SAN MIGUEL CORPORATION

YOUR WORLD **MADE BETTER**



2014 ANNUAL REPORT

YOUR
WORLD
MADE
BETTER

SAN MIGUEL
125
1890
2015

02 MESSAGE TO STOCKHOLDERS
07 YOUR WORLD MADE BETTER
16 MANAGEMENT'S DISCUSSION & ANALYSIS
24 FINANCIAL POSITION
25 CORPORATE GOVERNANCE
32 CORPORATE SOCIAL RESPONSIBILITY
38 BOARD OF DIRECTORS
39 KEY EXECUTIVES
40 FINANCIAL STATEMENTS

Ramil Sobledia & Angelica Garcia
Scholars

Twelve-year-old Ramil Sobledia, who appears on the cover, is a Grade 6 student at the Andres Bonifacio Elementary School in Mandaluyong City. *Araling Panlipunan* is his favorite subject. Like many kids his age, Ramil likes to play computer games. He has been a Petron scholar since Grade 1.

Angelica Garcia, who appears on the back cover, is in Grade 7 at the same school. A Petron scholar since Grade 1, Angelica enjoys English and Science. In her free time, she likes to bake and play badminton.

San Miguel Corporation envisions a future where more Filipinos are able to participate in, and contribute to the country's economic growth. By giving children from less-fortunate families an opportunity to study and better themselves, we hope to enable the next generation to carry forward our vision of a better Philippines.

Message to Stockholders

NOW IS OUR TIME



EDUARDO M. COJUANGCO, JR.
Chairman and Chief Executive Officer

Fellow stockholders,

This year we reach a milestone of more than usual significance to our company's history. In September, we celebrate the 125th founding anniversary of *La Fabrica de Cerveza de San Miguel*, the country's first brewery. Today, San Miguel Brewery Inc. is the cornerstone business of San Miguel Corporation.

Relying on the values that have sustained us for well over a century, we once again delivered growth to our shareholders, employees and business partners in 2014. Our performance, along with the operational goals we attained, proves that we are primed to sustain our growth—leveraging our scale, our reach and our broad-based capabilities.

As we continue to grow our core businesses and expand into industries vital to our country's future, we draw inspiration from our corporate history—of how San Miguel has been an industry trailblazer and growth driver for Philippine business. We recognize how our company has always aspired for great things and met head-on every challenge of the times.

PERFORMANCE IN 2014

Total revenues for the year grew 5% to P782 billion, and we ended the year with a recurring net income of P27.9 billion, 244% higher than in 2013, and consolidated EBITDA of P88.1 billion, up 14% from the previous year.

Our flagship Beer business, though weighed down by the rise in excise taxes, proved its resilience, strengthening further its hold on the domestic market and expanding its reach in the international market. The Food business, a leader in the fast-moving consumer goods industry, continued to lead key segments where it competes and set out programs for further expansion.

Our Liquor business continued its recovery, delivering a turnaround performance. Packaging, a steady performer in our portfolio, is starting to ramp up exports to make up for a downturn in domestic demand.

Among our new businesses, Power delivered an excellent performance in 2014. Higher off-take volumes and better efficiencies pushed up revenues, consolidating SMC Global Power's place as a major contributor to total revenues. Petron, to the extent possible, protected its margins and despite falling world crude prices, registered strong revenue growth and continued to expand both its domestic and Malaysian distribution networks.

Infrastructure delivered major accomplishments: the Tarlac-Pangasinan-La Union Expressway (TPLEX), the Skyway Stage 3 and NAIA Expressway projects, improvements on the Southern Tagalog Arterial Road (STAR) and expansion of the Boracay Airport.

OUR EXPANSION PROGRAM

We are entering the final stretch of the largest, most ambitious expansion program in our corporate history.

This year we expect to start full commercial operations of the upgraded Petron Bataan Refinery and substantially complete the NAIA Expressway project. We also bring on-stream the last segment of TPLEX. Within the next two years, we'll complete the Skyway Stage 3 connector road project, the Boracay Airport and our greenfield power plants in Bataan and Davao.

Even as we focus these next couple of years on completing these projects, we are also looking to add scale to our power, infrastructure and oil-refining businesses. Our core businesses will also pursue expansion, since we see many opportunities for growth. In particular, we are investing in new facilities that will increase capacities for our flour, feeds, poultry and value-added meats businesses.

Early this year, San Miguel Brewery Inc. acquired the non-alcoholic beverage business of Ginebra San Miguel. This will enable SMB to pursue a multi-beverage strategy and allow the latter to focus on its core liquor market.

Related to these efforts, we see the implementation late this year of the ASEAN Economic Community as opening up opportunities to bring our beverage, food, packaging and petrochemical products to regional markets.

Our scale and reach should give us a strong, natural advantage over regional players entering our home market—even as we benefit from the free flow of goods that the phased economic integration of Southeast Asia offers. Our power, fuel and oil, and infrastructure businesses should also benefit unreservedly from broad-based growth enhanced by greater regional trade.

Building a strong financial position remains key to carrying out our expansion program. In 2014, we paid down some of our liabilities, including the remaining balance of the exchangeable bonds. We also refinanced some of our obligations so as to access lower interest rates. These have enabled us to bring down our cost of money, spread out the

We have spent the last few years refining our strategy, which is based on diversifying our portfolio and growing our core businesses. Today, all its major components are in place.



RAMON S. ANG
President and Chief Operating Officer

schedule of our debt maturities and ultimately reduce our net-debt-to-EBITDA to 2.36x.

Our strategy of matching the completion dates of our major projects with our debt-servicing schedule further enhances our financial position. Over and above this, our diversified portfolio of businesses has truly worked to our competitive advantage. In large part, this is why despite external pressures and cyclical domestic and global downturns, our bottom-line remains healthy.

OUR PURPOSE AND OUR MISSION

At this juncture in our history, we believe our purpose and our mission have at last crystallized: our strategic vision has become clear to all who work with us.

We have spent the last few years refining this strategy, which is based on diversifying our portfolio and growing our core businesses. While we continue to be constantly on the lookout for opportunities to add scale to our businesses, all the major components of our long-term strategy are already in place.

Our experience with Philippine Airlines best illustrates how determined we are, not just to pursue opportunities for growth, but to be in industries that we feel will benefit Filipinos.

In just two years, we proved that vision and discipline, when matched with strong management and operational expertise, would improve PAL's operations decisively. And although our majority partners ultimately chose to chart a different course, our divestment in PAL showed that we have the best interests of the organization in mind.

The PAL episode speaks volumes of how we, as an organization, have always viewed ourselves and our role in the industries in which we compete.

In all our endeavors and acquisitions—even in those we later chose to exit—our underlying goal has always been to add value.

By working to enhance businesses through our corporate store of knowledge and experience; by investing the time, resources and effort needed to see a vision through, we ensure that each business is strong, able to realize its full potential, and capable of carrying our company into the future.

PART OF A 125-YEAR TRADITION

As we celebrate our 125th anniversary, we acknowledge the contributions of the thousands of employees who came before us. In paying tribute to these successive SMC generations—every one just as passionate as we are about our business and as steeped in the values vital to the success of San Miguel—we recognize that we are part of a long tradition of hard work and dedication; that we are here to serve a greater purpose.

We have inherited a company built on trust and values that have been passed down from one generation of San Miguel employees to the next. Passion for success, teamwork, respect for our people, customer focus, innovativeness, integrity, social responsibility—all these values remain relevant across the San Miguel Group and are best summed up by one word: *malasakit*—a sincere desire to do good and to do well by our company, our people and our country.

Today we're a company transformed. But while our business is larger, more diverse than it has ever been; while the landscape in which we function and thrive is more complex; while the goals and challenges we've set for ourselves seem bigger, we are the same San Miguel—determined as ever to lead, to contribute and to generate the greatest benefit for the greatest number.

At 125 years, *now* is our time.



YOUR WORLD MADE BETTER

SAN MIGUEL 125 1890 2015

For 125 years, our company has been an enabler of growth in the Philippines. Wherever we've chosen to build our facilities and locate our production centers, development has closely followed, creating strong "second-tier cities," rebalancing the national economy and generating the jobs and growth that our local economies and the country need.

Once-backwater towns have been transformed into bustling cities, as Mandaue, Cebu experienced in the 1960s. The same is true of San Fernando, Pampanga and Darong, Davao—the sites of two of our largest breweries. Ortigas Center in Mandaluyong became a thriving business base after San Miguel set up its headquarters there in 1983.

We are both a pioneer and a leader in nation-building. Investment into toll roads, airports and mass transit is important to us, because we want to improve connectivity between our cities and across wider regions. For San Miguel, roads and airports are catalysts of growth, underpinning job dispersal and business opportunities.

As we work on fulfilling the ambitious, legacy-defining goals we've set for ourselves, we remain true to the company we've always been: a company that believes it can make a difference to our stakeholders and shareholders, and to society as a whole.

Our dream is to help make your world—your everyday life—a whole lot better. In this folio, we'd like you to meet some of the people whose real-life stories inspire us.

The Petron Bataan Refinery
Petron has started commissioning its Refinery Masterplan Phase 2 (RMP-2) at its Bataan refinery. The upgrade increases the production of high-value products such as gasoline, diesel and petrochemicals. This project will help improve the Philippines' fuel security at a time when the nation is enjoying strong economic growth.

A BETTER LIFE

Lordinio Espino
Rotating Equipment Maintenance supervisor, Petron Bataan Refinery
Former Petron scholar



Throughout his five years as a Mechanical Engineering student at the Bataan Peninsula State University, Lordie would hop on a bus everyday and travel 47 kilometers to the public market in Mariveles, Bataan to help his parents wind down daily operations at the family's dry-goods stall. The highlight of these trips: driving by the Petron Bataan Refinery (PBR) in Limay.

"I'd be in awe every time we passed by the refinery," he says. "I'd admire all the engineering that went into building such a mega-structure. I told myself that someday I would work there."

A top-performer in class, Lordie would later be chosen as one of three Petron scholars from his batch.

The scholarship, given to graduating engineering students, covered tuition, books, transportation and clothing. It also included an internship at PBR. Finishing an apprenticeship program in the facility after graduation, he joined the refinery in 2008 as a technician.

Today, Lordie punches in at the refinery every day as Rotating Equipment Maintenance supervisor, with his own team of technicians. His job has helped him put his younger sister through school and provide additional capital for his parents' stall. Now married and with a child on the way, Lordie is grateful to be building his family's future in the very place that first inspired him to dream big.

The Tarlac-Pangasinan-La Union Expressway
The 88.85-kilometer Tarlac-Pangasinan-La Union Expressway project is expected to be completed by the end of 2015, well ahead of the 2018 deadline set by government. With the opening of the Rosales to Urdaneta, Pangasinan section, an estimated 63 kilometers is now operational. In the first quarter of 2015, TPLEX generated better-than-expected average daily traffic of about 11,700 vehicles. Once fully operational, TPLEX will accelerate trade and tourism throughout the Northern Luzon region and cut travel time from Metro Manila to Baguio City by half.

A BETTER WAY

Florencio Bala & Rodolfo Molina
Pura, Tarlac residents, entrepreneurs



Not too long ago, Pura was a fourth-class municipality in the province of Tarlac—a sleepy little town and a tiny dot on the map few people had ever heard of. As such, there was very little room to grow for many local businesses.

But since the opening of the Pura exit of the Tarlac-Pangasinan-La Union Expressway (TPLEX), business has boomed for local entrepreneurs, among them "cornick king" Rodolfo Molina and cornhusk products maker Florencio Bala. Many motorists headed further up North to better-known destinations such as Cagayan and Baler now stop by and sample its local products.

Molina says: "*Mula nang nagbukas ang* TPLEX*, malaki ang natitipid ko sa pag-transport ng produkto. Ang naitatabi kong pera ay nagagamit ko para mas mapalago ang aking business at mabigyan ng trabaho ang iba kong kababayan. Maliban dito, nakakatulong din ako sa pag-aaral ng mas maraming bata sa Pura.*"

Bala, whose products include decorative items and accessories, adds: "*Mas may pag-asa na kaming mga taga-Pura na umunlad dahil marami nang nakakakilala sa aming lugar. Mas nagiging posible na ngayon ang pangarap kong madala ang aming produkto sa mas maraming pasalubong center sa Maynila.*"

A BETTER FUTURE

Ronell & Beth Manalo
Procurement associate, SMC Global Power / Human Resources manager, SMB-South Luzon Operations



When Beth Manalo started working as a Human Resources assistant at what was then San Miguel's General Services Division (GSD), she never imagined that her career would span 36 years—and counting—and see her through many milestones in life: including raising a family.

It was in San Miguel where Beth met her husband Rolly, a former GSD materials management-technical services manager. This year, their eldest son Ronell or "Nyeng" marks his eleventh year as a San Miguel employee. Beth and Nyeng Manalo are among the many multi-generational families working alongside each other in the larger San Miguel family.

"The best thing about having my son work at San Miguel is knowing that he will have the same valuable experiences and opportunities that my husband and I were given. In San Miguel, you will find friendships that will last you a lifetime."

Nyeng adds: "It was always my dream to work for San Miguel. When I was a kid, my mom would bring my brother and me to her office, and I remember running around and playing. Everyone was welcoming. I just fell in love with the environment. Today, I'm living my dream."

BETTER OPPORTUNITIES

Erwyn Unigo
First GSM Blue Flair Idol Grand Champion



Erwyn's dream of becoming the best flairtender in the country began 14 years ago when, as a waiter in a restobar in Quezon City, he would watch the bartenders perform. Then he began to try out some of their moves himself. He developed his own repertoire, was promoted to bartender and became a fixture in many bartending contests. Erwyn's life changed when he won the first-ever GSM Blue Flair Idol contest.

"Being the first grand champion of the biggest flairtending competition in the Philippines was a turning point for me. It opened a lot of doors and I gained recognition and respect in the bartending community," he says.

Today, Erwyn, 38, is head trainer for Ginebra San Miguel Inc.'s GSM Blueniversity, a program that allows him to share his knowledge, skills and experience with Hotel and Restaurant Management students in various schools throughout the country. The program is also the breeding ground for the next generation of GSM Flair Idols.

"I'm happy that I'm able to give back and share what I know. What keeps me going is the thought that I'm able to be of help. Some of my students have even found success in the US and Dubai," he says.



SMC Global Power's Malita, Davao greenfield project
SMC Global Power is the Philippines' biggest privately controlled power producer in terms of installed capacity. Its diversified power portfolio includes the Limay co-generation power plant in Bataan; Sual coal-fired plant and San Roque hydroelectric plant, both in Pangasinan; and the Ilijan natural gas-fired facility in Batangas. To help bridge the power supply gap and in a bid to bring down the cost of producing electricity, SMC Global Power is building two modern power facilities that will add an initial 600 MW to its 2,685 MW of installed capacity. The facilities, located in Limay, Bataan and Malita, Davao, will help provide for the energy needs of underserved regions.

A BETTER DAY

Resurrecion Almonte
Resident, Barangay. Camambugan, Libmanan, Camarines Sur
with Ana Alsistio
General Manager, CASURECO 1



Prolonged brownouts were a way of life for residents of Barangay Camambugan, an hour's drive from Naga City. Resurrecion Almonte, a housewife and barangay health volunteer, recalls: *"Nahirapan ako sa mga gawaing bahay—maglinis, magluto at magtahi. Pati mga bata, hirap mag-aral. Malungkot kapag walang kuryente kaya minsan, nagkakantahan na lang kami sa gabi, habang nag-gigitara ang asawa ko."*

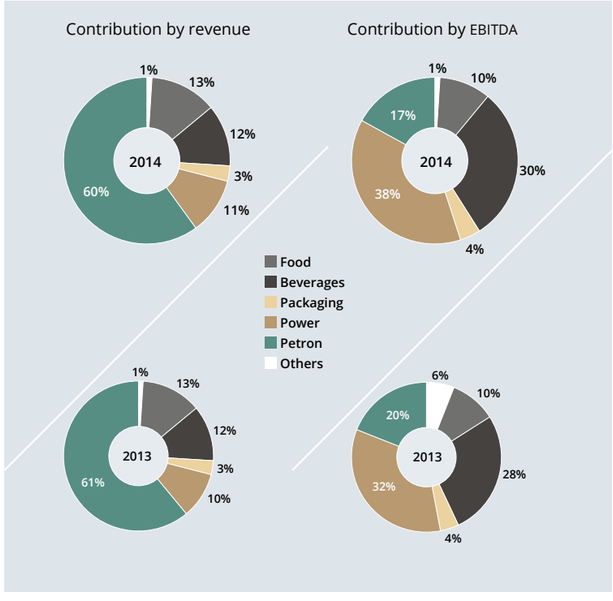
Things began to change in 2012, when SMC Global Power Holdings Corp. became the power supplier of Camarines Sur 1 Electric Cooperative (CASURECO 1).

Since then, the barangay has had a steady supply of power, so much so that brownouts—while not entirely a thing of the past—are few and far between.

"Dati, ang ilaw ay hindi gaano ka-liwanag. Ngayon, halos lahat ng bahay sa amin ay meron nang kuryente. At dahil maganda na ang daloy ng kuryente, hindi na kami paypay nang paypay dahil nakakagamit na kami ng electric fan. Malaking ginhawa na ang nararanasan namin sa buhay," she says.

Management's Discussion & Analysis

DELIVERING SOLID GROWTH



In a year marked by the completion of some of the biggest projects in our portfolio to date, our company continued to build on the gains of previous years, delivering solid revenue and profit growth.

In 2014, San Miguel Corporation's consolidated sales revenues reached P782 billion, 5% higher than the previous year, as majority of our businesses posted healthy revenue growth on the back of robust volumes and higher selling prices.

Consolidated operating income amounted to P55.8 billion, 1% higher than last year. Our core businesses posted strong results, led by double-digit growth from the food business and the profit delivery of the liquor business, a turnaround from last year's loss. Among our new businesses, Power delivered strong profits while declining crude oil prices held back Petron's performance.

As a result, consolidated net income amounted to P28.1 billion, of which P14.7 billion is attributable to the equity holders of the parent company. We recognized one-time gains in 2013 from the sale of Meralco shares, which brought net income to P50.7 billion. Without these one-off items, SMC posted a recurring net income of P27.9 billion, 244% higher than last year.

Consolidated EBITDA ended at P88.1 billion, 14% higher than 2013.

From this point on, we can look forward to even better results with the coming onstream of a number of our major projects and the completion of others within the next two years.

First among our major milestones in 2014 was the completion of the US$2 billion Petron Bataan Refinery upgrade project or RMP-2, which is currently undergoing stabilization and optimization.

Before the end of 2014, we opened Section 2 of the Tarlac-Pangasinan-La Union Expressway (TPLEX) from Rosales to Urdaneta in Pangasinan. This new section brings the project's total operational length to 63 kilometers. In January 2014, we also broke ground for the Skyway Stage 3 and NAIA Expressway projects.

With the construction of our greenfield power plants in Limay, Bataan and Malita, Davao proceeding at an accelerated pace, we are well on our way to realizing the gains of our diversification.

In October 2014, or just a little over two years after we invested in Philippine Airlines (PAL), we divested approximately 49% equity interest in Trustmark Holdings Corporation and Zuma Holdings and Management Corporation, relinquishing our indirect ownership of the flag carrier and its sister airline, PAL Express. While the investment had always been met with some reservation by a good number of our shareholders, we were able to engineer its turnaround and hand it back to its majority owners in much better shape. In the process, we improved our operational expertise and primed ourselves for even bigger growth opportunities.

We also proactively managed our liabilities to further increase value for our shareholders. At the start of the year, we declared, as property dividends, a total of 240,196,000 common shares of Top Frontier Investment Holdings, Inc. Each SMC shareholder received one Top Frontier common share for every 10 SMC common shares they owned. In May, the company redeemed the remaining balance of its US$600 million Exchangeable Bonds and paid a total of US$212.8 million. In March 2015, SMC also initiated a tender offer to buy back up to US$400 million of its US$800 million 4.875% senior notes due in 2023. A total of US$283.6 million was validly tendered.

BEVERAGES

San Miguel Brewery Inc.

San Miguel Brewery Inc.'s (SMB) consolidated volumes reached 207.3 million cases, a 2% improvement from the previous year, when volumes slowed as a result of the implementation of the new excise tax structure. Volumes were driven mainly by growth across the domestic market, particularly in the Visayas region.

The company put in place an effective price management program that resulted in a 5% increase in sales revenues to P79.0 billion. SMB remained focused on managing its fixed costs and improving operating efficiencies. Beer International was able to realize significant improvements in its operations. As a result, consolidated operating income rose 2% to P22.1 billion.

In April 2014, SMB successfully completed the issuance of its P15-billion fixed-rate bonds. The offer was fully subscribed, with rates of 5.5% and 6.0% for the Series G 7-year and Series H 10-year tranches, respectively. The proceeds were used to partially refinance the P22.4 billion Series B bonds that were redeemed in the same month.

In December 2014, the SMB board approved to amend its Articles of Incorporation to allow the company to pursue a multi-beverage strategy to include the non-alcoholic beverage (NAB) business. The SEC approved the amendment last March 11, 2015. This now allows the company to engage in the manufacture, import, sales, and distribution of NAB products. The NAB segment stands to benefit from the company's distribution and marketing expertise and will further enhance SMB's growth prospects.

