May 7, 2014, SMC Global issued a Reg S, Unrated Perpetual Non-Call 5.5 years, US\$300 Undated Subordinated Capital Securities (the “Securities”). SMC Global priced the US\$300 securities at 7.5%. The securities were listed on the Singapore Exchange Securities Trading Limited on May 8, 2014.

10. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management’s Discussion and Analysis of Financial Position and Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group’s liquidity.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 25 (c) of the 2013 Audited Consolidated Financial Statements and “Contingencies” of Section VII above, that remain outstanding as of March 31, 2014. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. The effects of seasonality or cyclicity on the interim operations of the Group’s businesses are not material.
- 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 March 31, 2014.

- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of March 31, 2014. 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.
- i. 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.



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 March 31, 2014 (with comparative figures as of December 31, 2013 and for the period ended March 31, 2013). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 2014, 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. 2014 TRANSACTIONS

A. INVESTMENTS

- On March 25, 2014, the Group received from JG Summit the remaining balance of the proceeds from the sale of investment in shares of stock of Manila Electric Company (Meralco) amounting to P31,437 million.

B. FINANCING

- On January 17, 2014, Private Infra Dev Corporation (PIDC) has drawn an additional P3,000 million from the P11,500 million ten-year term loan facility used for financing the Tarlac-Pangasinan-La Union Toll Expressway (TPLEX Project). The loan bears a floating interest rate of PDST-F plus 3%.
- On March 5, 2014, Trans Aire Development Holdings Corp. (TADHC) has drawn an additional of P832 million from the P3,300 million ten-year term loan facility used for financing the Boracay Airport Project. The loan bears a floating interest rate of PDST-F plus 3%.
- On January 10, 2014, Star Infrastructure Development Corporation (SIDC) has drawn P431 million, from the P3,500 million ten-year term loan facility to finance the construction and development of Stage II, Phase II of the Southern Tagalog Arterial Road (STAR Project). The loan bears a floating interest rate of PDST-F plus 2.50% or 6% per annum whichever is higher.
- In March 2014, Petron Malaysia availed of MYR150 million (P2,061 million) loan. The proceeds were used to finance the rebranding of retail stations in Malaysia. The loan bears an interest rate of Capital One Financial (COF) plus 1.5%.

II. FINANCIAL PERFORMANCE

2014 vs. 2013

San Miguel Corporation's 2014 consolidated sales revenue for the first quarter amounted to P194,836 million, 9% higher than last year. Petron Corporation (Petron) and the energy business contributed to the double digit increase compared to last year. Beverage, food and packaging businesses also contributed to the increased revenues versus last year.

The corresponding consolidated operating income amounted to P15,525 million, 1% higher than last year with many businesses showing improved performance. Compared to last year, performance was tempered by weak regional refining margins for Petron and lower domestic glass and plastic volumes for packaging business.

The decline in equity in net earnings (losses) of associates and joint ventures was mainly due to the P1,321 million equity in earnings of Meralco which was included in last year's balance.

Interest expense in 2014 is lower than of the same period last year mainly due to higher capitalized interest on loans used to finance the RMP-2 Project of Petron.

The further strengthening of the US dollar against the Philippine peso to end at P44.815 to a dollar on March 31, 2014 from P44.395 on December 31, 2013 resulted to foreign exchange losses, in contrast with the foreign exchange gains during the first quarter of 2013, bringing the reported net income attributable to equity holders of the Parent Company down to P2,154 million.

2013 vs. 2012

San Miguel Corporation's consolidated sales revenue for the first quarter of 2013 amounted to P178,531 million, 26% higher than 2012 reported revenue of P142,216 million. The increase is mainly due to the revenue contribution of Petron Oil & Gas International Sdn. Bhd. including Petron Fuel International Sdn Bhd, Petron Oil (M) Sdn Bhd and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia) which was consolidated in the SMC Group beginning March 30, 2012.