In line with this strategy, SMB acquired the assets used in the production of non-alcoholic beverages from Ginebra San Miguel Inc.

Domestic Operations

SMB's domestic operations recovered in 2014. Volumes of 172.5 million cases grew 3% over last year, while sales revenues reached P64.3 billion, growing by 6%.

The improvement in sales performance was achieved through intensified implementation of demand-generating programs and cost-efficiency measures.

Red Horse Beer remained the No. 1 strong beer in the country and asserted its leadership through the *"Kaya Mo Na,"* Pambansang Muziklaban and Pasiklaban barangay activations. San Miguel Pale Pilsen's "iconic" positioning was reinforced through the *"Bilib"* thematic campaign and the *"Sarap MagBabad"* summer program, among others.

San Mig Light connected with consumers with the "One Word" campaign, "On All Night" loyalty program, "Bucket Nights/Party All Night" programs and digital campaigns, promotions and sponsorships.

Gold Eagle Beer improved sales through its well-focused *"Sama-Sama Mag-Jamming, Sama-Sama Mag-Gold Eagle Beer"* campaign in the Visayas and Mindanao.

Meanwhile, the brand image of Lifestyle Brews San Miguel Premium All-Malt, Super Dry and Cerveza Negra, continued to improve with the "Ingredients" and "Awards" campaigns.

Newly-launched San Mig Zero started to contribute to the SMB portfolio. Campaigns focused on strengthening visibility and trial-generation were well-received by consumers.

San Miguel Flavored Beers meanwhile continued to gain traction with consumers with the success of the "Game *Tayo*" digital campaign, "Talk" TVC and various store penetration programs.

International Operations

San Miguel Beer International Operations posted P14.7 billion in revenues in 2014, slightly higher than the previous year, with growth mainly driven by modest gains in sales of its branded products. This was despite lower volumes resulting from discontinued private label brands.

In South China, volumes of the San Miguel brand in sales areas targeted for expansion continued to register double-digit growth. Gains were offset by lower volumes in core markets largely due to distribution gaps which Guangzhou San Miguel Brewery is currently addressing. Total volumes rose driven by higher local brand volumes and greater demand for exports. North China operations continued to face intense competition.

SMB Hong Kong volumes were flat due to the termination of distribution agreements for certain premium brands and the disruption in business resulting from pro-democracy demonstrations.

In terms of operating profitability, improvements in margins, together with higher export volumes, slightly offset the effects of lower volumes.

Indonesia operations were weighed down by dealer and wholesaler pricing issues in the second and third quarter of 2014, resulting in a 7% drop in volumes. However, recovery in the fourth quarter, higher margins and prudent spending on fixed costs protected profitability.

ICONIC BRAND

For Filipinos, beer is the great egalitarian drink, sold everywhere from corner *sari-sari* stores to modern hypermarkets. Now 125 years old, San Miguel beer for many years was unchallenged. Yet despite the entry of domestic and foreigh beer brands in recent decades, San Miguel remains the runaway local favorite; nine out of 10 beers sold in the Philippines are San Miguel beer brands.

Today San Miguel Brewery owns an array of popular beer products catering to the distinct tastes and preferences of beer drinkers across all segments and markets in the Philippines. The beer portfolio consists of nine international award-winning, strong and popular brands: San Miguel Pale Pilsen, Red Horse, San Mig Light, San Miguel Super Dry, Cerveza Negra, Gold Eagle, San Miguel Premium All-Malt, San Miguel Flavored Beer, San Mig Zero.

Philippine-based but today world-famous, San Miguel beer is sold in 30 export markets and bottled in 10 breweries in the Philippines, China, including Hong Kong; Thailand, Indonesia and Vietnam.



Vietnam registered double-digit growth in its domestic volumes, led by San Mig Light and WIN Bia which grew 7% and 21%, respectively.

Despite political turmoil in Thailand in the second quarter, volumes grew 3%. Marketing programs and outlet penetration activities proved successful in achieving an average 5% monthly growth in the second half of 2014. Operating performance substantially improved, buoyed by higher volumes and better margins.

Export volumes for San Miguel brands grew 9% on the back of steady growth in the UAE, Taiwan, Korea and the US, and new markets in Africa and Australia. This, however, was outweighed by some discontinued private labels, resulting in a 9% drop in total export volumes.

Ginebra San Miguel, Inc.

Ginebra San Miguel, Inc. (GSMI) achieved milestone results in 2014, a year which marked its flagship brand Ginebra San Miguel's 180th year. GSMI delivered a strong performance, registering operating profit of P358 million, a turnaround from the previous year's operating loss of P793 million.

Growth was driven by a resurgence in volume sales and lower costs resulting from efficiency improvements and more deliberate cost-management programs.

GSMI went back to basics and focused its strategy around its core gin products, led by flagship Ginebra San Miguel. The *"Ganado sa Buhay"* thematic campaign and the nationwide concert series *"Ginumanfest"* resonated with consumers and was a huge success. As a result, the company regained key markets in Northern Luzon. Product launches also allowed GSMI to capture new markets, particularly in Eastern Visayas. The company reinforced its distribution network through wholesalers, extending its reach in Luzon and Visayas.

As such, domestic liquor volumes grew 4% to 22.1 million cases. Consequently, revenues reached P15.5 billion, 8% higher than in 2013.

Greater use of second-hand bottles and better distillery and bottling efficiencies yielded reduced production spending. Fixed costs were kept in check with more prudent spending, particularly on advertising and promotion. These measures significantly improved margins and GSMI's overall profitability.

Growth prospects for this year are hinged on volume growth, gaining traction with its core drinkers and generating more consumption. The sequel to the *"Ganado sa Buhay"* thematic campaign will strengthen Ginebra San Miguel's dominance in the gin category. GSMI's new Primera Light brandy, together with GSM Blue, both lower-proof alcohol products, are targeted to a younger consumer segment. All these, together with sustained cost improvement programs, are expected to sustain profit growth of the business.

FOOD

San Miguel Pure Foods Company Inc. registered another growth year in 2014 as revenues reached P103 billion, a 3% increase over 2013. This was mainly driven by the strong performance of its Agro-Industrial and Flour Milling businesses. Volumes were spurred by on-going innovation programs and an expanded distribution network. Improvements in its established branded products, the development of new variants and innovative marketing and promotional activities also contributed to growth.

The impact of Typhoon Glenda and the congestion in Manila's main ports made operating conditions relatively difficult in 2014. Nevertheless, operating income grew 17% to P6.5 billion on the back of the strong performance of the Poultry and Fresh Meats businesses. These segments benefited from favorable selling prices, better farm efficiencies and improved availability of cassava. Higher sales volumes and lower wheat cost allowed the Milling business to contribute to the Food Group's operating income growth.

San Miguel Pure Foods' vertically-integrated business model remains a fundamental strategy in controlling costs in all levels of production. The expansion of exclusive retail outlets, such as the Magnolia Chicken stations, Monterey Meatshops and Kambal Pandesal, continued to boost sales. Product innovations and brand-building initiatives helped strengthen brand equity.

The company continues to expand and look for growth opportunities. At the start of 2015, it completed the acquisition of the trademarks, formulations, recipes and other intangible properties owned by the La Pacita biscuit and flour-based snack business from Felicisimo Martinez & Co. Inc. This acquisition is in line with the Food Group's shift to more value-added products.

San Miguel Pure Foods successfully issued P15-billion Series "2" Preferred Shares, priced at 5.6569% in February 2015. The shares were listed on the Philippine Stock Exchange last March 12, 2015. The offer was four times oversubscribed. Proceeds were used to redeem the P15-billion Series "1" Preferred Shares.

Agro-Industrial

The Agro-Industrial business posted revenues of P69.6 billion, up 6%, with all segments contributing to growth. Revenues from Poultry and Fresh Meats grew, helped by favorable selling prices. Feeds, on the other hand, was driven by higher volumes in hogs, broiler and duck feeds.



Value-added

The year was relatively challenging for the Value-added Meats business which was affected by high trade inventory at the beginning of 2014 and the port congestion problem during the second half of the year that had an adverse impact on logistics costs and raw materials availability.

Revenues, however, still grew 1% to P15.1 billion given higher selling prices, stronger sales of new products and increased convenient food offerings such as bone-in fried chicken, canned chicken and meaty spaghetti sauce. The native line segment was also expanded showcasing the company's Magnolia Chicken.

Milling

Our Milling operations ended the year with revenues of P9.9 billion, up 5% from last year, driven by a 2% volume growth and additional revenues from the operations of the new grains terminal.

The third-party owned and operated *Kambal Pandesal* bakery outlets continue to grow at a remarkable rate, reaching 447 stores in December 2014, from only 168 outlets in the prior year.

Dairy and Others

The Dairy, Fats and Oils business registered revenues of P7.8 billion, a 9% growth led by strong volume growth from butter, margarine and cheese. New flavors strengthened the "Best of the Philippines" line, bolstering Magnolia Ice Cream's volumes.

Meanwhile, San Mig Super Coffeemix focused on its core products, realizing revenue growth of 24% for its sugarfree variant.

EXPANSION MODE

The country's GNP is improving steadily at a rate above 6% over the last three years. As such, the share in family spending for food has risen 43%. San Miguel Pure Foods was able to take advantage of this growth in 2014. Starting 2015, it will execute a major expansion program that will see it pouring significant investments in building new facilities to expand its capacities in the flour, feeds, poultry and value-added meats businesses.

The company's Indonesia operations posted a 7% revenue growth on account of higher selling prices. Vietnam operations continued to face challenges. By the end of 2014, the feeds and hogs operations were temporarily closed to enable the business to focus on growing its processed meats business.

PACKAGING

While external factors made 2014 a challenging year for San Miguel Yamamura Packaging Group (SMYPC), the company remained focused on protecting its profitability, turning in improved margins for the year.

Operating income grew 11% to P2.3 billion, even as revenues declined 4% to P24.2 billion. Lower requirements from customers in the beverage industry translated to fewer orders for bottles, metal caps and crates, which greatly affected both topline and bottomline performance of these segments.

SMYPC's efficiency improvements and cost-containment programs, coupled with improved performance from paper, PET and Exports, allowed the group to deliver a higher operating performance.

Glass

Glass remained the biggest revenue contributor, despite a decline in volumes due to lower bottle requirements from beer and softdrinks customers in the first half of 2014. This, however, was cushioned by greater demand from other beverage customers in the second semester. Exports from China and Vietnam remained strong.

The furnace repair and facilities upgrade in Manila, Cebu and Vietnam were completed during the year, improving both utilization and quality of production.

Metal

While requirements for metal cans remained stable in 2014, there was a drop in demand for metal closures from beverage customers.

Newly acquired machine technology enabled the business to produce new product lines and expand its market reach to new sales territories such as Papua New Guinea, Sri Lanka and Nepal. A new can tolling facility is also being constructed in San Fernando, Pampanga to serve customers for fruit juices, energy drinks and soft drinks.

Plastics

Lower demand for crates in the plastics business was offset by double-digit revenue growth in the pallet leasing business.

The PET segment registered double-digit revenue growth as major customers for beverage filling continued to increase requirements. The PET packaging facilities were almost 100% utilized which resulted in improved operating performance.

New products were developed for the beer and softdrinks industries. The PET facility installed a flexible line that will serve both cold- and hot-filled beverages, providing quality packaging to both juice and carbonated drinks customers.

Paper

It was a banner year for the Paper business which hit record volumes and revenues. Better sales in cartons resulted from higher demand from fruit export companies. Higher sales translated to double-digit growth in operating income.

Cospak

Cospak registered a strong operating performance as cost-containment programs and higher volumes from wine customers enabled the company to quadruple its operating income.

Malaysia

The plastic films businesses in Malaysia ended the year with favorable volume and revenue growth. However, the flexibles business was held back by higher raw material prices and intense competition.

FUEL AND OIL

It was a challenging 2014 for Petron Corporation. Both Philippine and Malaysia operations were affected by the steep drop in crude oil prices in the second half of the year which put pressure on oil companies all over the world. From a relatively stable first half, with the benchmark Dubai crude averaging US$108/barrel, a supply glut and a weak global economy caused crude prices to plunge by as much as 44%, to average US$60/barrel in December 2014.

Petron, however, managed to end the year with a 4% growth in revenues to P482.5 billion, despite lower selling prices. This was driven by a 6% growth in sales volume of 86.5 million barrels.

Philippine operations sold 51.5 million barrels, up 9%, on account of higher demand from the retail sector, its ongoing service station expansion program and robust industrial and LPG sales. Malaysia operations contributed 35.0 million barrels, buoyed by strong industrial and retail sales.

The company ended the year with an operating profit of P7.6 billion, even as much of the global fuel industry suffered from record losses. Risk management programs helped the company ride out market volatility and reduce inventory losses by half.

Petron maintained its strategic focus, completing its RMP-2 project. The upgrade allows for the full utilization of its 180,000 barrels-per-day capacity and significantly increases the production of high-margin products such as gasoline and petrochemicals. It also enables use of cheaper crude oil. The project likewise allows the local production of more efficient, superior, and environment-friendly fuels to meet Euro IV standards.

Petron continued to expand its domestic retail network, bringing the total number of service stations close to 2,200.

Rebranding and upgrading of Petron's existing service stations in Malaysia is complete. The company is expanding its network with 20 new service stations currently under construction.

Petron's Series "2" Preferred Shares offering was oversubscribed; the shares were listed at the Philippine Stock Exchange on November 3, 2014. The proceeds of the offering were used to redeem the P10-billion Series "1" preferred shares which matured in March 2015. The cumulative, non-voting, non-participating, non-convertible preferred shares were priced at P1,000 per share. The share offering was done in two tranches

– Series 2A, callable in five years, with a 6.3% dividend rate, and Series 2B, callable in seven years, with a 6.8583% dividend rate.

POWER

SMC Global Power Holdings Corp.'s profitability soared, with operating income growing by 26% to P25.9 billion pesos, driven by higher bilateral volumes. Consolidated off-take volumes reached 17,001 GWh, 5% higher than 2013.

Apart from the addition of 140 MW capacity from the Limay co-generation power plant, the power business benefited from improved efficiencies in its major plants, allowing the company to fulfill higher demand, particularly during the summer months. Higher average WESM prices also proved advantageous to the group, resulting in a 14% jump in consolidated revenues to P84.3 billion.

The Sual Power Plant sold a total of 7,132 GWh of electricity, 1% higher than last year while revenues grew 3% to P32.8 billion. Better capacity utilization, which averaged 90%, allowed it to meet increased demand during the summer months.

Off-take volumes of 8,863 GWh, 5% higher than previous year, brought P40.1 billion in revenues for the Ilijan power plant. This is on account of higher bilateral volume nominations driven by greater demand for electricity.

Off-take volumes from the San Roque hydroelectric power plant reached 841 GWh, 6% higher, despite lower dam reservoir levels. Ancillary services, meanwhile, drove revenues sharply higher by 41% to P6.5 billion.

The Limay co-generation power plant, now operating at full capacity, added 537 GWh in off-take volumes, equivalent to revenues of P5.6 billion.

The construction of the new coal-fired power plants in Malita, Davao and Limay, Bataan are on schedule. These facilities will provide an initial 600 MW in additional capacity once complete.

In May 2014, SMC Global Power successfully completed the issuance of its US$300 million undated, subordinated capital securities with a rate of 7.5%. The offer was 3.3x oversubscribed and was listed in the Singapore Stock Exchange last May 8, 2014. Proceeds will be used for financing power-related assets, which includes the Davao and Bataan greenfield power projects.

INFRASTRUCTURE

It was also a year of many significant milestones for San Miguel's infrastructure business, particularly in tollways, as we opened our very first greenfield tollway project and began construction of the NAIA and Skyway Stage 3 expressways.

Thus far, the company, through San Miguel Holdings Corp., has opened about 63 kilometers of the 88.85-kilometer TPLEX, running from Tarlac, Tarlac to Urdaneta, Pangasinan. As of year-end 2014, TPLEX has served about 8,500 average daily vehicles bound for the Northern Luzon area, providing faster and more convenient travel to motorists. The remaining stretch up to Rosario, La Union, is expected to be completed by the end of 2015.

In January 2014, we began construction on the 5.4-km NAIA Expressway that will connect to the Skyway system, PAGCOR City and Roxas Boulevard, and provide convenient access to NAIA Terminals 1, 2 and 3. Substantial completion of the project is expected by end of 2015.

Also at the start of 2014, we broke ground for the much-awaited Skyway Stage 3, which involves the construction of a 14-km elevated expressway, with eight exit ramps, starting from the existing Skyway system from Buendia in Makati to the North Expressway via Balintawak. The project is vital to improving the traffic situation in Metro Manila, providing an alternate, direct route for motorists traveling from North to South, and vice-versa. Completion of this project is slated for 2017.

Even as our new tollroad projects have gotten off the ground, our existing operating tollway assets also continue to perform well. Combined daily traffic flow of the South Luzon Expressway (SLEX) and Skyway 1 & 2 averaged 475,000 vehicles, about 6% higher than the previous year. Meanwhile, testing for the migration of toll collection to the Radio Frequency Identification (RFID) system is ongoing and will be completed within 2015.

As of March 5, 2015, San Miguel Holdings Corp. increased its ownership in Atlantic Aurum Inc. B.V. (AAIBV) to 95% when Padma Funds L.P. conveyed and transferred its outstanding shares in AAIBV equivalent to 48.47%. This effectively increased SMC's ownership in SLEX to 76% and the Skyway System to 83.45%.

Average daily vehicle traffic for the Southern Tagalog Arterial Road (STAR) Tollway grew 13% to about 33,000 vehicles. This growth is expected to continue as improvements on the tollway have been completed, including the construction of additional lanes in the Lipa-to-Batangas stretch.



DECONGESTING TRAFFIC

With the consolidation in March this year of the SLEX and Skyway Stage 1 & 2, San Miguel realized higher contributions from its infrastructure business. In the first quarter of 2015, our southern tollroad network, which includes STAR, registered a combined average daily traffic volume of close to 550,000 vehicles. With the construction of the NAIAx and the Skyway Stage 3 project, and with the SLEX TR4 extension project now in the early stages of development, SMC's infrastructure business stands to deliver significant growth in the near future.

Our airport project in Caticlan is also on schedule. The extension of the Boracay Airport runway to 1.8 km, which is targeted for completion by the middle of 2015, will enable it to accommodate larger aircraft. Improvements will also allow for night landing. A new and bigger terminal will likewise be constructed to accommodate the projected increase in tourist arrivals.

Finally, we have received the performance undertaking for the Mass Rail Transit 7 (MRT7) project in October 2014. The project involves the construction of a 22-km light rail transit from North Edsa to San Jose Del Monte, Bulacan. It also includes the construction of a 22-km road that will connect to NLEX at the Bocaue exit. Construction of this project is targeted to begin by middle of 2016.

PROPERTIES

San Miguel Properties Inc. registered P756 million in total revenues, 6% higher than 2013, as booked sales for projects increased, given the positive response to its residential projects that target mid- to high-end clients.

With the delivery of key projects in 2015, such as the Makati Diamond Residences, further growth is expected. Due for turnover within the year are One Dover View in Mandaluyong and Emerald 88 in Pasig. The launch of Piccolo Square, a residential building project in General Trias, should also bring in more sales in the future.

FINANCIAL POSITION

San Miguel Corporation's consolidated total assets as of December 2014 amounted to P1.2 trillion, P47 billion higher than 2013 mainly due to investments in property, plant and equipment, particularly by Power and Petron; as well as project development costs for the company's infrastructure business, particularly TPLEX, STAR, NAIA Expressway, and Boracay Airport.

On the liabilities side, short-term debt increased by about P37 billion while long-term debt declined by P4.5 billion, with the increased short-term requirements of Petron, coupled with the decline in long-term debt of San Miguel Brewery Inc. Total interest-bearing debt amounted to P483 billion, while consolidated net debt is at P224.4 billion.

Total equity attributable to equity holders of the parent company increased to P240.5 billion in 2014 from P237.7 billion in 2013, primarily due to income during the year net of dividend declarations. The company's dividends to common and preferred shares amounted to P3.3 billion and P6.1 billion, respectively. On the other hand, non-controlling interest increased to P149.0 billion in 2014 from P128.1 billion in 2013 with SMC Global Power's issuance of US$300 million undated subordinate capital securities, coupled with Petron's issuance of P9.9 billion preferred shares.

The company's current ratio improved to 1.52x by end-December 2014 from 1.46x as of December 31, 2013; while interest-bearing debt-to-equity ratio was 1.24x and 1.23x as of end-2014 and 2013, respectively. Net-debt-to-EBITDA ended at 2.36x, an improvement from 3.14x in 2013.

CORPORATE GOVERNANCE

San Miguel Corporation is committed to the highest standards of corporate governance. Good governance is key to effective decision-making, in delivering on corporate strategy that generates shareholder value and safeguards the long-term interests of shareholders.

As a responsible corporate citizen, the company has in place policies and programs to ensure that we do the right thing.

Our Board of Directors, led by our chairman, Mr. Eduardo M. Cojuangco, Jr., believes in conducting our business affairs in a fair and transparent manner, and in maintaining the highest ethical standards in all the business dealings of the company.

SHAREHOLDERS' RIGHTS

The company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors.

Voting rights
Each common share in the name of the shareholder entitles such shareholder to one vote, which may be exercised in person or by proxy at shareholders' meetings, including the Annual General Stockholders' Meeting (AGSM). Common shareholders have the right to elect, remove and replace directors as well as vote on certain corporate acts specified in the Corporation Code.

Preferred shareholders have the right to vote on matters involving certain corporate acts specified in the Corporation Code and enjoy certain preferences over holders of common shares in terms of dividends and in the event of liquidation of the company.

Among the corporate actions approved by the shareholders in 2014 were the change in the principal office address of the company from "Metro Manila" to "40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines," and the amendment of the Amended Articles of Incorporation of the company reflected such change.

Pre-emptive rights
Under the company's Amended Articles of Incorporation, as approved by the shareholders in a meeting held on May 17, 2009, and as approved by the Securities and Exchange Commission (SEC), shareholders do not have pre-emptive rights to the issuance of shares relating to equity-linked debt or other securities, any class of preferred shares, shares in payment of a previously contracted debt or shares in exchange for property needed for corporate purposes, to give the company greater flexibility in raising additional capital, managing its financial alternatives and issuing financing instruments.

On May 31, 2010, the shareholders of the company approved to amend the Articles of Incorporation to deny pre-emptive rights to any issuance of common shares. Such amendment of the Articles of Incorporation was approved by the SEC on August 10, 2010.

Subject to certain conditions, shareholders also do not have pre-emptive rights to shares issued, sold or disposed of by the company to its officers and/or employees pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans.

Right to Information
Shareholders are provided, through the Investor Relations Group headed by Ms. Reyna-beth de Guzman, disclosures,

announcements, and, upon request, periodic reports filed with the SEC. All disclosures of the company are likewise immediately available and copies downloadable at the company's website upon disclosure to the Philippine Stock Exchange (PSE).

Dividends
Shareholders are entitled to receive dividends that the Board, at its discretion, may declare from time to time. However, the company is required, subject to certain exceptions under the law, to declare dividends when the retained earnings equal to or exceed its paid-up capital stock.

Cash dividends declared by the Board of Directors of the parent company amounted to P1.40 per share both in 2014 and 2013.

Cash dividends declared by the Board of Directors of the parent company to Series "2" preferred shareholders in 2014 and 2013 are as follows:

	2013	2014
Subseries "2-A"	P7.03125	P5.625
Subseries "2-B"	P7.14844	P5.71875
Subseries "2-C"	P7.50	P6.00

STAKEHOLDER RELATIONS

San Miguel Corporation exercises transparency when dealing with shareholders, customers, employees, trade partners, creditors, and all other stakeholders. The company ensures that these transactions adhere to fair business practices in order to establish long-term and mutually beneficial relationships.

Shareholder Meeting and Voting Procedures
Stockholders are informed at least 15 business days before the scheduled meeting of the date, time, and place of the validation of proxies. In 2014, notices of the 2014 AGSM were sent to the stockholders on May 9, 2014, more than 30 days prior to the 2014 AGSM. Voting procedures on matters presented for approval of the stockholders in the AGSM are set out in detail and explained in the Definitive Information Statement distributed to all shareholders of the company.

Shareholder and Investor Relations
San Miguel Corporation responds to information requests from the investing community and keeps shareholders informed through timely disclosures to the PSE and the SEC, through regular quarterly briefings, AGSMs, investor briefings and conferences, the company's website, and responses to email and telephone queries. The company's disclosures and other filings with the SEC and PSE are available for viewing and download from the company's website.

The company, through the Investor Relations group under Corporate Finance, regularly holds briefings and meetings with investment and financial analysts.

DISCLOSURE AND TRANSPARENCY

San Miguel Corporation adheres to a high level of standard in its corporate disclosure and adopts transparency with respect to the Company's financial condition and state of corporate governance.

Ownership Structure
The top 20 shareholders of the company, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors and key officers, are disclosed annually in the Definitive Information Statement distributed to shareholders prior to the AGSM.

Financial Reporting
San Miguel Corporation provides the investing community with regular updates on operating and financial information through adequate and timely disclosures filed with the SEC and the PSE.

Consolidated audited financial statements are submitted to the SEC and the PSE on or before the prescribed period and are distributed to the shareholders prior to the AGSM.

San Miguel Corporation's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting standards, which are all in compliance with International Accounting Standards.

Quarterly financial results, on the other hand, are released and are duly disclosed to the SEC and PSE in accordance with the prescribed rules. The results are also presented to financial and investment analysts through a quarterly analysts' briefing. These disclosures are likewise posted on the company's corporate website.

In addition to compliance with structural reportorial requirements, the company discloses in a timely manner market-sensitive information such as dividend declarations, joint ventures and acquisitions, sale and divestment of significant assets that materially affect the share price performance of the company.

Securities Dealing
The company has adopted a policy which regulates the acquisition and disposal of company shares by its directors, officers and employees, and the use and disclosure of price-sensitive information by such persons. Under the policy, directors, officers and employees who have knowledge of or are in possession of material non-public information are prohibited from dealing in the company's securities prior to disclosure of such information to the public. The policy likewise prescribes the periods before and after public disclosure of structured and non-structured reports during which trading in the company's securities, by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information, is not allowed.

ACCOUNTABILITY AND AUDIT

The Audit Committee has oversight functions with respect to the external and internal auditors. The role and responsibilities of the Audit Committee are clearly defined in the Company's Manual on Corporate Governance.

External Auditor
The accounting firm of R.G. Manabat & Company CPAs, accredited by the SEC, served as the company's external auditors for the fiscal years 2013 and 2014.

The external auditor is selected and appointed by the shareholders upon the recommendation of the Board and subject to rotation every five years or earlier in accordance with SEC regulations. The external auditor's main function is to facilitate the environment of good corporate governance as reflected in the company's financial records and reports, through the conduct of an independent annual audit on the company's business and rendition of an objective opinion on the reasonableness of such records and reports.

The external auditors are expected to attend the AGSM of the company and respond to appropriate questions during the meeting. They also have the opportunity to make a statement if they so desire. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

The company paid the external auditor Audit Fees amounting to P10 million in 2014 and P13 million in 2013.

Internal Audit
Internal audit is carried out by the San Miguel Group Audit (SMGA) which helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. SMGA directly reports to the Audit Committee.

SMGA is responsible for identifying and evaluating significant risk exposures and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations and information systems. By evaluating effectiveness and efficiency, and by promoting continuous improvement, the group maintains effective controls of responsibilities and functions.

BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the company's Board of Directors. The Board is responsible for oversight of the business, affairs and integrity of the company; determination of the company's mission, long-term strategy and objectives; and management of the company's risks through evaluation and ensuring the adequacy of the company's internal controls and procedures.

It is the responsibility of the Board to foster and engender the long-term success of the company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, exercised in the best interest of the company, its shareholders, and other stakeholders.

Composition
The Board consists of 15 members, each elected by the common stockholders during the AGSM. The Board members hold office for one year until their successors are duly elected and qualified in accordance with the amended by-laws of the company.

The broad range of skills, expertise and experience of the directors in the fields of management, economics, business, finance, accounting, and law ensure comprehensive evaluation of, and sound judgment on, matters relevant to the Company's businesses and related interests. The names, profiles, and shareholdings of each director including their directorships in other listed companies are found in the Definitive Information Statement distributed prior to the AGSM.

The Board of Directors and the senior management of the Company have all undergone the requisite periodic training on corporate governance as prescribed by the SEC.

Independent and Non-Executive Directors
San Miguel Corporation has three independent directors, which is more than the legal requirement of having at least two independent directors or 20% of its board size, whichever is less but in no case less than two. Currently, of the 15 directors, Mr. Winston F. Garcia, former Chief Justice Reynato S. Puno and Mr. Margarito B. Teves sit as independent and non-executive directors of the Company.

The company defines an independent director as a person who, apart from his fees and shareholdings, has no business or relationship with the corporation, which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director. An independent director shall submit to the corporate secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an independent director at the time of his election and/or re-election as an independent director.

The company strictly complies with SEC Memorandum Circular No. 9 on the term limits of independent directors.

Chairman & CEO and President & COO
The chairman of the Board and chief executive officer is Mr. Eduardo M. Cojuangco, Jr. while Mr. Ramon S. Ang holds the position of vice-chairman, president and chief operating officer. These positions are held by separate individuals with their respective roles clearly defined to ensure independence, accountability and responsibility in the discharge of their duties. The chairman & CEO was unable to attend the AGSM for 2014 while the president & COO attended the AGSM for 2014.

Board Performance
The Board holds regular meetings. To assist the directors in the discharge of their duties, each director is given access to the corporate secretary and assistant corporate secretary, who serve as counsel to the board of directors and at the same time communicate with the Board, management, the company's shareholders and the investing public.

In 2014, the Board held 10 meetings. Below is the record of attendance of the directors at these meetings and at the AGSM.

	16 Jan	27 Mar	10 Apr	12 May	10 June*	17 July	11 Aug	18 Sept	10 Nov	11 Dec
Eduardo M. Cojuangco, Jr.	◙	◙	◙	◙	◙	●	●	●	◙	●
Ramon S. Ang	●	●	●	●	●	●	●	◙	●	●
Leo S. Alvez	●	●	●	●	●	●	●	●	●	●
Aurora T. Calderon	N/A	N/A	N/A	N/A	N/A	●	●	●	●	●
Joselito D. Campos, Jr.	●	●	-	●	●	-	●	●	●	●
Ferdinand K. Constantino	●	●	●	●	●	●	●	●	●	●
Winston F. Garcia	●	●	●	●	●	●	●	●	●	●
Menardo R. Jimenez	●	●	●	●	●	●	●	●	●	●
Estelito P. Mendoza	●	●	●	●	●	●	●	●	-	●
Roberto V. Ongpin✧	●	-	-	-	-	N/A	N/A	N/A	N/A	N/A
Alexander J. Poblador	-	●	●	●	●	●	●	●	●	●
Reynato S. Puno	●	●	●	-	●	●	●	●	●	●
Horacio C. Ramos	N/A	N/A	N/A	N/A	N/A	●	●	●	●	●
Eric O. Recto✧	●	●	-	●	●	N/A	N/A	N/A	N/A	N/A
Thomas A. Tan	●	●	●	●	●	●	●	●	●	●
Margarito B. Teves	●	●	●	●	●	●	●	●	●	●
Iñigo Zobel	●	●	●	-	●	-	●	●	●	●

* Annual General Stockholders Meeting and Organizational Board Meeting
● Present
◙ via teleconference
✧ member of the Board of Directors until June 10, 2014

Board Remuneration
The amended by-laws of the company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. In 2010, the Board of Directors approved the increase in the per diems for each Board meeting attended by the members of the Board from P10,000 to P50,000, and from P10,000 to P20,000 for each committee meeting attended.

Directors who are executive officers of the company are likewise granted stock options under the company's Long-Term Incentive Plan for Stock Options, which plan is administered by the Executive Compensation Committee.

Board Committees
To assist the Board in complying with the principles of good corporate governance, the Board created four committees.

Executive Committee. The Executive Committee is currently composed of six directors, which includes the chairman of the Board and CEO, vice chairman of the Board, president and COO. Mr. Eduardo M. Cojuangco, Jr. sits as chairman of the committee. The committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the company has lawful interest, to appoint trustees who, for the benefit of the company, may receive and retain such properties of the company or entities in which it has interests and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the company, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee did not hold a meeting in 2014.

Nomination and Hearing Committee. The Nomination and Hearing Committee is currently composed of six voting directors—one of whom is independent, retired Chief Justice Reynato S. Puno—and one non-voting member in the person of the company's Corporate Human Resources head. Atty. Estelito P. Mendoza is the chairman of the committee.

Among others, the Nomination and Hearing Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the company's Manual on Corporate Governance, the amended Articles of Incorporation and amended by-laws of the company and applicable laws, rules and regulations.

In 2014, the Nomination and Hearing Committee held one meeting.

Executive Compensation Committee. Six directors currently comprise the Executive Compensation Committee, two of whom are independent in the persons of Atty. Winston Garcia and retired Chief Justice Reynato S. Puno. Mr. Menardo R. Jimenez is Chairman of the Committee. The Executive Compensation Committee advises the Board in the establishment of formal and transparent policies and practices on directors and executive remuneration and provides oversight over remuneration of senior management and other key personnel—ensuring consistency with the company's culture, strategy and control environment. In two meetings in 2014, the committee, among others, designated the amount of remuneration for directors and reviewed promotions of certain executive officers.

The Executive Compensation Committee has adopted its own charter which shall provide guidance as to its specific roles and objectives and their corresponding implementation.

Audit Committee. The Audit Committee is currently composed of five members with two independent directors as members, Mr. Margarito B. Teves, who also sits as committee chairman, and Atty. Winston Garcia.

The Audit Committee reviews and monitors, among others, the integrity of all financial reports and ensures their compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements. It also performs oversight financial management functions and risk management, approves audit plans, directly interfaces with internal and external auditors, and elevates to international standards the accounting and auditing processes, practices, and methodologies of the company.

The Audit Committee held five meetings in 2014 wherein the committee reviewed and approved, among others, the company's 2013 Consolidated Audited Financial Statements as reviewed by the external auditors, and the company's unaudited financial statements for the first to the third quarters of the year.

The Audit Committee has adopted an Audit Committee Charter in accordance with the prescribed audit committee charter of the Securities and Exchange Commission.

Board Committee Members
The members of each Board Committee and their attendance at the Board Committee meetings in 2014 are set out in the table below. The chairmen of each of the Board Committees attended the 2014 AGSM.

Executive Committee	Date of Meeting
	No meeting held in 2014
Eduardo M. Cojuangco, Jr. (chairman)	N/A
Ramon S. Ang	N/A
Estelito P. Mendoza	N/A
Menardo R. Jimenez	N/A
Ferdinand K. Constantino	N/A
Inigo Zobel[1]	N/A

Nomination and Hearing Committee	Date of Meeting
	January 16
Estelito P. Mendoza (chairman)	●
Ramon S. Ang	●
Leo S. Alvez[2]	●
Ferdinand K. Constantino	●
Roberto V. Ongpin[3]	●
Alexander J. Poblador	-
Reynato S. Puno	●

Executive Compensation Committee	Date of Meeting	
	June 10	November 10
Menardo R. Jimenez (chairman)	●	●
Estelito P. Mendoza	●	●
Reynato S. Puno	●	●
Winston F. Garcia	●	●
Ferdinand K. Constantino	●	●
Joselito D. Campos, Jr.	●	●
Eric O. Recto	●	N/A
Aurora T. Calderon[4]	N/A	●

1 Appointed as a member of the Executive Committee on June 10, 2014
2 Member of the Nomination and Hearing Committee since June 10, 2014
3 No longer re-elected as a member of the Board of Directors on June 10, 2014
4 Appointed as member of the Executive Compensation Committee on June 14, 2012

Audit Committee	Date of Meeting				
	Mar 27	May 12	Jul 17	Aug 11	Nov 10
Margarito B. Teves (chairman)	●	●	●	●	●
Estelito P. Mendoza	●	●	-	-	-
Winston F. Garcia	●	●	●	●	●
Ferdinand K. Constantino	●	●	●	●	●
Leo S. Alvez	●	●	●	●	●

MANAGEMENT

Management is primarily responsible for the day-to-day operations and business of the company. The annual compensation of the chairman & CEO and the top senior executives of the company are set out in the Definitive Information Statement distributed to shareholders.

EMPLOYEE RELATIONS

Employees are provided an Employee Handbook and Code of Ethics which contains the policies, guidelines for the duties and responsibilities of an employee of San Miguel Corporation.

Through internal newsletters and company e-mails all facilitated by the Human Resources Department and the Corporate Affairs Office, employees are updated on material developments within the organization.

Career advancement and developments are also provided by the company through numerous training programs and seminars. The company has also initiated activities centered on the safety, health and welfare of its employees. Benefits and privileges accruing to all regular employees are similarly discussed in the Employee Handbook.

CODE OF ETHICS

The company's Code of Ethics sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the directors, officers and employees of the company. The principles and standards prescribed in the Code of Ethics apply to all directors, senior managers and employees of the company.

Procedures are well established for the communication and investigation of concerns regarding the company's accounting, internal accounting controls, auditing, and financial reporting matters to the Audit Committee to uphold the Code of Ethics.

Whistle-blowing policy
The company has an established whistle-blowing policy aimed at encouraging employees to speak out and call the attention of management to any suspected wrongdoing which is contrary to the principles of the Code of Ethics and violations of the company's rules and regulations. The policy aims to protect the whistle blower from retribution or retaliation, and provides a disincentive to passively allowing the commission of wrongful conduct.

These policies are available on the company's website www.sanmiguel.com.ph.

COMPLIANCE MONITORING

The compliance officer, Atty. Virgilio S. Jacinto is responsible for monitoring compliance by the company with the provisions and requirements of good corporate governance.

On April 14, 2010, the board directors amended its Manual of Corporate Governance in compliance with the Revised Code of Corporate Governance issued by the Securities and Exchange Commission under its Memorandum Circular No. 6, Series of 2009. On March 27, 2014, the Board of Directors approved further amendments to the manual to reflect the requirements of the SEC on the annual training requirement of directors and key officers of the company, and the requirements on the reporting of compliance with the manual.

WEBSITE

Up-to-date information on the company's corporate structure, products and services, results of business operations, financial statements, career opportunities and other relevant information may be found on its website www.sanmiguel.com.ph.

The Board of Directors
San Miguel Corporation

REPORT OF THE AUDIT COMMITTEE

For the year ended December 31, 2014

The Audit Committee assists the Board of Directors in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies. In fulfillment of these responsibilities, the Audit Committee performed the following in 2014:

- endorsed for approval by the stockholders, and the stockholders approved the appointment of R.G. Manabat & Co. CPAs (formerly Manabat Sanagustin & Co. CPAs) as the Company's independent external auditors for 2014.
- reviewed and approved the terms of engagement of the external auditors, including the audit, audit-related and any non-audit services provided by the external auditors to the Company and the fees for such services, and ensured that the same did not impair the external auditors' independence and objectivity;
- reviewed and approved the scope of the audit and audit programs of the external auditor as well as the internal audit group of the Company, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;
- reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition and comply with the regulatory requirements of the Securities and Exchange Commission; and
- reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.
- reported compliance to the Securities and Exchange Commission on the results of the accomplishment by the members of the Audit Committee of the Audit Committee Self-Rating Form in accordance with the Audit Committee Charter and in compliance with the requirements of the SEC Memorandum Circular No. 4, Series of 2012.

All the five members of the Audit Committee, two of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2014.

Margarito B. Teves
Chairman - Independent Director

Estelito P. Mendoza
Member

Winston F. Garcia
Member – Independent Director

Leo S. Alvez
Member

Ferdinand K. Constantino
Member

Corporate Social Responsibility

LIFTING LIVES FOR GOOD

At the forefront of Philippine business for well over a century, San Miguel Corporation has been one of the earliest proponents of corporate philanthropy and social responsibility. As one of the original convenors of Philippine Business for Social Progress, the 125-year old conglomerate is one of the leading lights when it comes to CSR, having time and again gone beyond standard corporate social responsibility practices.

Now more than ever, the company recognizes its affirmed responsibility of being a catalyst of progress and change. In what is still the highest CSR spend by a Philippine conglomerate, San Miguel has spent over P1 billion on CSR from 2012-2014—its housing project for families displaced by Typhoon Sendong and Typhoon Yolanda accounting for virtually the entire amount.

Recognizing that the breadth of our business portfolio and extent of our resources put us in a unique position to make a difference to many, San Miguel, through the San Miguel Foundation, focuses on empowering communities and reaching out to underprivileged sectors of society by educating and giving them a means of livelihood.

Our hope is that with our help, the marginalized poor can become part of the larger Philippine growth story.

Education

A priority social cause to which we have committed ourselves for the long term is education. Believing firmly in education's power to transform lives, our advocacy covers not only the granting of scholarships but also the improvement of the quality of education through programs that benefit public schools and educators.

Claudine Alcala, a third-year information technology student, has always dreamt of graduating from college.

"I had always known that my mother would have a hard time sending me to college, but I truly believe in pursuing one's dreams," she says. "Now that I am a San Miguel scholar, I am more motivated to study hard."

Claudine is one of 820 scholars enrolled in elementary, high school, college, and technical-vocational courses; who are supported by SMC subsidiaries San Miguel Brewery Inc., SMC Global Power, San Miguel Pure Foods Co. Inc., San Miguel Yamamura Packaging Corporation, Ginebra San Miguel Inc. and SMITS Inc.

Scholarship grants cover tuition, books, school supplies, and allowances. For 20 engineering graduates last year, the grants also included financial support for their engineering licensure board review.



Kendra Quitola & Michael Retrato
Students

Kendra Quitola and Michael Retrato, students of San Miguel Heights Elementary School in Valenzuela City, are beneficiaries of the San Miguel Foundation's Malusog na Katawan, Matalas na Isipan supplemental feeding initiative. In 2014 alone, the program—which aims to address the country's malnutrition problem through working with educators and parents—benefited nearly 7,000 students in 46 public schools nationwide.



SMC and its subsidiaries have turned over a total of 191 AGAPP classrooms over the last five years.



Under its banner "Buhayin ang Kalikasan" environment project, SMB has planted around 500,000 trees nationwide.