Consolidated operating income amounted to about P15,439 million, 7% higher than in 2012, driven mainly by the continued good performance of SMC Global Power Holdings Corp. (SMC Global) and the improved performance of other businesses, particularly the food business.

External factors have weighed heavily on the results. The implementation of the new excise tax at the start of 2013 had a negative impact on the performance of the beer and liquor businesses, dampening volumes significantly. At the same time, the volatility in crude prices also had a big effect on Petron's bottom line.

Meanwhile, higher maintenance costs for Philippine Airlines, Inc. (PAL) and Air Philippines Corporation, doing business under the name "PAL Express", pulled down equity in net earnings of associates.

With lower equity in net earnings of associates in 2013, higher interest expense and taking into account the much higher foreign exchange gains in 2012, net income before non-controlling

interests ended at P7,586 million, 34% lower than in the same period of 2012 while net income attributable to the equity holders of the Parent Company was at P4,237 million.

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

1. BEVERAGES

2014 vs. 2013

a. San Miguel Brewery Inc. (SMB)

San Miguel Brewery Inc. and Subsidiaries' first quarter 2014 consolidated sales volume is lower than last year's figures by 3%. The volume performance in January last year was on account of the trade build-up in anticipation of the February 1, 2013 price increase. This was partially offset by the uptrend in February and March volumes this year. SMB's sales revenue is P17,561 million for the first quarter of 2014.

Operating income posted at P4,678 million, 3% lower than 2013 levels. The improvement of the operations of Beer international from last year, partially offset the effects of the lower domestic volumes.

b. Ginebra San Miguel, Inc. (GSMI)

GSMI posted a solid performance for the first quarter of 2014 as hard liquor volume grew 10% over last year at 5.1 million cases. With the price increase implemented on January 2014, sales revenue grew 21% compared to the same quarter last year, bringing it up to a total of P3,595 million.

With strong volumes, and better margins, operating income reached P44 million, a huge turnaround from last year's operating loss of P392 million.

2013 vs. 2012

a. San Miguel Brewery Inc.

SMB's 2013 first quarter performance was affected by lower sales volumes brought about by the implementation of price increases on all beer products effective February 1, 2013. The price hike was meant to cover the hefty increase in excise tax rates imposed by the government beginning January 1, 2013. Consolidated revenue amounted to P17,545 million, lower by 4% from 2012, with volume sales reaching almost 48 million cases.

As a result of lower volumes, operating income declined by 9% to P4,838 million.

For international operations, revenues and operating income of San Miguel Brewing International Ltd. improved over 2012 driven by the solid performances of Indonesia, Thailand, and Hong Kong units offsetting softening of volumes in South and North China, Vietnam, and the export markets.

b. Ginebra San Miguel, Inc.

The increase in excise taxes also had a significant impact on GSMI, as anticipation of higher prices in trade channels dampened revenues to P2,976 million. This resulted to an operating loss of P392 million.

2. FOOD

2014 vs. 2013

San Miguel Pure Foods Company, Inc.'s (SMPFC) consolidated revenues for the first quarter of 2014 amounted to P24,229 million, up by 5% compared to 2013 level. The commodity business grew by 9% on account of higher volumes for poultry, flour and feeds coupled by better selling prices for poultry and basic meats. The branded value - added business, on the other hand, increased by 4% with sales of core brands such as *Purefoods*, *Star*, *Magnolia*, and *San Mig Coffee* remained strong - though sales to the trade was affected by higher beginning inventory for value - added meats and ice cream. These resulted to consolidated operating income of P1,335 million, 46% higher than last year. Improved efficiency for poultry and meat and contained fixed costs for the branded business also contributed to the improved operating performance.

2013 vs. 2012

SMPFC was off to a solid start, with consolidated revenues for the first three months of 2013 reaching P22,967 million, 3% higher than 2012, on the back of improved performance from Agro-Industrial cluster and sustained performance of all the other major businesses.