Petron Corporation, through its Petron Foundation Inc. (PFI), also provided scholarships to 2,018 students in elementary, high school, and college, through its *Tulong Aral ng Petron* scholarship program.

Supporting literacy and access to better-equipped educational facilities are also areas of concern that we have always focused on.

Through our continuing partnership with non-profit AGAPP Foundation *(Aklat, Gabay, Aruga, tungo sa Pag-Angat at Pag-Asa)*, we turned over 50 new classrooms-*cum*-libraries to various public schools in poor barangays and are constructing 68 more classrooms. To date, SMC and its subsidiaries have turned over a total of 191 AGAPP classrooms over the last five years.

In support of the Department of Education's efforts to further advance the quality of education, PFI, for its part, continued to work with the DepEd and USAID to support *Basa Pilipinas* (Read Philippines), which aims to improve the reading skills of one million early grade students. The program also included providing technical assistance to DepEd on language and literacy improvement for first- to third-grade students in the Ilocos region and Central Visayas.

The past year also saw the ninth year of the Youth in Entrepreneurship and Leadership Development (YIELD) program, through which Petron gave 100 students the opportunity to spend their summer learning about operations at Petron service stations.

Health and Nutrition

Through our community clinics and medical missions, we continue to provide our host communities better access to healthcare services. In 2014, more than 8,000 individuals benefited from healthcare services offered for free at SMB community clinics in Polo, San Fernando, Davao and Mandaue, SMPFC's community clinic in Sumilao, and the Petron Community Health Center in Pandacan.

These facilities, though small in scale, provide specialist care, particularly for patients suffering from diabetes, tuberculosis and other cardiovascular diseases.

Dr. Hans Dolor, who works at the community clinic in Darong, Sta. Cruz, Davao del Sur, shares: "Things have changed for the better. In the past, residents of Darong could only rely on the barangay health center, which also has limited resources. Since this clinic was built, more people have access to medical services, especially for conditions needing specialist care."

Dr. Elaine Adapon regularly joins San Miguel Foundation on medical missions and describes the importance of SMC's outreach program: "Through these activities, we are able to reach far-flung areas where basic healthcare services are wanting," she says.

The missions, which reached 12,000 patients in 2014, have enabled medical practitioners to "take that first huge step" in reaching out to patients in many parts of the country. "By helping alleviate their suffering, the people know they are not alone," she says.

We also sustained our supplemental feeding programs, particularly *"Malusog na Katawan, Matalas na Isipan,"* with SMB Inc., SMC Global Power and SMYPC, and SMPFC's *"Handog Lusog Nutrisyon para sa Nasyon,"* which benefited nearly 7,000 public school students.



From 2012 to 2014, the company has spent close to P1 billion on housing for typhoon victims—the biggest CSR spend by a single company in Philippine history.

Recognizing that the breadth of our business portfolio and the extent of our resources put us in a unique position to make a difference to many, San Miguel focuses on empowering communities and reaching out to underprivileged sectors of society.

Environment

As our businesses and our future growth depend so much on natural resources, we continue to implement programs advocating the preservation of our environment and the responsible use of resources.

In 2014, SMC, through SMC Global Power, signed a covenant with the local government of Sual, Pangasinan committing to provide residents with one million seedlings of coconut, coffee, and cacao. To be distributed over the span of one year, the seedlings, when ready for harvest, will serve as additional source of livelihood for residents.

San Miguel Brewery, in partnership with the Armed Forces of the Philippines, also continued its flagship environment project, "Trees Brew Life." Under the banner *"Buhayin ang Kalikasan,"* SMB has to date planted around 500,000 trees nationwide.

Likewise, Petron continued to support the Department of Environment and Natural Resources' National Greening Program, which aims to plant 1.5 billion trees from 2011 to 2016. To help meet this target, Petron conducted tree and mangrove planting activities in all its terminals and depots throughout the country.

Petron also continued to implement its projects aimed at protecting our water resources, foremost of which is its Integrated Coastal Management Program in Bataan, done in partnership with the provincial government and the United Nations Development Program's Partnerships on Environmental Management for the Seas of East Asia.

The year also saw the completion of Petron's five-year partnership with the Municipality of Malay, Aklan and Boracay Foundation Inc. for the Boracay Beach Management Program, geared towards the protection, preservation and enhancement of the island.

Petron continued its partnership with the Department of Environment and Natural Resources to support the Adopt-an-Estero program. In 2014, it completed the second phase of the rehabilitation of the Concepcion Creek, a major tributary of the Marikina River. Petron's nationwide network of facilities have also instituted their own Adopt-an-Estero activities.

Housing and rehabilitation

Our housing program for victims of major calamities is an important part of our CSR agenda.

Shierley Siarot, who in the last three years has been living in Xavier Ecoville, one of the housing projects we built for victims of Typhoon Sendong in 2012 in Cagayan de Oro and Iligan City, shares: "My family and I are thankful for having this home. It feels good to be part of a community where everyone gets along and shows concern for one another."

Shirley and her neighbors are all survivors from riverside communities in CDO that were wiped out by Typhoon Sendong. Today, they live in a community that has a livelihood center, multi-purpose hall, daycare center, wet market, basketball court and chapel.

Our work, however, continues. At present, much of the focus is on completing houses for survivors of Typhoon Yolanda. These consist of 1,390 houses for the towns of Palo, Javier and San Miguel in Leyte. Thus far, 242 houses in Javier are ready to be turned over while 42 others are under construction. The Foundation continues to work closely with local government units in identifying viable sites for the new communities San Miguel is set to build.

BOARD OF **DIRECTORS**

Eduardo M. Cojuangco, Jr.
Chairman and CEO
Chairman, Executive Committee

Ramon S. Ang
Vice Chairman, President and COO
Member, Executive Committee
Member, Nomination and Hearing Committee

Estelito P. Mendoza
Chairman, Nomination and Hearing Committee
Member, Executive Committee
Member, Audit Committee

Leo S. Alvez
Member, Audit Committee
Member, Nomination and Hearing Committee

Joselito D. Campos, Jr.
Member, Executive Compensation Committee

Aurora T. Calderon
Member, Executive Compensation Committee

Ferdinand K. Constantino
Member, Executive Committee
Member, Audit Committee
Member, Executive Compensation Committee
Member, Nomination and Hearing Committee

Menardo R. Jimenez
Chairman, Executive Compensation Committee
Member, Executive Committee

Alexander J. Poblador
Member, Nomination and Hearing Committee

Horacio C. Ramos

Thomas A. Tan

Iñigo Zobel
Member, Executive Committee

Winston F. Garcia
Independent Director
Member, Audit Committee
Member, Executive Compensation Committee

Reynato S. Puno
Independent Director
Member, Executive Compensation Committee
Member, Nomination and Hearing Committee

Margarito B. Teves
Independent Director
Chairman, Audit Committee

KEY **EXECUTIVES**

Eduardo M. Cojuangco, Jr.
Chairman and Chief Executive Officer

Ramon S. Ang
Vice Chairman, President and Chief Operating Officer

Ferdinand K. Constantino
Chief Finance Officer and Treasurer

Virgilio S. Jacinto
Corporate Secretary and General Counsel

SAN MIGUEL BREWERY INC.
Roberto N. Huang
President

SAN MIGUEL BREWING INTERNATIONAL LTD.
Carlos Antonio M. Berba
Managing Director

GINEBRA SAN MIGUEL INC.
Bernard D. Marquez
President

SAN MIGUEL PURE FOODS COMPANY, INC.
Francisco S. Alejo III
President

SAN MIGUEL YAMAMURA PACKAGING CORP.
Ferdinand A. Tumpalan
President

PETRON CORPORATION
Lubin B. Nepomuceno
General Manager

SMC GLOBAL POWER HOLDINGS CORPORATION
Alan T. Ortiz
President

Elenita D. Go
Vice President and General Manager

SAN MIGUEL PROPERTIES, INC.
Karlo Marco P. Estavillo
Vice President and General Manager

INFRASTRUCTURE
Lorenzo G. Formoso III
Vice President and Head

SAN MIGUEL CORPORATION AND SUBSIDIARIES

SELECTED FINANCIAL DATA
DECEMBER 31, 2014, 2013 AND 2012

(In Millions, Except Per Share and Statistical Data)

	2014	2013	2012
For the Year			
Sales	**P782,434**	P748,241	P699,916
Net Income Attributable to Equity Holders of the Parent Company	**P14,692**	P38,053	P26,806
Basic Earnings Per Common Share Attributable to Equity Holders of the Parent Company [A]	**P3.61**	P13.43	P8.72
Taxes	**P115,919**	P108,844	P97,188
Property Dividends	**P -**	P42,299	P -
Cash Dividends	**P9,435**	P10,962	P11,498
Cash Dividends Per Common Share [B]	**P 1.40**	P1.40	P1.75
At Year-End			
Working Capital	**P184,824**	P153,460	P104,181
Total Assets	**P1,217,050**	P1,170,087	P1,042,970
Property, Plant and Equipment - net	**P453,961**	P425,832	P371,987
Equity Attributable to Equity Holders of the Parent Company	**P240,462**	P237,707	P252,249
Equity Per Share Attributable to Equity Holders of the Parent Company			
Common	**P67.46**	P66.34	P71.88
Preferred	**P75.00**	P75.00	P76.57
Number of Common Shares Outstanding - Net of Treasury Shares	**2,378,145,134**	2,376,994,783	2,372,653,621
Number of Preferred Shares Outstanding	**1,067,000,000**	1,067,000,000	1,067,000,000
Number of Common Stockholders	**37,194**	37,892	38,999
Number of Employees	**18,538**	18,095	18,275
Financial Statistics			
% Return on Average Equity Attributable to Equity Holders of the Parent Company	**6.15**	15.53	11.08
Current Ratio	**1.52**	1.46	1.39
Debt to Equity Ratio [C]	**2.12**	2.20	2.76
Market Price			
Common Shares - High	**P87.00**	P125.00	P123.00
- Low	**P54.50**	P57.30	P100.00
Series "1" Preferred Shares - High	**P -**	P -	P80.00
- Low	**P -**	P -	P73.00
Series "2" Preferred Shares			
Subseries 2-A - High	**P77.00**	P80.50	P75.20
- Low	**P74.20**	P74.50	P74.50
Subseries 2-B - High	**P79.00**	P82.00	P81.50
- Low	**P74.50**	P74.50	P74.00
Subseries 2-C - High	**P82.50**	P84.00	P77.90
- Low	**P75.00**	P74.50	P74.50

A Based on the weighted average number of shares outstanding during the year
B Based on the number of shares outstanding at the date of each declaration
C Total debt to equity, where total debt represents total liabilities

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

SAN MIGUEL CORPORATION

The management of San Miguel Corporation (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2014, 2013 and 2012, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders of the Company.

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders has expressed its opinion on the fairness of presentation upon completion of such audit.

EDUARDO M. COJUANGCO, JR.
Chairman and Chief Executive Officer

RAMON S. ANG
President and Chief Operating Officer

FERDINAND K. CONSTANTINO
Senior Vice President and Chief Finance Officer / Treasurer

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail ph-inquiry@kpmg.com.ph

Branches • Subic • Cebu • Bacolod • Iloilo

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Corporation

We have audited the accompanying consolidated financial statements of San Miguel Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Corporation and Subsidiaries as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2014, in accordance with Philippine Financial Reporting Standards.

R.G. Manabat & Co.

March 26, 2015
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

(In Millions)

	Note	2014	2013
ASSETS			
Current Assets			
Cash and cash equivalents	*5, 9, 40, 41*	**P258,606**	P191,613
Trade and other receivables - net	*4, 5, 6, 10, 13, 33, 35, 39, 40, 41*	**136,036**	168,141
Inventories	*4, 5, 11*	**85,846**	83,315
Current portion of biological assets - net	*17*	**3,320**	3,427
Prepaid expenses and other current assets	*4, 5, 12, 13, 14, 34, 40, 41*	**46,088**	33,712
		529,896	480,208
Assets held for sale	*8, 13*	**9,339**	8,798
Total Current Assets		**539,235**	489,006
Noncurrent Assets			
Investments and advances - net	*4, 13*	**37,427**	60,654
Available-for-sale financial assets	*4, 14, 40, 41*	**41,459**	42,048
Property, plant and equipment - net	*4, 5, 15, 34*	**453,961**	425,832
Investment property - net	*4, 16*	**3,643**	4,176
Biological assets - net of current portion	*4, 17*	**1,973**	1,911
Goodwill - net	*4, 5, 18, 38*	**41,211**	41,752
Other intangible assets - net	*4, 5, 18, 38*	**45,114**	36,032
Deferred tax assets	*4, 5, 24*	**14,651**	15,608
Other noncurrent assets - net	*4, 5, 19, 33, 35, 39, 40, 41*	**38,376**	53,068
Total Noncurrent Assets		**677,815**	681,081
		P1,217,050	P1,170,087
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*5, 20, 33, 40, 41*	**P180,059**	P143,226
Accounts payable and accrued expenses	*4, 5, 21, 33, 35, 40, 41*	**121,844**	117,257
Finance lease liabilities - current portion	*4, 34, 40, 41*	**16,219**	15,654
Income and other taxes payable	*5*	**13,303**	13,058
Dividends payable	*33, 36*	**3,134**	3,544
Current maturities of long-term debt - net of debt issue costs	*5, 22, 33, 40, 41*	**19,852**	42,807
Total Current Liabilities		**354,411**	335,546
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*5, 22, 33, 40, 41*	**283,136**	264,690
Deferred tax liabilities	*5, 24*	**7,820**	11,061
Finance lease liabilities - net of current portion	*4, 34, 40, 41*	**170,111**	179,394
Other noncurrent liabilities	*4, 5, 23, 33, 34, 35, 40, 41*	**12,091**	13,619
Total Noncurrent Liabilities		**473,158**	468,764
Equity	*22, 25, 36, 37, 39*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		**16,415**	16,414
Capital stock - preferred		**10,187**	10,187
Additional paid-in capital		**178,101**	178,085
Revaluation increment	*5*	**761**	764
Reserve for retirement plan		**(1,115)**	862
Cumulative translation adjustments		**4,251**	4,863
Retained earnings:			
Appropriated		**52,088**	28,230
Unappropriated		**119,655**	138,256
Treasury stock		**(139,881)**	(139,954)
		240,462	237,707
Non-controlling Interests	*2, 5, 6*	**149,019**	128,070
Total Equity		**389,481**	365,777
		P1,217,050	P1,170,087

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(In Millions, Except Per Share Data)

	Note	2014	2013	2012
SALES	*33*	**P782,434**	P748,241	P699,916
COST OF SALES	*26*	**669,641**	631,856	595,581
GROSS PROFIT		**112,793**	116,385	104,335
SELLING AND ADMINISTRATIVE EXPENSES	*27*	**(57,018)**	(60,971)	(52,600)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*20, 22, 30, 34*	**(29,710)**	(30,970)	(29,800)
INTEREST INCOME	*31*	**4,012**	3,539	4,253
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	*13*	**1,255**	(967)	2,638
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*6, 8, 13, 14, 15, 16, 18, 19*	**777**	41,192	4,549
OTHER INCOME (CHARGES) - Net	*14, 32, 40, 41*	**6,307**	(13,780)	12,689
INCOME BEFORE INCOME TAX		**38,416**	54,428	46,064
INCOME TAX EXPENSE	*24, 42*	**10,284**	3,700	8,406
NET INCOME		**P28,132**	P50,728	P37,658
Attributable to:				
Equity holders of the Parent Company		**P14,692**	P38,053	P26,806
Non-controlling interests	*6*	**13,440**	12,675	10,852
		P28,132	P50,728	P37,658
Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*37*			
Basic		**P3.61**	P13.43	P8.72
Diluted		**3.59**	13.36	8.67

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(In Millions)

	Note	2014	2013	2012
NET INCOME		**P28,132**	P50,728	P37,658
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Equity reserve for retirement plan	*35*	**(4,109)**	1,985	(3,345)
Income tax benefit (expense)		**1,233**	(592)	957
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	**175**	(480)	370
		(2,701)	913	(2,018)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
Gain (loss) on exchange differences on translation of foreign operations		**(522)**	219	(1,777)
Net gain (loss) on available-for-sale financial assets	*14*	**(810)**	1,767	(462)
Income tax benefit (expense)		**17**	(10)	1
		(1,315)	1,976	(2,238)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**(4,016)**	2,889	(4,256)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P24,116**	P53,617	P33,402
Attributable to:				
Equity holders of the Parent Company		**P12,103**	P38,923	P25,211
Non-controlling interests	*6*	**12,013**	14,694	8,191
		P24,116	P53,617	P33,402

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(In Millions)

		Equity Attributable to Equity Holders of the Parent Company													
		Capital Stock		Additional Paid-in	Revaluation	Reserve for	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock			Non-controlling	
	Note	Common	Preferred	Capital	Increment	Retirement Plan	Translation Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Total Equity
As of January 1, 2014		**P16,414**	**P10,187**	**P178,085**	**P764**	**P862**	**P4,079**	**P784**	**P28,230**	**P138,256**	**(P67,166)**	**(P72,788)**	**P237,707**	**P128,070**	**P365,777**
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	(8)	-	-	-	-	-	(8)	(514)	(522)
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	-	-	-	-	-	-	182	-	-	-	-	182	(7)	175
Equity reserve for retirement plan	*35*	-	-	-	-	(1,977)	-	-	-	-	-	-	(1,977)	(899)	(2,876)
Net loss on available-for-sale financial assets	*14*	-	-	-	-	-	-	(786)	-	-	-	-	(786)	(7)	(793)
Other comprehensive loss		-	-	-	-	(1,977)	(8)	(604)	-	-	-	-	(2,589)	(1,427)	(4,016)
Net income		-	-	-	-	-	-	-	-	14,692	-	-	14,692	13,440	28,132
Total comprehensive income (loss)		-	-	-	-	(1,977)	(8)	(604)	-	14,692	-	-	12,103	12,013	24,116
Issuance of common shares	*25*	1	-	6	-	-	-	-	-	-	-	-	7	-	7
Conversion of exchangeable bonds from treasury shares	*25*	-	-	10	-	-	-	-	-	-	73	-	83	-	83
Net addition to non-controlling interests and others	*5, 6, 13*	-	-	-	(3)	-	-	-	-	-	-	-	(3)	23,363	23,360
Appropriations - net	*25*	-	-	-	-	-	-	-	23,858	(23,858)	-	-	-	-	-
Cash dividends and distributions:	*36*														
Common		-	-	-	-	-	-	-	-	(3,329)	-	-	(3,329)	(7,810)	(11,139)
Preferred		-	-	-	-	-	-	-	-	(6,106)	-	-	(6,106)	(2,314)	(8,420)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(4,303)	(4,303)
As of December 31, 2014	*25*	**P16,415**	**P10,187**	**P178,101**	**P761**	**(P1,115)**	**P4,071**	**P180**	**P52,088**	**P119,655**	**(P67,093)**	**(P72,788)**	**P240,462**	**P149,019**	**P389,481**

Forward

		Equity Attributable to Equity Holders of the Parent Company													
		Capital Stock		Additional Paid-in	Revaluation	Reserve for	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock			Non-controlling	
	Note	Common	Preferred	Capital	Increment	Retirement Plan	Translation Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Total Equity
As of January 1, 2013		P16,408	P10,187	P177,762	P1,467	(P176)	P5,522	(P491)	P27,219	P154,475	(P67,336)	(P72,788)	P252,249	P96,688	P348,937
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	-	(1,443)	-	-	-	-	-	(1,443)	1,662	219
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	-	-	-	-	-	-	(481)	-	-	-	-	(481)	1	(480)
Equity reserve for retirement plan	*35*	-	-	-	-	1,038	-	-	-	-	-	-	1,038	355	1,393
Net gain on available-for-sale financial assets	*14*	-	-	-	-	-	-	1,756	-	-	-	-	1,756	1	1,757
Other comprehensive income (loss)		-	-	-	-	1,038	(1,443)	1,275	-	-	-	-	870	2,019	2,889
Net income		-	-	-	-	-	-	-	-	38,053	-	-	38,053	12,675	50,728
Total comprehensive income (loss)		-	-	-	-	1,038	(1,443)	1,275	-	38,053	-	-	38,923	14,694	53,617
Issuance of common shares	*25*	6	-	63	-	-	-	-	-	-	-	-	69	-	69
Conversion of exchangeable bonds from treasury shares	*25*	-	-	183	-	-	-	-	-	-	485	-	668	-	668
Cancellation of Employee Stock Purchase Plan reverted to treasury shares	*39*	-	-	-	-	-	-	-	-	-	(315)	-	(315)	-	(315)
Stock options	*39*	-	-	77	-	-	-	-	-	-	-	-	77	-	77
Net addition to non-controlling interests and others	*5, 6, 13*	-	-	-	(703)	-	-	-	-	-	-	-	(703)	27,186	26,483
Appropriations - net	*25*	-	-	-	-	-	-	-	1,011	(1,011)	-	-	-	-	-
Property dividends	*13, 32*	-	-	-	-	-	-	-	-	(42,299)	-	-	(42,299)	-	(42,299)
Cash dividends and distributions:	*36*														
Common		-	-	-	-	-	-	-	-	(3,329)	-	-	(3,329)	(6,671)	(10,000)
Preferred		-	-	-	-	-	-	-	-	(7,633)	-	-	(7,633)	(2,153)	(9,786)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(1,674)	(1,674)
As of December 31, 2013	*25*	P16,414	P10,187	P178,085	P764	P862	P4,079	P784	P28,230	P138,256	(P67,166)	(P72,788)	P237,707	P128,070	P365,777