With increased volumes and better margins, operating income grew 43% to P916 million.

Agro-Industrial cluster, consisting of feeds, poultry and fresh meats, had a good start posting P294 million in operating income, a turnaround from its 2012's loss of P23 million. The increase in operating income was mainly driven by higher selling prices, better hog growing efficiencies and improvement in availability of cassava supply.

For the first quarter of 2013, the combined revenues of Agro-Industrial segment grew 4%. This was driven by better selling prices of fresh meats and strong sales in stable priced channels such as the Magnolia Chicken Stations and Monterey Meat shops

Branded value-added businesses, led by Purefoods Hormel's processed meats and Magnolia Dairy Fats & Oils, continued to perform well posting a combined income of P235 million for the first quarter of 2013 from P219 million in 2012. This was driven by higher volumes of core brands such as *Purefoods*, *Tender Juicy*, *Magnolia*, *Star* and *San Mig Coffee* and better margins due to lower raw material costs particularly dairy ingredients.

The Food Group continued to reap margin improvements across its major businesses as a result of product innovations, shift to more stable-priced channels and better production efficiencies.

3. PACKAGING

2014 vs. 2013

The San Miguel Yamamura Packaging Group's (SMYPG) consolidated revenues for the first quarter of 2014 amounted to P5,573 million, slightly higher than 2013. The polyethylene terephthalate (PET) packaging facilities are fully utilized in March with the increased requirements from Coke for both preforms and beverage filling businesses as well as water preforms requirements of Universal Robina Corporation, bringing the PET business' revenue growing by 49% in the first quarter. The paper business also has a milestone performance in March, achieving its highest monthly sales volume with demands from Nestle and banana exports, bringing the business' first quarter revenue higher by 35% compared to last year. This was however, partly offset by decline in glass, plastic and metal businesses' revenues. This resulted to packaging group's first quarter operating income of P439 million, 16% lower than the same period last year. The decline compared to last year is mostly attributable to lower domestic glass and plastics volumes.

2013 vs. 2012

SMYPG's sales revenue for the first quarter of 2013 amounted to P5,496 million, down by 6% from 2012. Despite higher sales in metal, plastics, and PET businesses, revenues decreased due to lower glass orders from beer and liquor customers as well as lower paper volumes.

Consolidated operating income of P520 million was 2% higher than 2012.

4. ENERGY

2014 vs. 2013

SMC Global's offtake volume for the first quarter of 2014 is 1% above last year. Compared to last year, San Roque's volume was up by 36% with better dam water reservoir level. This was partly offset by limited generation capacity for Ilijan plant resulting from Malampaya gas restrictions in January and February, and maintenance shutdown in March. Coupled with higher bilateral and Wholesale Electricity Spot Market (WESM) prices versus last year, consolidated revenues grew 14% to about P19,959 million.

With lower generation costs, the energy business' March year-to-date consolidated operating income amounted to P6,640 million, 20% higher than last year.

2013 vs. 2012

SMC Global's consolidated off-take volume for the first quarter of 2013 is 1% higher than 2012 due to higher WESM volumes from Sual and Ilijan power plants. Net capacity factor improved to 74% with Sual Power Plant's increased bilateral requirements and fewer forced outages. Consolidated revenues of P17,510 million was however lower from 2012 largely due to lower average selling prices for both bilateral contracts and in the WESM.

Operating income reached P5,540 million, 12% higher than 2012, brought about by lower generation costs for both Ilijan and Sual power plants.

5. FUEL AND OIL

2014 vs. 2013

Petron's consolidated revenues for the first quarter of 2014 reached P125,174 million, ahead from last year by 12%. This is on volumes of 20.7 million barrels, 4% higher than year-ago level. Petron Philippines contributed P75,386 million in revenue, while Petron Malaysia accounted for the remaining 40% of P49,788 million.