Forward

		Equity Attributable to Equity Holders of the Parent Company												
		Capital Stock		Additional Paid-in Capital	Revaluation Increment	Reserve for Retirement Plan	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock		Total	Non-controlling Interests	Total Equity
	Note	Common	Preferred				Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated	Common	Preferred			
As of January 1, 2012		P16,397	P4,852	P103,511	P1,443	P1,224	P5,607	(P395)	P24,315	P142,071	(P67,441)	P -	P231,584	P69,348	P300,932
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	(99)	-	-	-	-	-	(99)	(1,678)	(1,777)
Share in other comprehensive income (loss) of associates and joint ventures	*13*	-	-	-	-	-	-	377	-	-	-	-	377	(7)	370
Equity reserve for retirement plan	*35*	-	-	-	-	(1,400)	-	-	-	-	-	-	(1,400)	(988)	(2,388)
Net gain (loss) on available-for-sale financial assets	*14*	-	-	-	-	-	-	(473)	-	-	-	-	(473)	12	(461)
Other comprehensive loss		-	-	-	-	(1,400)	(99)	(96)	-	-	-	-	(1,595)	(2,661)	(4,256)
Net income		-	-	-	-	-	-	-	-	26,806	-	-	26,806	10,852	37,658
Total comprehensive income (loss)		-	-	-	-	(1,400)	(99)	(96)	-	26,806	-	-	25,211	8,191	33,402
Issuance of common shares	*25*	11	-	118	-	-	-	-	-	-	-	-	129	-	129
Issuance of Series "2" preferred shares	*25*	-	5,335	73,903	-	-	-	-	-	-	-	-	79,238	-	79,238
Conversion of exchangeable bonds from treasury shares	*25*	-	-	43	-	-	-	-	-	-	105	-	148	-	148
Redemption of Series "1" preferred shares	*25*	-	-	-	-	-	-	-	-	-	-	(72,788)	(72,788)	-	(72,788)
Stock options	*39*	-	-	187	-	-	-	-	-	-	-	-	187	-	187
Net addition to non-controlling interests and others	*5, 6, 13*	-	-	-	24	-	14	-	-	-	-	-	38	27,326	27,364
Appropriations - net	*25*	-	-	-	-	-	-	-	2,904	(2,904)	-	-	-	-	-
Cash dividends:	*36*														
Common		-	-	-	-	-	-	-	-	(4,148)	-	-	(4,148)	(6,024)	(10,172)
Preferred		-	-	-	-	-	-	-	-	(7,350)	-	-	(7,350)	(2,153)	(9,503)
As of December 31, 2012	*25*	P16,408	P10,187	P177,762	P1,467	(P176)	P5,522	(P491)	P27,219	P154,475	(P67,336)	(P72,788)	P252,249	P96,688	P348,937

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(In Millions)

	Note	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P38,416**	P54,428	P46,064
Adjustments for:				
Depreciation, amortization and others - net	*7, 28*	**25,224**	43,825	5,117
Interest expense and other financing charges	*30*	**29,710**	30,970	29,800
Interest income	*31*	**(4,012)**	(3,539)	(4,253)
Equity in net losses (earnings) of associates and joint ventures	*13*	**(1,255)**	967	(2,638)
Gain on sale of investments and property and equipment	*13, 15*	**(777)**	(41,192)	(4,549)
Operating income before working capital changes		**87,306**	85,459	69,541
Changes in noncash current assets, certain current liabilities and others	*38*	**(24,867)**	(2,465)	(27,625)
Cash generated from operations		**62,439**	82,994	41,916
Interest and other financing charges paid		**(21,735)**	(21,423)	(16,961)
Income taxes paid		**(11,287)**	(11,832)	(9,192)
Net cash flows provided by operating activities		**29,417**	49,739	15,763
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	*38*	**(302)**	(512)	(18,591)
Additions to investments and advances	*13*	**(6,314)**	(26,814)	(23,159)
Additions to property, plant and equipment	*7, 15*	**(38,951)**	(65,865)	(52,917)
Payments of other liabilities	*13*	**-**	-	(2,122)
Decrease (increase) in other noncurrent assets and others		**2,688**	(14,323)	8,545
Proceeds from sale of investments and property and equipment	*6, 8, 13, 14, 15, 16, 18, 19*	**66,913**	72,962	24,568
Interest received		**3,481**	3,476	2,465
Dividends received from associates	*13*	**5**	3,857	4,949
Net cash flows provided by (used in) investing activities		**27,520**	(27,219)	(56,262)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**827,018**	853,769	752,957
Long-term borrowings		**47,591**	146,370	59,671
Payments of:				
Short-term borrowings		**(789,191)**	(865,777)	(699,152)
Long-term borrowings		**(54,309)**	(80,225)	(59,551)
Proceeds from issuance of Series "2" preferred shares	*25*	**-**	-	79,238
Redemption of Series "1" preferred shares	*25*	**-**	-	(72,788)
Payments of finance lease liabilities		**(20,152)**	(19,168)	(17,394)
Cash dividends paid	*36*	**(9,702)**	(10,951)	(10,609)
Proceeds from issuance of capital stock	*25*	**7**	69	129
Cash dividends and distributions paid to non-controlling shareholders		**(14,571)**	(10,454)	(7,736)
Increase (decrease) in non-controlling interests		**205**	(1,616)	(1,138)
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	*6*	**23,008**	30,546	14,216
Net cash flows provided by financing activities		**9,904**	42,563	37,843
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**152**	1,023	(701)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**66,993**	66,106	(3,357)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**191,613**	125,507	128,864
CASH AND CASH EQUIVALENTS AT END OF YEAR	*9*	**P258,606**	P191,613	P125,507

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

San Miguel Corporation (SMC or the Parent Company), a subsidiary of Top Frontier Investment Holdings, Inc. (Top Frontier or the Ultimate Parent Company), was incorporated on August 21, 1913. The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the "Group") and the Group's interests in associates and joint ventures. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on The Philippine Stock Exchange, Inc. (PSE).

The Group is engaged in the production, processing and marketing of beverage, food and packaging products, energy, mining, fuel and oil, infrastructure, telecommunications, airline and management and development of real estate properties.

The registered office address of the Parent Company is No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 26, 2015.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting except for the following items which are measured on an alternative basis at each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Available-for-sale (AFS) financial assets	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership		Country of Incorporation
	2014	2013	
Beverage Business:			
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) and subsidiary, San Miguel Brewing International Ltd. and subsidiaries {including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, PT Delta Djakarta Tbk [a] and subsidiary, San Miguel (Baoding) Brewery Company Limited [a], San Miguel Brewery Vietnam Limited [a], San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited}]	**51.17**	51.17	Philippines
Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc. (EPSBPI), Ginebra San Miguel International, Ltd. (GSMIL), GSM International Holdings Limited (GSMIHL), Global Beverage Holdings Ltd. (GBHL) and Siam Holdings Ltd. (SHL)]	**77.36**	77.36	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2014	2013	
Food Business:			
San Miguel Pure Foods Company Inc. (SMPFC) and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. (SMMI) and subsidiaries {including Golden Avenue Corp. (GAC) and Golden Bay Grain Terminal Corporation (GBGTC)}, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries {including Golden Food & Dairy Creamery Corporation and Sugarland Corporation}, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited (SMPFIL) {including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary and San Miguel Hormel (Vn) Co., Ltd. (SMHVN)}]	**85.37**	85.37	Philippines
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries, SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (CAI)	**65.00**	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited [a], Zhaoqing San Miguel Yamamura Glass Co. Ltd., Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty. Ltd. (SMYA) [a, b] and subsidiaries and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary]	**65.00**	65.00	British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc. (Mincorr)	**100.00**	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	**60.00**	60.00	Philippines
Energy Business:			
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI) and subsidiary, SMC Power Generation Corp. (SPGC), PowerOne Ventures Energy Inc. (PVEI), Albay Power and Energy Corp. (APEC), SMC Consolidated Power Corporation (SCPC) and San Miguel Consolidated Power Corporation (SMCPC)]	**100.00**	100.00	Philippines
Fuel and Oil Business:			
SEA Refinery Corporation and subsidiary, Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation (Ovincor) [a], Petron Singapore Trading Pte., Ltd. (PSTPL), New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Global Limited (PGL), Petron Oil & Gas International Sdn. Bhd. including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Berhad (PMRMB) (collectively Petron Malaysia) [a], Petron Finance (Labuan) Limited, Limay Energen Corporation and Petrochemical Asia (HK) Limited (PAHL) and subsidiaries]	**100.00**	100.00	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. (SMHC) and subsidiaries [including Rapid Thoroughfares Inc. (Rapid) and subsidiary, Private Infra Dev Corporation (PIDC) [a, c], Trans Aire Development Holdings Corp. (TADHC) [a], Optimal Infrastructure Development, Inc. (Optimal), Vertex Tollways Devt. Inc. (Vertex) [d], Universal LRT Corporation (BVI) Limited (ULC) [a], Terramino Holdings, Inc. (THI) and subsidiary [a], Alloy Manila Toll Expressways Inc. (AMTEX) [a] and Sleep International (Netherlands) Cooperatief U.A. (Sleep) and Wiselink Investment Holdings, Inc. (Wiselink) {collectively own Cypress Tree Capital Investments, Inc. (Cypress) including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (STC) (collectively the Cypress Group)}[a, e]]	**100.00**	100.00	Philippines
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI) [a], Perchpoint Holdings Corp. (PHC) [a], Power Smart Capital Ltd. (PSCL) [a], Bell Telecommunication Philippines, Inc. (BellTel) [a] and A.G.N. Philippines, Inc. (AGNP)]	**100.00**	100.00	Philippines
Eastern Telecommunications Philippines, Inc. (ETPI) and subsidiary, Telecommunications Technologies Phils., Inc. (TTPI)	**77.70**	77.70	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) and subsidiaries [including Excel Unified Land Resources Corporation, First HQ Ayala Business Centers, Inc., SMPI Makati Flagship Realty Corp. (SMPI Flagship), SMC Originals, Inc. and Integrated Geosolutions, Inc.] [a]	**99.68**	99.68	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2014	2013	
Others:			
San Miguel Foods and Beverage International Limited (SMFBIL) and subsidiaries [including PT San Miguel Indonesia Foods & Beverages (PTSMIFB) [(a)] and San Miguel (Guangdong) Foods & Beverages Co. Ltd. (SMGFB) [(a)]]	**100.00**	100.00	BVI
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries [including SL Harbour Bulk Terminal Corporation, MG8 Terminal Inc. (MG8), SMC Cebu Shipyard Land, Inc. (SMCCSLI) and Mactan Shipyard Corporation (MSC)]	**70.00**	70.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	**58.33**	58.33	Philippines
SMC Stock Transfer Service Corporation	**100.00**	100.00	Philippines
ArchEn Technologies Inc.	**100.00**	100.00	Philippines
SMITS, Inc. and subsidiaries [(a)]	**100.00**	100.00	Philippines
Challenger Aero Air Corp.	**100.00**	100.00	Philippines
San Miguel Equity Securities Inc. (SMESI)	**100.00**	100.00	Philippines
San Miguel Equity Investments Inc. (SMEII) and subsidiaries [including South Western Cement Corporation (SWCC) [(f)]]	**100.00**	100.00	Philippines

(a) The financial statements of these subsidiaries were audited by other auditors.
(b) Formerly San Miguel Yamamura Knox Pty. Ltd. (SMYK) (Note 6).
(c) Consolidated to SMHC effective December 27, 2013 (Note 5).
(d) Incorporated on May 31, 2013 (Note 6).
(e) Consolidated to SMHC effective June 28, 2013 (Note 5).
(f) Consolidated to SMEII effective October 15, 2014 (Note 5).

A subsidiary is an entity controlled by the Group. The Group controls an entity if, and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in SMB, GSMI, SMPFC, SMYPC, SMYPIL, SMYAC, Petron, TADHC, ULC, ETPI, SMPI, AIBC, SMCSLC, PIDC, Sleep, Cypress, Wiselink and AMTEX in 2014 and 2013 (Note 6).

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards and Interpretation Adopted in 2014

The Group has adopted the following PFRS effective 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)*. These narrow-scope amendments to PAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The adoption of these amendments did not have an effect on the consolidated financial statements.

- Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32, Financial Instruments)*. 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 these amendments did not have an effect on the consolidated financial statements.

- Measurement of Short-term Receivables and Payables *(Amendment to PFRS 13, Fair Value Measurement)*. The amendment clarifies that, in issuing PFRS 13 and making consequential amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9, *Financial Instruments*, the intention is not to prevent entities from measuring short-term receivables and payables with no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The adoption of this amendment did not have an effect on the consolidated financial statements.

- Novation of Derivatives and Continuation of Hedge Accounting *(Amendments to PAS 39)*. The amendments 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 adoption of these amendments did not have an effect on the consolidated financial statements.

- 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 this interpretation did not have an effect on the consolidated financial statements.

Additional disclosures required by the amended standards and interpretation were included in the consolidated financial statements, where applicable.

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretation are effective for annual periods beginning after January 1, 2014 and have not been applied in preparing these consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new and amended standards and interpretation on the respective effective dates:

- *Annual Improvements to PFRS Cycles 2010-2012* and *2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:

  - Meaning of 'Vesting Condition' *(Amendment to PFRS 2, Share-based Payment)*. PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition. The amendment is required to be applied prospectively for annual periods beginning on or after July 1, 2014.

  - Scope Exclusion for the Formation of Joint Arrangements *(Amendment to PFRS 3, Business Combinations)*. PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements* - i.e., including joint operations - in the financial statements of the joint arrangements themselves. The amendment is required to be applied prospectively for annual periods beginning on or after July 1, 2014.

  - Disclosures on the Aggregation of Operating Segments *(Amendments to PFRS 8, Operating Segments)*. PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The amendments are required to be applied prospectively for annual periods beginning on or after July 1, 2014.

  - Scope of Portfolio Exception *(Amendment to PFRS 13)*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39 and PFRS 9, regardless of whether they meet the definition of financial assets or

financial liabilities under PAS 32 - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The amendment is required to be applied prospectively for annual periods beginning on or after July 1, 2014.

- Definition of 'Related Party' *(Amendments to PAS 24, Related Parties)*. The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans. The amendments are required to be applied prospectively for annual periods beginning on or after July 1, 2014.

- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40)*. PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3. The amendment is required to be applied prospectively for annual periods beginning on or after July 1, 2014.

- Accounting for Acquisitions of Interests in Joint Operations *(Amendments to PFRS 11)*. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets)*. The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.

- Classification and Measurement of Contingent Consideration *(Amendments to PFRS 3)*. The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, rather than to any other PFRS. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss. Consequential amendments are also made to PAS 39 and PFRS 9 to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37 is amended to exclude provisions related to contingent consideration. The amendments are required to be applied prospectively for annual periods beginning on or after July 1, 2014.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates)*. The amendments address an inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture between the requirements in PFRS 10 and PAS 28. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which Changes in Method for Disposal *(Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations)* is applicable to the Group. PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed. The amendments to PFRS 5 are applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* to changes in methods of disposal that occur on or after January 1, 2016.

- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

- 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 sale 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.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or 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.

'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

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

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 values in accordance with the documented risk management or investment strategy of the Group. 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 (Notes 12 and 41).

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 (Notes 9, 10, 12, 19 and 41).

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 (Notes 12, 14 and 41).

The Group has no financial assets classified as HTM investments as of December 31, 2014 and 2013.

Financial Liabilities
The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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 (Notes 21 and 41).

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 effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

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 (Notes 20, 21, 22, 23, 34 and 41).

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 a fair value hedge as of December 31, 2014 and 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 December 31, 2014 and 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 December 31, 2014 and 2013.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

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.

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 the 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 at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

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.

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.

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 assets and settle the liabilities 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.

Inventories
Finished goods, goods in process, materials and supplies and raw land inventory and real estate projects are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Finished goods and goods in process	- at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods include unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Petroleum products (except lubes and greases, waxes and solvents), crude oil, and other products	- at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the first-in, first-out method.
Lubes and greases, waxes and solvents	- at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the moving-average method.
Real estate projects	- at cost, which includes acquisition costs of property and other costs and expenses incurred to develop the property; costs are determined using the specific identification of individual costs.
Raw land inventory	- at cost, which includes acquisition costs of raw land intended for sale or development and other costs and expenses incurred to effect the transfer of title of the property; costs are determined using the specific identification of individual costs.
Materials, supplies and others	- at cost, using the moving-average method.
Coal	- at cost, using the first-in, first-out method.

Finished Goods. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Goods in Process. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Petroleum Products, Crude Oil, and Tires, Batteries and Accessories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

Materials and Supplies, including Coal. Net realizable value is the current replacement cost.

Containers (i.e., Returnable Bottles and Shells). These are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented as "Deferred containers" under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

Real Estate Projects. Net realizable value is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Raw Land Inventory. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Biological Assets and Agricultural Produce
The Group's biological assets include breeding stocks, growing hogs, cattle and poultry livestock and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock, and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets have no active market and no active market for similar assets prior to point of harvest are available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.
The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group, in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using the straight-line method over the following estimated productive lives of breeding stocks:

	Amortization Period
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Business Combination
Business combinations are accounted for using the acquisition method as at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the

excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

  o represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  o is not larger than an operating segment determined in accordance with PFRS 8.

  Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in profit or loss.

Transactions under Common Control
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

Non-controlling Interests
The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Equity in net earnings (losses) of associates and joint ventures" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income (loss) of associates and joint ventures" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture. Such impairment loss is recognized as part of "Equity in net earnings (losses) of associates and joint ventures" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in shares of stock of an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	10 - 43
Refinery and plant equipment	5 - 33
Service stations and other equipment	1 1/2 - 33
Equipment, furniture and fixtures	2 - 40
Leasehold improvements	5 - 50
	or term of the lease, whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement and disposal.

Investment Property
Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Machinery and equipment	3 - 40

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Toll road concession rights	25 - 35 or unit of usage
Leasehold and land use rights	20 - 50 or term of the lease, whichever is shorter
Mineral rights and evaluation assets	19 - 30
Airport concession right	25
Power concession right	25
Computer software and licenses	2 - 8

The Group assessed the useful lives of licenses and trademarks and brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (a) infrastructure that the entities in the Group construct or acquire from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entities in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11 and PAS 18 for the services it performs. If an entity performs more than one service under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method measured by reference to the proportion of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (a) to maintain the infrastructure to a specified level of serviceability, or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, *Borrowing Costs,* borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Intangible Asset - Airport Concession Right. The Group's airport concession right pertains to the right granted by the Republic of the Philippines (ROP) to TADHC: (a) to operate the Caticlan Airport (the Airport Project or the Boracay Airport); (b) to design and finance the Airport Project; and (c) to operate and maintain the Boracay Airport during the concession period. This also includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the ROP over the concession period of 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by the Group as the project progresses (Note 4).

The airport concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The airport concession right is amortized using the straight-line method over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

The airport concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the airport concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in profit or loss.

Intangible Assets - Toll Road Concession Rights. The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following:

- Stage 1 and Stage 2 Phase I of the Southern Tagalog Arterial Road (STAR or the STAR Project);
- Tarlac-Pangasinan-La Union Toll Expressway (TPLEX or the TPLEX Project); and
- Ninoy Aquino International Airport Expressway (NAIA Expressway Project).

In exchange for the fulfillment of the Group's obligations under the Concession Agreement, the Group is given the right to operate the toll road facilities over the concession period. Toll road concession rights are recognized initially at the fair value of the construction services. Following initial recognition, the toll road concession rights are carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures or replacement of part of it are normally charged to profit or loss as these are incurred to maintain the expected future economic benefits embodied in the toll road concession rights. Expenditures that will contribute to the increase in revenue from toll operations are recognized as an intangible asset.

The toll road concession rights are amortized using the straight-line method over the term of the concession agreement. The toll road concession rights are assessed for impairment whenever there is an indication that the toll road concession rights may be impaired.

The amortization period and method are reviewed at least at each reporting date. Changes in the terms of the concession agreement or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

The toll road concession rights will be derecognized upon turnover to the ROP. There will be no gain or loss upon derecognition of the toll road concession rights as these are expected to be fully amortized upon turnover to the ROP.

Intangible Asset - Power Concession Right. The Group's power concession right pertains to the right granted by the ROP to SMC Global to operate the Albay Electric Cooperative (ALECO). The power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The power concession right is amortized using the straight-line method over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in profit or loss.

Intangible Asset - Mineral Rights and Evaluation Assets. The Group's mineral rights and evaluation assets have finite lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

Amortization of mineral rights and evaluation assets is recognized in profit or loss on a straight-line basis over the estimated useful lives. The estimated useful lives of mineral rights and evaluation assets pertain to the period from commercial operations to the end of the operating contract. Amortization method and useful lives are reviewed at each reporting date and adjusted as appropriate.

Gain or loss from derecognition of mineral rights and evaluation assets is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in profit or loss.

Deferred Exploration and Development Costs
Deferred exploration and development costs comprise expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mineral rights and evaluation assets, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets
The carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cylinder Deposits
The liquefied petroleum gas cylinders remain the property of the Group and are loaned to dealers upon payment by the latter of an amount equivalent to 100% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in profit or loss.

Fair Value Measurements
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 best economic 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 the purpose of fair value disclosures, 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.

Provisions
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Share Capital
Common Shares
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares
Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Parent Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Treasury Shares
Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from Sale of Goods
Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery, and the amount of revenue can be measured reliably.

Revenue from Power Generation and Trading
Revenue from power generation and trading is recognized in the period when actual capacity is generated and/or transmitted to the customers, net of related discounts.

Revenue from Toll Operations
Revenue from toll operations is recognized upon the sale of toll tickets. Toll fees received in advance, through the E-pass account, is recognized as income upon the holders' availment of the toll road services.

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue from Airport Operations
Landing, take-off and parking fees are recognized upon rendering of the service which is the period from landing to take-off of aircrafts.

Terminal fees are recognized upon receipt of fees charged to passengers on departure.

Construction revenue related to the Group's recognition of intangible asset on the right to operate the Boracay Airport, which is the consideration receivable from the ROP relative to the Airport Project, is earned and recognized as the Airport Project progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate the Boracay Airport.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the Airport Project up to the end of the reporting period as a percentage of total estimated cost of the Airport Project.

Revenue from Agricultural Produce
Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

Revenue from Shipping and Port Operations
Revenue from terminal fees is recognized based on the quantity of items declared by vessels entering the port multiplied by a predetermined rate.

Revenue from freight services is recognized upon completion of every voyage contracted with customers during the period multiplied by a predetermined rate.

Revenue from port services is recognized based on the actual quantity of items handled during the period multiplied by a predetermined rate.

Revenue from Sale of Real Estate
Revenue from sale of real estate projects is recognized under the full accrual method. Under this method, revenue and cost is recognized in full when 10% or more of the contract price is received and development of the real estate property (i.e., lot or house and lot) has reached 100% completion at which point the buyer may already use the property.

Payments received from buyers which do not meet the revenue recognition criteria are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Revenue and cost relative to forfeited or back-out sales are reversed in the current year as they occur.

Revenue from Sale of Raw Land
Revenue from sale of undeveloped land or raw land is recognized under the full accrual method. Under this method, the Group recognizes in full the revenue and cost from sale of undeveloped land when 10% or more of the contract price is received.

Payments received from buyers which do not meet the revenue recognition criteria are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Revenue from Telecommunications Services
Revenue from telecommunications services is recognized when earned and includes the value of all services provided, net of the share of other telecommunications administrations, if any, under existing correspondence and interconnection agreements.

Inbound revenue represents settlements from telecommunications providers who sent traffic to the Group's network. Inbound revenue is based on agreed payment accounting rates with other carriers. Interconnection charges are based on the rates agreed with other carriers.

Both the inbound revenue and interconnection charges are accrued based on actual volume of traffic. Adjustments are made on the recorded amount for discrepancies between the traffic volume based on the Group's records and the records of the other carriers. These adjustments are recognized as they are determined and agreed with the other carriers.

Installation fees received from landline subscribers are also credited to operating revenues. The related labor costs on installation are recognized in profit or loss.

Revenue from Insurance
Service fee on insurance is recognized when insurance assistance is provided to the insured as evidenced by a service invoice.

Commission income on insurance and reinsurance is recognized when the insured is billed and upon issuance of reinsurance binder or statement of accounts to reinsurers, respectively. The amount of income is adjusted when there are cancellations or additions in insurance coverage.

Others
Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend income is recognized when the Group's right as a shareholder to receive the payment is established.

Rent income from investment property is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Revenue from customer loyalty programme is allocated between the customer loyalty programme and the other component of the sale. The amount allocated to the customer loyalty programme is deferred, and is recognized as revenue when the Group has fulfilled its obligations to supply the discounted products under the terms of the programme or when it is no longer probable that the points under the programme will be redeemed.

Gain or loss on sale of investments in shares of stock is recognized if the Group disposes of its investment in shares of stock of a subsidiary, associate and joint venture, AFS financial assets and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Cost and Expense Recognition
Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

Share-based Payment Transactions
The cost of Long-term Incentive Plan for Stock Options (LTIP) is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of the Parent Company. The cost of Employee Stock Purchase Plan (ESPP) is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease
Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in profit or loss.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease
Group as Lessee. Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Research and Development Costs
Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.
The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits
Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs
The Parent Company and majority of its subsidiaries have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees. The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

Defined benefit costs comprise the following:
- Service costs
- Net interest on the defined benefit retirement liability or asset
- Remeasurements of defined benefit retirement liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary using the projected unit credit method.

Net interest on the defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the defined benefit retirement liability or asset. Net interest on the defined benefit retirement liability or asset is recognized as expense or income in profit or loss.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency
Foreign Currency Translations
Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of AFS financial assets, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity.

Taxes
Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Income and other taxes payable" accounts in the consolidated statements of financial position.

Non-cash Distribution to Equity Holders of the Parent Company, Assets Held for Sale and Discontinued Operations
The Group classifies noncurrent assets, or disposal groups comprising assets and liabilities as held for sale or distribution, if their carrying amounts will be recovered primarily through sale or distribution rather than through continuing use. The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell or distribute, except for some assets which are covered by other standards. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale or distribution is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Actions required to complete the sale or distribution should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn.

The Group recognizes a liability to make non-cash distributions to equity holders of the Parent Company when the distribution is authorized and no longer at the discretion of the Parent Company. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurements recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets to be distributed is recognized in profit or loss.

Intangible assets, property, plant and equipment and investment property once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the consolidated statements of financial position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as "Profit or loss after tax from discontinued operations" in the consolidated statements of income.

Related Parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common 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.

Operating Segments
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 7 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

SMYA also entered into leases of equipment needed for business operations.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants and equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, equipment and finance lease liabilities at the present value of the agreed monthly payments (Notes 15 and 34).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P186,330 and P195,048 as of December 31, 2014 and 2013, respectively (Note 34).

The combined carrying amounts of power plants and equipment under finance lease amounted to P188,155 and P193,356 as of December 31, 2014 and 2013, respectively (Notes 15 and 34).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,672, P1,428 and P1,139 in 2014, 2013 and 2012, respectively (Note 34).

Rent expense recognized in the consolidated statements of income amounted to P3,649, P3,315 and P3,019 in 2014, 2013 and 2012, respectively (Notes 26, 27 and 34).

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with the ROP, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the interpretation since it specifically indicated that the ROP will regulate what services the Group must provide and at what prices those will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the Concession Agreement, will be turned over to the ROP (Note 34).

Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the Group's obligations under the Concession Agreement, is an intangible asset in the form of a right (license) to charge fees to users. Judgment was further exercised by management in determining the components of cost of acquiring the right. Further reference to the terms of the Concession Agreement (Note 34) was made to determine such costs.

a. *Airport Concession Right.* The Group's airport concession right consists of: (i) total Airport Project cost; (ii) present value of total franchise fees over 25 years and its subsequent amortization; and (iii) present value of infrastructure retirement obligation (IRO).

   (i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost to cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to the percentage-of-completion approach.

   (ii) The present value of the IRO will be recognized as part of intangible assets upon completion of the Airport Project because only at that time will significant maintenance of the Boracay Airport also commence. It will be amortized simultaneously with the cost related to the Airport Project. However, since the Group had already started the maintenance of the rehabilitated Boracay Airport, the entire present value of the annual estimated costs had already been recognized in CIP - airport concession arrangements, portion of which representing the actual amount incurred in the current year for the maintenance of the Boracay Airport, had been recognized as part of the cost of intangible assets, subjected to amortization.

   (iii) The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and the corresponding obligation has likewise been recognized.

b. *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects: (i) STAR Project; (ii) TPLEX Project; and (iii) NAIA Expressway Project.

   Pursuant to the Concession Agreement, any stage or phase or ancillary facilities thereof, of a fixed and permanent nature, shall be owned by the ROP.

c. *Power Concession Right.* The Group's power concession right represents the right to operate ALECO; i.e., license to charge fees to users. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Recognition of Profit Margin on the Airport and Toll Road Concession Arrangements. The Group has not recognized any profit margin on the construction of the airport and toll road projects as it believes that the fair value of the intangible asset reasonably approximates the cost. The Group also believes that the profit margin of its contractors on the rehabilitation of the existing airport and its subsequent upgrade is enough to cover any difference between the fair value and the carrying amount of the intangible asset.

Recognition of Revenue from Sale of Real Estate and Raw Land. The Group recognizes its revenue from sale of real estate projects and raw land in full when 10% or more of the total contract price is received and when development of the real estate property is 100% completed. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the marketing or administrative functions. Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portion can be sold separately (or leased out separately under finance lease), the Group accounts for this portion separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

In 2014, the Group through SMPI and SMPI Flagship, opted to operate the Makati Diamond Residences (the "MDR Project") as a first class, high-rise serviced apartment open to the general public. Accordingly, the balance of construction in progress that pertains to the MDR Project, model unit and land where the property is located was reclassified from "Investment property" account to "Property, plant and equipment" account in the 2014 consolidated statement of financial position (Notes 15 and 16).

Classification of Redeemable Preferred Shares. Based on the features of TADHC's preferred shares, particularly mandatory redemption, management determined that the shares are, in substance, a financial liability. Accordingly, it was classified as part of "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 23).

Consolidation of Entities in which the Group has Less than Majority of the Voting Rights. The Group considers that it controls PAHL and PIDC even though it owns less than 50% of these entities and less than 50% of the voting rights. The Group had determined that it is the largest stockholder of PAHL and PIDC with 45.85% and 45% equity interests, respectively. In addition, the Group also determined, by virtue of the extent of the Group's participation in the BOD and management of PAHL and PIDC, that it: (i) has power over these entities; (ii) is exposed and has rights to variable returns from its involvement with these entities; and (iii) has the ability to use its power over these entities to affect the amount of returns (Note 5).

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements as joint ventures (Note 13).

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 44).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 11, 13, 16, 18, 35 and 41.

Allowance for Impairment Losses on Trade and Other Receivables, and Noncurrent Receivables and Deposits. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current and noncurrent assets.

The allowance for impairment losses on trade and other receivables, and noncurrent receivables and deposits, included as part of "Other noncurrent assets" account in the consolidated statements of financial position, amounted to P8,511 and P8,708 as of December 31, 2014 and 2013, respectively.

The carrying amount of trade and other receivables, and noncurrent receivables and deposits amounted to P151,003 and P193,438 as of December 31, 2014 and 2013, respectively (Notes 10 and 19).

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P2,310 and P2,136 as of December 31, 2014 and 2013, respectively.

The carrying amount of inventories amounted to P85,846 and P83,315 as of December 31, 2014 and 2013, respectively (Note 11).

Impairment of AFS Financial Assets. AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

The allowance for impairment losses on AFS financial assets amounted to P78 as of December 31, 2013. No impairment loss was recognized in 2014.

The carrying amount of AFS financial assets amounted to P41,890 and P42,406 as of December 31, 2014 and 2013, respectively (Note 14).

Estimated Useful Lives of Property, Plant and Equipment, Investment Property and Deferred Containers. The Group estimates the useful lives of property, plant and equipment, investment property and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, investment property and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, investment property and deferred containers would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P464,188 and P437,279 as of December 31, 2014 and 2013, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P170,184 and P156,966 as of December 31, 2014 and 2013, respectively (Note 15).

Investment property, net of accumulated depreciation and amortization amounted to P3,651 and P4,184 as of December 31, 2014 and 2013, respectively. Accumulated depreciation and amortization of investment property amounted to P780 and P752 as of December 31, 2014 and 2013, respectively (Note 16).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P8,278 and P7,950 as of December 31, 2014 and 2013, respectively. Accumulated amortization of deferred containers amounted to P10,850 and P9,607 as of December 31, 2014 and 2013, respectively (Note 19).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P37,862 and P28,784 as of December 31, 2014 and 2013, respectively (Note 18).

Estimated Useful Lives of Intangible Assets - Airport, Toll Road and Power Concession Rights. The Group estimates the useful lives of airport, toll road and power concession rights based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as of the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The combined carrying amounts of airport, toll road and power concession rights amounted to P34,061 and P13,946 as of December 31, 2014 and 2013, respectively (Note 18).

Impairment of Goodwill, Licenses and Trademarks and Brand Names with Indefinite Useful Lives. The Group determines whether goodwill, licenses and trademarks and brand names are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses and trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses and trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P41,211 and P41,752 as of December 31, 2014 and 2013, respectively (Note 18).

The combined carrying amounts of licenses and trademarks and brand names amounted to P7,252 and P7,248 as of December 31, 2014 and 2013 (Note 18).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date. The Group's acquisitions have resulted in goodwill.

The Group is currently completing the purchase price allocation exercise on acquisitions made during the year. The identifiable assets and liabilities at fair value are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

The carrying amount of goodwill arising from business combinations amounted to P7 and P1,572 in 2014 and 2013, respectively (Notes 5, 18 and 38).

Estimating Mineral Reserves and Resources. Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holders and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revisions once additional information becomes available.

Pursuant to the Philippine Mineral Reporting Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves which was adopted by the PSE, SEC and Department of Environment and Natural Resources Administrative Order No. 2010-09 (Providing for the Classification and Reporting Standards of Exploration Results, Mineral Resources and Ore Reserves), all mineral resources and mineral/ore reserves report is prepared and signed by a person accredited by the relevant professional organization as a Competent Person.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities are all in the exploratory stages as of December 31, 2014 and 2013. All related costs and expenses from exploration are currently deferred as mine exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2014 and 2013.

Deferred exploration and development costs included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P673 and P526 as of December 31, 2014 and 2013, respectively (Notes 19 and 34).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P14,651 and P15,608 as of December 31, 2014 and 2013, respectively (Note 24).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment and investment property amounted to P10,235 and P11,455 as of December 31, 2014 and 2013, respectively (Notes 15 and 16).

The combined carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets amounted to P544,602 and P530,899 as of December 31, 2014 and 2013, respectively (Notes 13, 15, 16, 17, 18 and 19).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 35 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit retirement obligation.

The present value of defined benefit retirement obligation amounted to P26,925 and P26,013 as of December 31, 2014 and 2013, respectively (Note 35).

Asset Retirement Obligation. The Group has ARO arising from leased service stations, depots, blending plant and franchised store and certain locators. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 5.40% to 9.81% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group also has ARO arising from its refinery. Such obligation, with circumstances during the year making it possible to be quantified, was recognized in 2014. Thus, the ARO included under "Other noncurrent liabilities" account in the consolidated statements of financial position amounting to P1,659 as of December 31, 2014 covers the refinery, leased service stations, depots, blending plant, and franchised store while ARO amounting to P1,004 as of December 31, 2013 covers only the Group's leased service stations, depots, blending plant and franchised store (Note 23).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangement. Portion of the amount recognized as airport concession right as of December 31, 2014 and 2013 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in CIP - airport concession arrangements until the completion of the Airport Project.

The present values of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate at 9% which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate.

A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect in profit or loss.

The present value of the annual franchise fees payable to the ROP over 25 years is discounted using the 9% internal borrowing rate, included as part of "Airport concession right" under "Other intangible assets" account amounted to P86 and P92 as of December 31, 2014 and 2013, respectively (Note 18).

The cost of infrastructure maintenance and restoration represents the present value of TADHC's IRO recognized and is presented under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P21 and P44 in 2014 and P16 and P44 in 2013, respectively (Notes 21 and 23).

Percentage-of-Completion - Airport and Toll Road Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total airport and toll road project cost. The Group reviews and revises, when necessary, the estimate of airport and toll road project cost as it progresses, to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period (Notes 12 and 26).

Accrual for Repairs and Maintenance - Toll Road Concession Arrangements. The Group recognizes accruals for repairs and maintenance based on estimates of periodic costs, generally estimated to be every five to eight years or the expected period to restore the toll road facilities to a level of serviceability and to maintain its good condition before the turnover to the ROP. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money.

The accrual for repairs and maintenance amounting to P24 and P19 as of December 31, 2014 and 2013 is included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position, respectively (Note 23).

5. Business Combinations

Fuel and Oil

- PAHL

The Parent Company through Petron has 45.85% equity interest in PAHL, a company incorporated in Hong Kong.

PAHL indirectly owns, among other assets, a 160,000-metric ton polypropylene production plant in Mariveles, Bataan.

In accordance with PFRS 10, management assessed that the Group controls PAHL on a de facto basis. As a result, the Group applied acquisition accounting on its investment in PAHL in 2013 (Note 4).

Petron has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets and liabilities at the business combination date:

	2013
Assets	
Cash and cash equivalents	P432
Trade and other receivables	637
Inventories	1,048
Prepaid expenses and other current assets	272
Property, plant and equipment - net	2,863
Deferred tax assets	70
Other noncurrent assets - net	104
Liabilities	
Loans payable	(1,792)
Accounts payable and accrued expenses	(2,393)
Other noncurrent liabilities	(2)
Total Identifiable Net Assets at Fair Value	P1,239

The fair value of the trade and other receivables amounts to P637. None of the receivables has been impaired and it is expected that the full amount can be collected.

Goodwill was recognized as a result of the business combination as follows:

	Note	2013
Carrying amount of investment at January 1, 2013		P866
Non-controlling interest measured at proportionate interest in identifiable net assets		671
Total identifiable net assets at fair value		(1,239)
Goodwill	*18, 38*	P298

Infrastructure

- PIDC

The Parent Company through Rapid, a wholly-owned subsidiary of SMHC, has a 45% equity interest in PIDC upon approval by the Toll Regulatory Board (TRB) of the issuance of stock certificates to Rapid in 2013.

PIDC is a company primarily engaged in the business of construction and development of various infrastructure projects such as roads, highways, toll roads, freeways, skyways, flyovers, viaducts and interchanges. PIDC holds the toll road concession right representing the contract to finance, design, construct, operate and maintain the TPLEX Project.

With the increase in ownership interest in PIDC from 35% to 45% in 2013, Rapid determined that it controls PIDC effective December 27, 2013 (Note 4).

SMHC has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	Note	2013
Assets		
Cash and cash equivalents		P845
Trade and other receivables		1,601
Prepaid expenses and other current assets		1,051
Property, plant and equipment - net		64
Other intangible assets - toll road concession rights	*18*	10,652
Other noncurrent assets - net		43
Liabilities		
Accounts payable and accrued expenses		(1,306)
Long-term debt - net of debt issue costs	*22*	(6,941)
Total Identifiable Net Assets at Fair Value		P6,009

The fair value of the trade and other receivables amounts to P1,601. None of the receivables has been impaired and it is expected that the full amount can be collected.

Total identifiable net assets at fair value is equal to the consideration transferred and non-controlling interest measured at proportionate interest in identifiable net assets.

- Sleep and Wiselink

In 2013, the Parent Company through SMHC, acquired 58.31% membership interest in Sleep and 50% of the outstanding capital stock of Wiselink, for a total consideration of P1,098.

Sleep, a cooperative incorporated under the laws of the Netherlands, and Wiselink, a holding company, owns 40% and 60% equity interest in Cypress, respectively.

Cypress owns 100% equity interest in SIDC and 60% equity interest in STC, with the remaining 40% indirectly owned by Cypress through SIDC (collectively the "Cypress Group"). The Cypress Group holds the toll road concession right of the STAR Project representing the following: (1) Stage 1 - operation and maintenance of the 22.16-kilometer (km) toll road from Sto. Tomas to Lipa City; and (2) Stage 2 - financing, design, construction, operation and maintenance of the 19.74-km toll road from Lipa City to Batangas City.

With the acquisition of Sleep and Wiselink, SMHC effectively owns 53.32% of the Cypress Group. As such, SMHC obtained control and consolidated the Cypress Group effective June 28, 2013.

SMHC has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	Note	2013
Assets		
Cash and cash equivalents		P182
Trade and other receivables - net		149
Prepaid expenses and other current assets		15
Property, plant and equipment - net		16
Other intangible assets - toll road concession rights	*18*	2,074
Deferred tax assets		43
Liabilities		
Accounts payable and accrued expenses		(1,378)
Income and other taxes payable		(2)
Long-term debt - net of debt issue costs		(1,128)
Deferred tax liabilities		(29)
Other noncurrent liabilities		(49)
Total Identifiable Net Liabilities at Fair Value		(P107)

The fair value of the trade and other receivables amounts to P149. The gross amount of the receivables is P164, of which P15 is expected to be uncollectible as at the acquisition date (Note 10).

Goodwill was recognized as a result of the acquisition as follows:

	Note	2013
Total consideration transferred		P1,098
Non-controlling interest measured at proportionate interest in identifiable net assets		69
Total identifiable net liabilities at fair value		107
Goodwill	*18, 38*	P1,274

Goodwill arising from the acquisition is attributable to the benefit of expected synergies with the Group's infrastructure business, revenue growth, and future development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Telecommunications

- Somete Logistics & Development Corporation (SLDC) and Dominer Pointe Inc. (DPI)

  In May and June 2014, BellTel acquired 100% of the outstanding and issued shares of stock of SLDC and DPI, respectively, from various individuals for a total consideration of P1,264.

  SLDC and DPI are engaged in the business of conceptualization, construction, installation, establishment, operation, leasing, sale and maintenance, and rendering of specialty technical services for tower infrastructures to be utilized by telecommunication companies.