Even with increased volumes and higher selling prices, operating income for the first quarter ended at P3,424 million, dropped by 8% from last year. This is due to weak regional refining margins with product cracks against crude which was lower than last year's level. The reduction in refining margins was however partly offset by a less volatile regional crude price which resulted in inventory holding gains.

2013 vs. 2012

Petron's revenues for the first quarter of 2013 rose by 50% to P111,998 million mainly on account of the consolidation of Petron Malaysia which contributed P44,491 million. Revenue from the Philippine operations was down by 10% at P67,507 million owing to lower gasoline prices and decline in export volumes.

Consolidated income from operations amounted to P3,713 million, 11% lower from first quarter of 2012 despite the P1,207 million earnings of Petron Malaysia. Gross margins were lower than 2012 as the first quarter of 2013 did not benefit from inventory holding gains realized in the first quarter of 2012. Compared to previous quarters of 2012, prices for both crude oil and finished products continued to recover and were less volatile.

III. FINANCIAL POSITION

2014 vs. 2013

The Group's consolidated total assets as of March 31, 2014 amounted to P1,190,595 million, P20,508 million higher than 2013, mainly due to the net proceeds from availment of borrowings which were used primarily to finance the capital expenditure projects of Petron, SMC Global and the Infra Group (TPLEX, SIDC and TADHC) and additional purchases of inventory.

Cash and cash equivalents (increased by P33,704 million) and trade and other receivables (decreased by P34,543 million) have almost compensating movements, mainly due to the collection of the remaining balance of the proceeds from the sale of Meralco shares from JG Summit.

Inventories increased by P9,556 million mainly due to higher finished product and crude oil importations of Petron and Petron Malaysia and higher inventory of cassava and soybean meal of San Miguel Foods, Inc. Additional purchases of cassava were made to take advantage of better prices during the harvest season. Higher costs and lower usage of soybean meal during the period, resulted to higher inventory.

Prepaid expenses and other current assets increased by P2,542 million mainly due to the increase in the balances of Petron in the following: a) excess of input Value-added Tax as a result of the importations of crude oil and finished products during the quarter, b) prepaid taxes due to advances on specific tax of finished products and prepaid insurance for depot and plants.

Investments and advances increased by P3,823 million in 2014 mainly due to the additional investments made by SMC and SMC Global.

Investment properties increased by P1,328 million mainly due to the acquisition of a property in Malabon by Brewery Properties, Inc. for future expansion of Polo Brewery, reclassification of the cost of certain parcel of land in Marikina from idle assets to investment properties of the Purefoods-Hormel Company, Inc. (Purefoods – Hormel) and additional construction costs of the Makati Diamond Residences Project of San Miguel Properties, Inc.

Biological assets increased by P107 million mainly due to the increase in volume of breeding stock.

Other intangible assets increased by P2,110 million mainly due to the recognition of additional costs for the construction and development of the TPLEX Project, Stage 2, Phase 2 of the STAR Project and the Boracay Airport Project.

Deferred tax assets increased by P1,267 million mainly due to the recognition of deferred tax on the unrealized foreign exchange losses and net operating loss carry over of the Parent Company.

Other noncurrent assets decreased by P5,454 million mainly due to collection of noncurrent receivables from Petron Corporation Employees Retirement Plan and reclassification of the cost of certain parcel of land in Marikina from idle assets to investment properties of Purefoods - Hormel.

Accounts payable and accrued expenses increased by P6,147 million due to the increase in the liability of Petron for finished products and crude oil importation and increase in accrued interest payable of SMB, Petron and SMC due to higher loan levels.

Dividends payable increased by P799 million mainly due to the dividend declared by SMPFC on March 26, 2014 payable on May 12, 2014, net of the payment of the dividends payable by the Parent Company to its common and preferred stockholders.

2013 vs. 2012

The Group's consolidated total assets as of March 31, 2013 amounted to P1,102,824 million, P60,422 million higher than 2012, mainly due to the proceeds from the issuance of undated subordinated capital securities by Petron and the consolidation of the assets of Philnico Group.