  The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2014
Assets	
Cash and cash equivalents	**P1,017**
Trade and other receivables	**81**
Prepaid expenses and other current assets	**135**
Property, plant and equipment - net	**1,072**
Deferred tax assets	**8**
Other noncurrent assets - net	**1**
Liabilities	
Accounts payable and accrued expenses	**(1,055)**
Income and other taxes payable	**(2)**
Total Identifiable Net Assets at Fair Value	**P1,257**

  The fair value of the trade and other receivables amounts to P81. None of the receivables has been impaired and it is expected that the full amount can be collected.

  Goodwill was recognized as a result of the acquisition as follows:

	Note	2014
Total cash consideration transferred		**P1,264**
Total identifiable net asset at fair value		**1,257**
Goodwill	*18, 38*	**P7**

Others

- SWCC

  On October 15, 2014, the Parent Company through SMEII, as buyer, and Clariden Holdings, Inc. (Clariden), as seller, executed the following: (i) the Deed of Absolute Sale of Shares covering 100% of the outstanding and issued shares of stock of SWCC for a total consideration of P61; and (ii) the Deed of Assignment of Receivables covering the receivables of Clariden in SWCC amounting to P209.

  SWCC is primarily engaged in the business of manufacturing, importing, exporting, buying, selling or otherwise dealing in, at wholesale, of cements and other goods of similar nature, and any and all equipment, materials, supplies, used or employed in or related to the manufacture of such finished goods.

  The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	Note	**2014**
Assets		
Cash		**P1**
Land		**104**
Deferred tax assets		**1**
Other intangible assets - mineral rights and evaluation assets	*18*	**165**
Other noncurrent asset		**1**
Liabilities		
Accounts payable and accrued expenses		**(211)**
Total Identifiable Net Assets at Fair Value		**P61**

  Total identifiable net assets at fair value is equal to the consideration of the purchase made by SMEII.

  On December 5, 2014, the Parent Company through SMEII subscribed to additional 110,000 common shares of SWCC for P16. The said subscription was fully paid, and the subject shares of stock were issued to SMEII on February 24, 2015.

As discussed in Note 4, the Group is currently completing the purchase price allocation exercise on acquisitions made during the year. The identifiable assets and liabilities are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

6. Investments in Shares of Stock of Subsidiaries

The following are the developments relating to the Parent Company's investments in shares of stock of subsidiaries:

Fuel and Oil

- Petron

  a) Issuance of Undated Subordinated Capital Securities

  On February 6 and March 11, 2013, the Parent Company through Petron, issued undated subordinated capital securities (the "Securities") at an issue price of 100% and 104.25% amounting to US$500 and US$250, respectively. The securities were listed on the Hong Kong Stock Exchange.

  The holders of the Securities are conferred a right to receive distribution, on a semi-annual basis from their issue date, at the rate of 7.5% per annum, subject to a step-up rate. Petron has a right to defer this distribution under certain conditions.

  The Securities have no fixed redemption date and are redeemable in whole, but not in part, at principal amounts together with any accrued, unpaid or deferred distributions, at the option of Petron on or after August 6, 2018 or on any distribution payment date thereafter or upon the occurrence of certain other events.

  The proceeds of the issuance were used by Petron for capital and other expenditures in respect of the Refinery Master Plan Phase 2 (RMP-2) Project and for general corporate purposes. On July 1, 2014, the RMP-2 Project was completed and turned over to Petron.

  b) Issuance of Series 2 Preferred Shares

  On November 3, 2014, the Parent Company through Petron, issued 10,000,000 Series 2 Preferred Shares, inclusive of the 3,000,000 shares issued upon the exercise of the oversubscription option, with a par value of P1.00 per share and an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two subseries ("Series 2A Preferred Shares" and "Series 2B Preferred Shares") and are peso-denominated, cumulative, non-voting, non-participating and non-convertible.

  Petron has the redemption option starting on the 5th anniversary from the listing date for the Series 2A Preferred Shares and starting on the 7th anniversary from listing date for the Series 2B Preferred Shares. Dividend rates are 6.3000% and 6.8583% per annum for Series 2A Preferred Shares and Series 2B Preferred Shares, respectively, and are payable on February 3, May 3, August 3 and November 3 of each year, as and if declared by the BOD of Petron.

All shares rank equally with regard to Petron's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On November 3, 2014, the Series 2 Preferred Shares were listed and traded on the Main Board of the PSE.

c) Redemption of the 2010 Preferred Shares of Petron

On November 7, 2014, the BOD of Petron approved the redemption of the 2010 Preferred Shares, consisting of 100,000,000 shares, at a redemption price of P100.00 per share, in accordance with the terms and conditions of the issuance.

The redemption price of the 2010 Preferred Shares and all accumulated unpaid cash dividends were paid on March 5, 2015, to the stockholders of record as of February 18, 2015.

- PGL

On March 13, 2014, the Parent Company through Petron, acquired 12,685,350 common shares of PGL for US$1.00 per share or for a total consideration of US$13. On September 26, 2014, Petron acquired an additional 11,251,662 common shares of PGL for US$1.00 per share or for a total consideration of US$11.

Petron holds a total of 73,559,188 common shares representing 100% of the capital stock of PGL as of December 31, 2014.

Infrastructure

- SMHC

On February 11, 2013, the SEC approved the application of SMHC for the Amendment of Articles of Incorporation for the increase in authorized capital stock from P1,000 divided into 1,000,000 common shares to P5,000 divided into 5,000,000 common shares, both with a par value of P1,000.00 per share. The increase in authorized capital stock was approved by the BOD and stockholders of SMHC on April 13, 2012.

On May 29, 2013, the BOD and stockholders of SMHC approved to further increase its authorized capital stock from P5,000 divided into 5,000,000 common shares to P35,000 divided into 35,000,000 common shares, both with a par value of P1,000.00 per share. Of the total increase in authorized capital stock, the Parent Company subscribed to 10,500,000 common shares for a total subscription price of P15,750 and paid P15,422. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 27, 2013 and was approved on January 21, 2014.

On various dates in 2014, the Parent Company paid the outstanding subscription payable amounting to P328 and entered into Subscription Agreements with SMHC for the subscription of additional 9,500,000 common shares for a total subscription price of P14,250 or P1,500.00 per share of which P9,874 was paid.

a) THI and Citra Metro Manila Tollways Corporation (CMMTC)

On September 27, 2013, the Parent Company through THI, a wholly-owned subsidiary of SMHC, entered into a Deed of Sale of Shares with Atlantic Aurum Investments Philippines Corporation (AAIPC), a wholly-owned subsidiary of Atlantic Aurum Investments B.V. (AAIBV), for the sale of 25,409,482 common shares of CMMTC, representing THI's 37.33% ownership interest for a total consideration of P13,759. As a result of the sale, CMMTC ceased to be a subsidiary of the Group as of date of the sale. The Group derecognized the assets (including goodwill) and liabilities, and the carrying amount of non-controlling interest.

The Group recognized a loss amounting to P654, included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

On December 17, 2014, the BOD and stockholders of THI resolved and approved the increase in authorized capital stock from P3 divided into 30,000 common shares to P850 divided into 8,501,550 common shares, both with a par value of P100.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was approved by the SEC on February 18, 2015.

b) Vertex and Optimal

On May 6, 2013, the Department of Public Works and Highways (DPWH) awarded Optimal, a wholly-owned subsidiary of SMHC, the financing, design, construction and operation of the NAIA Expressway Project through the Notice of Award issued on April 19, 2013. The NAIA Expressway Project links the three NAIA terminals to the South Metro Manila Skyway (Skyway), the Manila-Cavite Toll Expressway and the Entertainment City of the Philippine Amusement and Gaming Corporation (PAGCOR). The concession period is 30 years and the project cost is approximately P23,805.

In accordance with the provisions of the Notice of Award requiring the incorporation of a special-purpose company, SMHC incorporated Vertex, a wholly-owned subsidiary, on May 31, 2013. Vertex's primary purpose of business is to engage in and carry on the construction, development and contracting business involving tollways, its facilities, interchanges, roads, highways, bridges, tunnels, airports, airfield, railroads, infrastructure works and other related public works, including operation and maintenance thereof. Optimal nominated Vertex as the concessionaire of the NAIA Expressway Project.

On June 5, 2013, Vertex paid an upfront fee of P11,000 to the DPWH for the NAIA Expressway Project, presented as part of "Other intangible assets" account in the consolidated statements of financial position (Note 18). The concession agreement was signed on July 8, 2013.

On October 1, 2013, the BOD and stockholders of Vertex resolved and approved the increase in authorized capital stock from P100 divided into 100,000,000 common shares to P16,500 divided into 16,500,000,000 common shares, both with a par value of P1.00 per share. Of the total increase, SMHC subscribed to 8,600,000,000 common shares for a total subscription price of P12,900 or P1.50 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on November 27, 2013 and was approved on December 13, 2013.

On September 1, 2014, SMHC entered into Subscription Agreements with the following: (a) Vertex - for the subscription of 1,335,268,279 common shares for a total subscription price of P2,003 or P1.50 per share and initially paid P733; and (b) Optimal - for the subscription of 2,000 common shares out of the unissued capital stock for a total subscription price of P2 or P1,000.00 per share.

c) Rapid

On September 24, 2013, the BOD and stockholders of Rapid resolved and approved the increase in authorized capital stock from P400 divided into 4,000,000 common shares to P1,800 divided into 18,000,000 common shares, both with a par value of P100.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 27, 2013 and was approved on January 30, 2014.

On various dates in 2014, SMHC entered into Subscription Agreements with Rapid for the subscription of 14,000,000 common shares for a total subscription price of P2,100 or P150.00 per share.

On various dates in 2014, SMHC has made additional deposits for future stock subscription amounting to P579.

On December 19, 2014, the BOD and stockholders of Rapid resolved and approved the increase in authorized capital stock from P1,800 divided into 18,000,000 common shares to P3,050 divided into 30,500,000 common shares, both with a par value of P100.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2014. The approval is still pending approval as of March 26, 2015.

d) TADHC

On February 25, 2013, the SEC approved the application for the Amendment of Articles of Incorporation for the increase in authorized capital stock of TADHC from P810 divided into 7,900,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share, to P1,520 divided into 15,000,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share. The increase in authorized capital stock was approved by the BOD and stockholders of TADHC on September 7, 2012.

On December 9, 2013, SMHC subscribed to additional 2,610,580 common shares at P100.00 per share. SMHC paid a total of P315 consisting of the total subscription price and the unpaid subscription amounting to P54.

On March 5, 2014, SMHC executed a Subscription Agreement with TADHC for the subscription of additional 2,714,420 common shares at P100.00 per share.

On November 7, 2014, the BOD and stockholders of TADHC resolved and approved the increase in authorized capital stock from P1,520 divided into 15,000,000 common shares and 200,000 preferred shares to P1,720 divided into 17,000,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share. SMHC subscribed to 1,965,580 common shares for a total subscription price of P197. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2014. The application is still pending approval as of March 26, 2015.

Food

- SMPFC

a) Secondary Offering of SMPFC Common Shares

On November 23, 2012, the Parent Company completed the secondary offering of a portion of its common shares of stock in SMPFC following the crossing of such shares at the PSE on November 21, 2012. The offer consisted of 25,000,000 common shares, inclusive of an over-allotment of 2,500,000 common shares at a price of P240.00 per share. The completion of the secondary offering resulted in the increase of SMPFC's public ownership from 0.08% to 15.08% of its outstanding common shares.

The Group recognized a gain amounting to P2,419 included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

b) Felicisimo Martinez & Co. Inc.'s (FMC) *La Pacita*

In November 2014, the Parent Company through SMPFC entered into an Intellectual Property Rights Transfer Agreement with FMC for the transfer to SMPFC of FMC's trademarks, formulations, recipes and other intangible properties (IP Rights) relating to FMC's *La Pacita* biscuit and flour-based snack business. SMPFC made a refundable deposit on the same date, included as part of "Non-trade" under "Trade and other receivables" account in the 2014 consolidated statement of financial position (Notes 10 and 43).

Beverage

- SMB

  a) Delisting of SMB Shares

  When the amended rules on minimum public ownership of PSE took effect on January 1, 2012 and the SEC denied all requests made (including the request of SMB) for the extension of the grace period for listed companies to comply with the minimum public ownership requirement, the BOD of SMB approved the voluntary delisting of SMB's common shares from the PSE on February 15, 2013. SMB undertook a tender offer to buy back all of the common shares held by the public (other than those held by its major stockholders and directors) to comply with the PSE requirements on voluntary delisting.

  A total of 51,425,799 SMB common shares at an offer price of P20.00 per share, were tendered and accepted by SMB for payment, equivalent to 0.3337% of the total issued and outstanding shares of SMB, and were accordingly recorded as SMB's treasury shares. The common shares of SMB were delisted from the PSE effective May 15, 2013.

  b) Amendment of Article II (Primary Purpose) of the Amended Articles of Incorporation

  On December 5, 2014, the BOD of SMB approved the amendment of Article II (Primary Purpose) of the Amended Articles of Incorporation of SMB to include the non-alcoholic beverage business (Proposed Amendment). SMB likewise obtained the affirmative vote of stockholders owning or representing at least two-thirds of the outstanding capital stock of SMB to the Proposed Amendment, through their respective written assent received by SMB as of February 20, 2015. The SEC approved the Proposed Amendment on March 11, 2015.

  c) Acquisition of Non-Alcoholic Beverage (NAB) Assets of GSMI

  On December 5, 2014, the BOD of SMB authorized the acquisition by SMB of the NAB assets of GSMI, comprised of the machinery and equipment as of December 31, 2014, and finished goods inventory and other inventories consisting of containers (pallets, crates, bottles and shells), packaging materials and raw materials as of March 31, 2015, used in the NAB business of GSMI.

- BPI

  On April 7, 2014, the BOD and stockholders of BPI resolved and approved the increase in authorized capital stock from P800 to P1,600 consisting of 3,200,000 common shares with a par value of P350.00 per share and 4,800,000 preferred shares with a par value of P100.00 per share. SMB subscribed and paid for an additional 1,546,000 common shares amounting to P541 while San Miguel Brewery Inc. Retirement Plan subscribed and paid for an additional 2,319,000 preferred shares amounting to P232. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was approved by the SEC on November 18, 2014.

- GSMI

  On December 5, 2014, the BOD of GSMI authorized the sale and transfer to SMB of certain non-alcoholic beverage assets consisting of machinery and equipment as of December 31, 2014, and inventories as of March 31, 2015.

Energy

- SMC Global

  a) Issuance of Undated Subordinated Capital Securities

  On May 7, 2014, the Parent Company through SMC Global, issued and listed on the Singapore Stock Exchange (SGX-ST), US$300 undated subordinated capital securities (the "Securities") at an issue price of 100%.

  The holders of the Securities are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 7.50% per annum, subject to the step-up rate. SMC Global has a right to defer this distribution under certain conditions.

  The Securities have no fixed redemption date and are redeemable, in whole, but not in part, at the option of SMC Global on November 7, 2019 or any distribution payment date thereafter or upon the occurrence of certain other events.

  The proceeds were used by SMC Global to finance investments in power-related assets and other general corporate purposes.

  b) SPI

  On September 23, 2013, the Parent Company through SPI, a wholly-owned subsidiary of SMC Global, acquired from Petron the 2 x 35 Megawatt (MW) Co-Generation Solid Fuel-Fired Power Plant (Power Plant Phase 1) and all other pertinent equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant (Power Plant Phase 2) in Limay, Bataan (Note 22).

Packaging

- CAI

  On January 15, 2013, the Parent Company through SMYPC, sold the 35% equity interest in CAI to Can Pack S.A., a foreign corporation duly organized and existing under the laws of Poland, for P420. CAI is 65% owned by SMYPC as of December 31, 2014 and 2013.

  CAI is a company primarily engaged in trade or operation as a manufacturer, buyer, importer, exporter, contractor, dealer, broker, commission merchant, agent or representative of all kinds of packaging products, and to render services to its clients and customers as may be necessary for the assembling, packaging and/or repacking of their respective products, particularly aluminum cans and ends which started commercial operations in 2013.

- SMYA

  On October 1, 2013, the BOD of SMYPIL approved the acquisition of the remaining 35% shares in SMYK from James Huntly Knox and SMYK employees holding Management Incentive Shares for US$14.

  With the additional investment, SMYPIL has obtained 100% ownership in SMYK. On October 25, 2013, the Australian Securities and Investments Commission approved the change in its name to San Miguel Yamamura Australasia Pty. Ltd.

- Mincorr

  On November 20, 2013, the SEC approved the application of Mincorr for the Amendment of Articles of Incorporation for the increase in authorized capital stock from P500 divided into 450,000 common shares and 50,000 preferred shares, both with a par value of P1,000.00 per share to P650 divided into 600,000 common shares and 50,000 preferred shares, both with a par value of P1,000.00 per share.

Real Estate

- SMPI

  On February 5, 2013, the BOD of SMPI approved the filing of the petition for voluntary delisting and conduct of a tender for the acquisition of common shares held by the minority shareholders of SMPI in response to a letter received from the PSE imposing trading suspension due to failure to comply with the minimum public ownership requirement. On March 4, 2013, SMPI filed the petition for voluntary delisting with May 6, 2013 as the effective date of delisting.

  On April 25, 2013, the PSE approved the voluntary delisting of SMPI's common shares.

  Out of the 1,072 shares tendered by the minority shareholders, only 309 shares were transferred and recorded as treasury shares for an equivalent transaction value of P41.

- SMPI Flagship

  On October 20, 2014, the BOD of SMPI Flagship approved the change of SMPI Flagship's primary purpose. SMPI Flagship is now allowed to engage in the development, management and administration of condominiums, hotels, condominium hotels, service apartments, residential or buildings, and other horizontal or vertical developments. The change was approved by the SEC on November 3, 2014.

  SMPI Flagship's project is the MDR Project, a first class, high-rise serviced apartment located in Makati City, which is currently under construction. The MDR Project is expected to be completed and start commercial operations by 2015.

Telecommunications

- Vega

  On January 24, 2014, the SEC approved the application for the Amendment of Articles of Incorporation for the increase in authorized capital stock of Vega from P1 divided into 10,000 common shares to P655, divided into 6,550,000 common shares, both with a par value of P100.00 per share. Of the said increase, the Parent Company subscribed to 4,350,000 common shares for a total subscription price of P653 or P150.00 per share.

  On December 1, 2014, the BOD and stockholders of Vega resolved and approved to further increase its authorized capital stock from P655 divided into 6,550,000 common shares with a par value of P100.00 per share to P25,000 consisting of 30,000,000 common shares with a par value of P100.00 per share and 22,000,000 preferred shares with a par value of P1,000.00 per share. The Parent Company, in a Deed of Subscription executed on the same date, subscribed to 9,147,500 common shares and 13,500,000 preferred shares for a total subscription price of P21,394. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2014. The application is still pending approval as of March 26, 2015.

- BellTel

  The Parent Company through Vega, has 100% equity interest in TCCI, PHC and PSCL, which collectively owns 100% of BellTel as of December 31, 2013.

  BellTel is a grantee of a franchise to install, operate and maintain local exchange networks and Wireless Local Loop (WLL) in several areas including special economic zones, inter-exchange networks, nationwide VSAT network, international gateway facilities, and cellular mobile telecommunications network (Note 34).

  In December 2014, Vega subscribed to 8,408,000 common shares from the unissued common shares of BellTel for P3,100 equivalent to 45.68% direct ownership interest.

  As a result of the subscription, Vega owns 100% equity interest in BellTel, consisting of 45.68% direct ownership interest and 54.32% indirect ownership interest through TCCI, PHC and PSCL.

Mining

- Clariden

On August 12, 2013, the BOD of the Parent Company authorized the sale of 100% of the outstanding and issued shares of stock of Clariden and all of the rights and interests therein, followed by the execution of the Share Purchase Agreement (the Agreement) between the Parent Company and Top Frontier on August 15, 2013.

On August 30, 2013 (the Closing Date), the Parent Company and Top Frontier executed the following: (i) the Deed of Absolute Sale of Shares covering 100% of the Clariden shares for a total consideration of P2,135; and (ii) the Deed of Assignment of Receivables covering the Parent Company's receivables in Clariden and its subsidiaries amounting to P725. On September 6, 2013, the Parent Company and Top Frontier, with the conformity of Clariden, executed the Deed of Assignment of Subscription Rights for P604.

Pursuant to the Agreement, the consideration for the sale of the Clariden shares and the assignment of subscription rights are collectible as follows: (i) P427 on September 9, 2013; and (ii) the remaining balance of P2,312 is collectible in two parts: (a) P1,099, inclusive of 5.75% interest per annum, is collectible at the end of the 5th year from Closing Date; and (b) P1,213, inclusive of 6.00% interest per annum, is to be collected at the end of the 7th year from Closing Date.

The consideration for the assignment of receivables is collectible in five equal installments beginning from the 1st anniversary of commercial operations of the Nonoc Project, a project primarily focused in extracting nickel deposits in Nonoc Island, Surigao City, Surigao del Norte. These amounts are subject to 5.75% interest per annum and shall accrue upon commencement of commercial operations.

The remaining balance of the consideration amounting to P3,037 is presented as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account in the consolidated statements of financial position (Note 19).