Cash and cash equivalents increased by P26,705 million in 2013 mainly due to the proceeds from the issuance of undated subordinated capital securities by Petron, net of dividends paid.

Trade and other receivables increased by P7,833 million in 2013 mainly due to the increase in a) receivable from the government of Petron Philippines and Petron Malaysia, and b) SMC

Global's receivable from Meralco on the sale of electricity and dividend receivable from investment in Meralco.

Property, plant and equipment increased by P14,232 million in 2013 mainly due to the major capital projects such as the Refinery Master Plan Phase 2 Project and the Refinery Solid Fuel Fired Power Plant of Petron.

Other intangible assets increased by P12,427 million in 2013 mainly due to the recognition of mining rights upon the consolidation of Philnico Group.

Loans payable increased by P24,817 million in 2013 mainly due to net availments made during the period, for working capital requirements.

The increase in income and other taxes payable of P539 million in 2013 represents the income tax due for the first quarter of 2013, offset by the decrease in VAT payable and other accrued taxes.

Dividends payable increased by P296 million in 2013 mainly due to the dividends payable to non-controlling stockholders, net of payments made to the common and preferred shareholders of the Parent Company.

Long-term debt decreased by P8,698 million in 2013 mainly due to the repurchase of the Parent Company's exchangeable bonds and payments made by Citra Metro Manila Tollways Corporation, partly offset by Petron's drawdown.

Deferred tax liabilities and other noncurrent liabilities increased by P1,612 million and P9,754 million, respectively, in 2013 mainly due to the consolidation of Philnico Group.

Non-controlling interests (NCI) increased by P31,434 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 San Miguel Holdings Corp., net of dividends declared.

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	March 31	
	2014	2013
Income during the period	P6,016	P7,586
Addition to non-controlling interests and others	216	30,840
Issuance of capital stock	1	701
Effect of translation adjustments	545	(492)
Cash dividends	(5,493)	(4,008)
	P1,285	P34,627

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	March 31	
	2014	2013
Net cash flows provided by operating activities	P12,504	P4,494
Net cash flows provided by (used in) investing activities	20,179	(17,483)
Net cash flows provided by financing activities	717	39,729

Net cash flows from operations for the period basically consists of income for the period less changes in noncash current assets, certain current liabilities and others, which include increases in inventory level and trade and other receivables.

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

<i>(In millions)</i>	March 31	
	2014	2013
Proceeds from sale of investments and property and equipment	P31,616	P426
Interest received	930	1,265
Increase in other noncurrent assets and others	(871)	(498)
Additions to investments and advances	(3,903)	(1,904)
Additions to property, plant and equipment	(7,593)	(16,261)
Dividends received from associates	-	240
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-	(751)

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

<i>(In millions)</i>	March 31	
	2014	2013
Proceeds from short-term loans - net	P 5,889	P 25,197
Proceeds from (payments of) long-term debt - net	4,565	(7,710)
Proceeds from issuance of capital stock	1	18
Payment of dividends	(4,695)	(3,711)
Payment of finance lease liabilities	(5,043)	(4,679)
Proceeds from issuance of undated subordinated capital securities of a subsidiary	-	30,614

The effect of exchange rate changes on cash and cash equivalents amounted to P304 million and (P35 million) on March 31, 2014 and 2013, 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” for the discussion of certain Key Performance Indicators.

	March 2014	December 2013
<u>Liquidity:</u>		
Current Ratio	1.43	1.46
<u>Solvency:</u>		
Debt to Equity Ratio	2.24	2.20
Asset to Equity Ratio	3.24	3.20
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	3.61%	15.53%
Interest Rate Coverage Ratio	2.84	2.48
	<u>Period Ended March 31</u>	
	2014	2013
<u>Operating Efficiency:</u>		
Volume Growth	4%	33%
Revenue Growth	9%	26%
Operating Margin	7.97%	8.65%

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	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$

KPI	Formula
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*