As a result of the sale, Clariden ceased to be a subsidiary of the Group and accordingly derecognized the assets and liabilities, and the carrying amount of non-controlling interests. The Group recognized a gain amounting to P866, included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

The details of the Group's material non-controlling interests are as follows:

	December 31, 2014			December 31, 2013		
	Petron	**SMB**	**SMPFC**	Petron	SMB	SMPFC
Percentage of non-controlling interests	**31.74%**	**48.83%**	**14.63%**	31.74%	48.83%	14.63%
Carrying amount of non-controlling interests	**P81,621**	**P18,729**	**P19,397**	P75,359	P15,824	P20,591
Net income attributable to non-controlling interests	**P3,947**	**P7,018**	**P1,553**	P3,303	P6,365	P1,611
Other comprehensive income (loss) attributable to non-controlling interests	**(P1,556)**	**P201**	**(P6)**	P1,603	P157	(P28)
Dividends paid to non-controlling interests	**P6,027**	**P4,570**	**P2,858**	P3,784	P4,622	P1,917

The following are the audited condensed financial information of investments in subsidiaries with material non-controlling interest:

	December 31, 2014			December 31, 2013		
	Petron	**SMB**	**SMPFC**	Petron	SMB	SMPFC
Current assets	**P219,029**	**P20,413**	**P48,192**	P183,960	P24,742	P53,493
Noncurrent assets	**172,295**	**68,135**	**18,463**	173,498	68,168	19,250
Current liabilities	**(202,587)**	**(9,105)**	**(29,782)**	(176,570)	(33,116)	(24,972)
Noncurrent liabilities	**(75,045)**	**(41,189)**	**(910)**	(69,000)	(26,759)	(5,411)
Net assets	**P113,692**	**P38,254**	**P35,963**	P111,888	P33,035	P42,360
Sales	**P482,535**	**P79,005**	**P102,999**	P463,638	P75,053	P99,773
Net income	**P3,009**	**P13,515**	**P3,843**	P5,092	P12,521	P4,084
Other comprehensive income (loss)	**(4,758)**	**443**	**(40)**	2,835	(39)	(146)
Total comprehensive income (loss)	**(P1,749)**	**P13,958**	**P3,803**	P7,927	P12,482	P3,938
Cash flows provided by (used in) operating activities	**(P576)**	**P15,457**	**P5,786**	P33,752	P13,670	P6,996
Cash flows provided by (used in) investing activities	**(3,820)**	**(3,501)**	**11,488**	(43,329)	(3,839)	(2,939)
Cash flows provided by (used in) financing activities	**44,488**	**(16,290)**	**(10,089)**	32,539	(17,918)	(1,311)
Effects of exchange rate changes on cash and cash equivalents	**112**	**22**	**-**	471	326	4
Net increase (decrease) in cash and cash equivalents	**P40,204**	**(P4,312)**	**P7,185**	P23,433	(P7,761)	P2,750

7. 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 non-alcoholic 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 (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

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

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

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

Segment Assets and Liabilities
Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

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.

Major Customer
The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

For the Years Ended December 31, 2014, 2013 and 2012

	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Sales																														
External sales	**P94,230**	P88,936	P89,448	**P102,976**	P99,754	P95,759	**P19,365**	P18,559	P17,566	**P77,586**	P72,212	P73,910	**P475,425**	P459,102	P420,269	**P9,657**	P6,473	P134	**P1,515**	P1,347	P1,225	**P1,680**	P1,858	P1,605	**P -**	P -	P -	**P782,434**	P748,241	P699,916
Inter-segment sales	**286**	516	155	**24**	19	28	**4,861**	6,628	6,894	**6,707**	1,832	746	**7,110**	4,536	4,526	**-**	-	-	**-**	-	-	**5,491**	4,067	4,233	**(24,479)**	(17,598)	(16,582)	**-**	-	-
Total sales	**P94,516**	P89,452	P89,603	**P103,000**	P99,773	P95,787	**P24,226**	P25,187	P24,460	**P84,293**	P74,044	P74,656	**P482,535**	P463,638	P424,795	**P9,657**	P6,473	P134	**P1,515**	P1,347	P1,225	**P7,171**	P5,925	P5,838	**(P24,479)**	(P17,598)	(P16,582)	**P782,434**	P748,241	P699,916
Result																														
Segment result	**P22,437**	P20,476	P21,345	**P6,463**	P5,510	P5,177	**P2,078**	P1,589	P2,284	**P25,899**	P20,541	P17,123	**P2,211**	P10,580	P8,682	**(P373)**	P3,868	(P77)	**(P463)**	(P239)	(P442)	**(P2,956)**	(P7,213)	(P2,593)	**P479**	P302	P236	**P55,775**	P55,414	P51,735
Interest expense and other financing charges																												**(29,710)**	(30,970)	(29,800)
Interest income																												**4,012**	3,539	4,253
Equity in net earnings (losses) of associates and joint ventures																												**1,255**	(967)	2,638
Gain on sale of investments and property and equipment																												**777**	41,192	4,549
Other income (charges) - net																												**6,307**	(13,780)	12,689
Income tax expense																												**(10,284)**	(3,700)	(8,406)
Net income																												**P28,132**	P50,728	P37,658
Attributable to:																														
Equity holders of the Parent Company																												**P14,692**	P38,053	P26,806
Non-controlling interests																												**13,440**	12,675	10,852
Net income																												**P28,132**	P50,728	P37,658

December 31, 2014, 2013 and 2012

	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Other Information																														
Segment assets	**P72,346**	P78,069	P86,251	**P62,494**	P68,398	P50,954	**P31,959**	P33,132	P34,094	**P300,520**	P292,344	P255,516	**P380,435**	P346,524	P267,869	**P60,734**	P41,186	P30,210	**P14,144**	P11,432	P9,977	**P250,806**	P258,556	P205,840	**(P100,985)**	(P128,866)	(P130,803)	**P1,072,453**	P1,000,775	P809,908
Investments in and advances to associates and joint ventures	**659**	720	789	**-**	-	6,317	**3,782**	3,636	1,500	**10,612**	6,012	13,421	**1,169**	892	1,641	**10,769**	7,465	5,949	**8,873**	7,515	8,154	**1,563**	34,414	124,643	**-**	-	-	**37,427**	60,654	162,414
Goodwill and trademarks and brand names																												**41,454**	41,995	48,961
Other assets																												**41,726**	42,257	2,006
Assets held for sale																												**9,339**	8,798	9,373
Deferred tax assets																												**14,651**	15,608	10,308
Consolidated Total Assets																												**P1,217,050**	P1,170,087	P1,042,970
Segment liabilities	**P21,243**	P23,574	P22,735	**P16,220**	P15,854	P14,617	**P5,318**	P6,383	P5,851	**P23,519**	P16,941	P13,360	**P65,165**	P72,522	P42,919	**P16,811**	P31,141	P18,631	**P25,361**	P21,062	P19,529	**P75,555**	P76,109	P102,871	**(P117,636)**	(P135,125)	(P146,494)	**P131,556**	P128,461	P94,019
Loans payable																												**180,059**	143,226	151,097
Long-term debt																												**302,988**	307,497	224,045
Finance lease liabilities																												**186,330**	195,048	195,153
Income and other taxes payable																												**13,303**	13,058	11,123
Dividends payable and others																												**5,513**	5,959	5,621
Deferred tax liabilities																												**7,820**	11,061	12,975
Consolidated Total Liabilities																												**P827,569**	P804,310	P694,033

For the Years Ended December 31, 2014, 2013 and 2012

	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Capital expenditures	**P1,138**	P1,278	P1,098	**P647**	P1,978	P1,957	**P2,092**	P2,383	P1,161	**P17,447**	P4,123	P4,772	**P13,038**	P51,412	P41,848	**P34**	P69	P7	**P1,599**	P1,231	P394	**P2,956**	P3,391	P1,680	**P -**	P -	P -	**P38,951**	P65,865	P52,917
Depreciation and amortization of property, plant and equipment (Note 28)	**2,153**	2,295	2,312	**1,057**	932	884	**1,329**	1,415	1,575	**6,171**	5,404	5,194	**5,494**	5,253	4,690	**54**	28	12	**378**	428	537	**1,132**	1,012	790	**-**	-	-	**17,768**	16,767	15,994
Noncash items other than depreciation and amortization of property, plant and equipment	**1,185**	2,106	1,219	**2,089**	1,959	1,193	**438**	1,057	257	**973**	9,724	(8,386)	**738**	3,558	(748)	**366**	1,303	8	**35**	15	26	**570**	5,701	(3,387)	**-**	-	-	**6,394**	25,423	(9,818)
Loss (reversal) on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**-**	1,539	(1,427)	**245**	-	19	**19**	-	348	**-**	-	-	**798**	-	-	**-**	-	-	**-**	-	-	**-**	96	1	**-**	-	-	**1,062**	1,635	(1,059)

8. Assets Held for Sale

a) Indophil Resources NL (Indophil)

On December 18, 2014, the shareholders of Indophil qualified to vote, approved the scheme proposed by Alsons Prime Investments Corporations (APIC) to purchase all the shares of current shareholders of Indophil, inclusive of the shares held by Coastal View Exploration Corporation (Coastal View) for Australian dollar (A$) 30 cents per share.

In accordance with the order of the Supreme Court of Victoria and as approved by the shareholders of Indophil, the effective date of transfer of shares from current shareholders to APIC is on January 23, 2015.

Accordingly, the carrying amount of the investment in Indophil, amounting to P527 as of December 31, 2014 was reclassified to "Assets held for sale" account in the 2014 consolidated statement of financial position (Note 14).

On January 30, 2015, Coastal View received the payment on the sale of investment in shares of stock of Indophil amounting to A$14.

b) Bank of Commerce (BOC)

In 2014, SMPI is still committed to sell its equity ownership interest in BOC. SMC, on behalf of SMPI, engaged the services of an international bank to handle the process of negotiating the sale of its equity ownership interest in BOC. Accordingly, the carrying amount of the investment of P8,785 representing 44,817,164 common shares in BOC is still maintained as part of "Assets held for sale" account in the 2014 consolidated statement of financial position.

Management determined that the carrying amount of investment in BOC as of December 31, 2014 is fully recoverable, thus, no impairment loss was recognized in 2014.

c) Prestigio Realty, Inc. (Prestigio)

In 2013, SMPI entered into a Memorandum of Agreement (MOA) for the sale of Prestigio shares to a certain individual. Management believes that the sale will push through, thus reclassifying the investment amounting to P13 as part of "Assets held for sale" account in the 2013 consolidated statement of financial position.

d) Equipment of CAI

The Group has various equipment for disposal as a result of CAI's modernization project. In September 2014, a foreign buyer committed to purchase these assets. Accordingly, the carrying amount of the equipment to be sold amounting to P14 was reclassified as "Assets held for sale" account in the 2014 consolidated statement of financial position.

e) Petron Mega Plaza

Petron had properties consisting of office units located at Petron Mega Plaza with a floor area of 19,686 square meters covering the 28th - 31st floors and 33rd - 44th floors and 196 parking spaces amounting to P588. During the latter part of 2012, a prospective buyer tendered an offer to purchase the said properties. The management of Petron made a counter offer in December 2012 effectively rendering the Petron Mega Plaza office units and parking spaces as assets held for sale as of December 31, 2012.

The sale was consummated during the 2nd quarter of 2013. The Group recognized a gain amounting to P580 included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

f) San Miguel (Thailand) Co. Ltd. (SMTCL)

On December 27, 2011, the Parent Company through SMFBIL, signed a Share Sale and Purchase Agreement to sell its outstanding shares in SMTCL to Pepsi Thai Trading Co., for a purchase price of US$35. The sale was completed on February 15, 2012. The Group recognized a gain of P63, included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

g) PT San Miguel Yamamura Utama Indoplas (SMYUI)

In 2011, the Parent Company through SMYPIL and Nihon Yamamura Glass Co. Ltd. (NYG), entered into a non-binding Memorandum of Understanding (MOU), wherein NYG offered to buy 51% equity interest in SMYUI. On December 2, 2011, the BOD of SMYPIL unanimously accepted NYG's offer and approved the share sale transaction as contemplated in the MOU. The disposal was completed in January 2012. The Group recognized a gain of P22, included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2014**	2013
Cash in banks and on hand		**P32,363**	P38,202
Short-term investments		**226,243**	153,411
	40, 41	**P258,606**	P191,613

Cash in banks earns interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

10. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2014**	2013
Trade		**P57,872**	P66,056
Non-trade	*6, 13, 39*	**64,383**	91,697
Amounts owed by related parties	*33, 35*	**22,034**	18,838
		144,289	176,591
Less allowance for impairment losses	*4*	**8,253**	8,450
	4, 40, 41	**P136,036**	P168,141

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade receivables include interest receivable, claims receivable and other receivables.

The movements in the allowance for impairment losses are as follows:

	Note	**2014**	2013
Balance at beginning of year		**P8,450**	P6,387
Charges for the year	*27*	**848**	3,372
Amounts written off		**(348)**	(197)
Acquisition of subsidiaries	*5*	**-**	15
Translation adjustments and others		**(697)**	(1,127)
Balance at end of year		**P8,253**	P8,450

The aging of receivables is as follows:

December 31, 2014	**Trade**	**Non-trade**	**Amounts owed by related parties**	**Total**
Current	**P46,001**	**P30,251**	**P22,034**	**P98,286**
Past due:				
1 - 30 days	**5,441**	**3,642**	**-**	**9,083**
31 - 60 days	**1,671**	**281**	**-**	**1,952**
61 - 90 days	**604**	**181**	**-**	**785**
Over 90 days	**4,155**	**30,028**	**-**	**34,183**
	P57,872	**P64,383**	**P22,034**	**P144,289**

December 31, 2013	Trade	Non-trade	Amounts owed by related parties	Total
Current	P52,684	P58,049	P18,813	P129,546
Past due:				
1 - 30 days	5,905	1,424	6	7,335
31 - 60 days	3,337	4,515	-	7,852
61 - 90 days	1,385	3,528	-	4,913
Over 90 days	2,745	24,181	19	26,945
	P66,056	P91,697	P18,838	P176,591

Various collaterals for trade receivables such as bank guarantees, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 40).

11. Inventories

Inventories consist of:

	2014	2013
Finished goods and goods in process (including petroleum products)	**P60,850**	P60,232
Materials and supplies (including coal)	**19,529**	17,815
Raw land inventory and real estate projects	**4,255**	3,924
Containers	**1,212**	1,344
	P85,846	P83,315

The cost of finished goods and goods in process amounted to P61,750 and P61,068 as of December 31, 2014 and 2013, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have increased by P618 as of December 31, 2014 and decreased by P1,398 as of December 31, 2013.

The cost of materials and supplies amounted to P20,372 and P18,636 as of December 31, 2014 and 2013, respectively.

Containers at cost amounted to P1,779 and P1,823 as of December 31, 2014 and 2013, respectively.

The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P553 and P746 as of December 31, 2014 and 2013, respectively, with corresponding costs at point of harvest amounting to P509 and P653, respectively. Net unrealized gain on fair valuation of agricultural produce amounted to P44 and P93 as of December 31, 2014 and 2013, respectively.

The fair values of marketable hogs and cattle, and grown broilers, which comprise the Group's agricultural produce, have been categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as of December 31, 2014 and 2013, based on management's assessment.

The fair value of raw land inventory amounted to P7,318 and P7,890 as of December 31, 2014 and 2013, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory is its current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property, size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2014**	2013
Prepaid taxes and licenses		**P34,547**	P27,438
Advances to contractors and suppliers		**3,673**	3
Restricted cash - current	*40, 41*	**1,604**	385
Option deposit	*13, 40, 41*	**1,118**	1,110
CIP - airport concession arrangements	*4*	**857**	819
Prepaid insurance		**453**	361
AFS financial assets - current portion	*4, 14, 40, 41*	**431**	358
Derivative assets	*40, 41*	**360**	681
Prepaid rent		**318**	273
Financial assets at FVPL	*40, 41*	**136**	117
Others		**2,591**	2,167
		P46,088	P33,712

The CIP - airport concession arrangement of the Group includes the accumulated costs incurred on the design of the upgrade component of the Boracay Airport Project. It also includes the cost of a parcel of land earmarked for such upgrade, capitalized borrowing cost and the present value of the obligation to maintain and restore the Boracay Airport prior to its transfer to the ROP at the end of the concession period. The cost included in CIP that relates to the upgrade component of the Project was recognized as construction cost upon commencement of the upgrade (Note 4). The interest expense related to the accretion of the IRO amounting to P4 in 2014, 2013 and 2012, was recognized as part of "Other financing charges" under "Interest expense and other financing charges" account in the consolidated statements of income (Note 30).

"Others" consist of advances to officers and employees and prepayments for various operating expenses.

The methods and assumptions used to estimate the fair values of restricted cash, option deposit, financial assets at FVPL, derivative assets and AFS financial assets are discussed in Note 41.

13. Investments and Advances

Investments and advances consist of:

	Note	**2014**	2013
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		**P43,144**	P157,789
Additions		**3,578**	9,613
Disposal		**(21,506)**	(43,296)
Reclassification to investments in shares of stock of subsidiaries	*5*	**-**	(2,813)
Declaration of property dividends	*32*	**-**	(44,431)
Reclassification to AFS financial assets	*14*	**-**	(35,903)
Others		**(5,889)**	2,185
Balance at end of year		**19,327**	43,144
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year		**(6,839)**	(5,210)
Disposal		**5,712**	(5,130)
Equity in net earnings (losses)		**1,255**	(967)
Share in other comprehensive income (loss)		**175**	(304)
Reclassification to investments in shares of stock of subsidiaries	*5*	**-**	355
Dividends		**(5)**	(3,857)
Declaration of property dividends	*32*	**-**	6,944
Reclassification to AFS financial assets	*14*	**-**	74
Others		**(11)**	1,256
Balance at end of year		**287**	(6,839)
		19,614	36,305
Advances		**17,813**	24,349
		P37,427	P60,654

Investments in Shares of Stock of Associates:

a. Trustmark Holdings Corporation (Trustmark), Zuma Holdings and Management Corporation (Zuma) and Fortunate Star Limited (Fortunate Star)

On October 23, 2014, the conditions as set forth in the joint agreement signed by the Parent Company, together with SMEII, and the Lucio Tan Group on September 12, 2014, were satisfied by all of the parties. The joint agreement covers the following: (i) sale of the 49% equity interest in Trustmark and Zuma, including indirect ownership interests of 43.23% and 48.98% in Philippine Airlines, Inc. and Air Philippines Corporation, respectively; and (ii) sale of the equity interest and cancellation of subscription rights on the shares of stock of Fortunate Star.

The Group received a total of US$874 or an equivalent of P38,616 and recognized a gain of P491, included as part of "Gain on sale of investments and property and equipment" account, in the 2014 consolidated statement of income.

b. AAIBV

The Parent Company through SMHC holds 16,022,041 Class B common shares, representing 46.53% of the outstanding capital stock of AAIBV.

AAIBV has indirect equity interests in the companies holding the concessions to construct, operate and maintain the Skyway and South Luzon Expressway.

On May 24, 2012, SMHC entered into an Option Agreement (the Agreement) with Padma Fund L.P. (Padma), a corporation organized and existing under the laws of Cayman Islands, for the option to acquire additional 4.47% equity interest in AAIBV and up to 100% of the outstanding capital stock of certain corporations where Padma holds ownership interest for US$25 or P1,110 (Note 12). The option is exercisable at any time from the execution of the Agreement or such other date as may be agreed upon by the parties in writing. The option was exercised by SMHC on December 17, 2014, subject to the fulfillment of certain conditions as set out in the Agreement.

The conditions for the transfer of the 4.47% equity interest in favor of SMHC were fulfilled and satisfied on March 5, 2015 (Note 43).

c. Northern Cement Corporation (NCC)

On March 1, 2013, the Parent Company through SMYPC, completed the acquisition of 104,500,000 common shares, equivalent to 35% equity interest in NCC for P3,500.

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

d. Liberty Telecoms Holdings, Inc. (LTHI)

The Parent Company through Vega, has 41.48% stake in LTHI representing 643,700,669 common shares and 587,951,737 preferred shares as of December 31, 2013. The preferred shares are voting, non-redeemable and participating.

LTHI, a public company listed on the PSE, is a holding company with ownership interests in telecommunication companies that offer internet broadband services.

In April and December 2014, the Parent Company through Vega, subscribed to additional 1,316,683,697 and 431,200,000 preferred shares, respectively, increasing its stake in LTHI to 45.58%.

The fair value of the Group's investment in LTHI common shares amounting to P1,378 and P1,056 as of December 31, 2014 and 2013, respectively, has been categorized as Level 1 in the fair value hierarchy based on the quoted market price of LTHI shares in active markets available at the reporting date (Note 4).

The fair value of the Group's investment in LTHI preferred shares amounting to P4,999 and P964 as of December 31, 2014 and 2013, respectively, has been categorized as Level 2 in the fair value hierarchy based on inputs other than quoted prices included within Level 1 that are observable for the asset at the reporting date (Note 4).

e. Top Frontier

On October 17, 2013, the BOD of the Parent Company approved the declaration, by way of property dividends, of 240,196,000 common shares of Top Frontier to the SMC common shareholders of record (the "Receiving Shareholders") as of November 5, 2013. The SEC approved the property dividend declaration on November 19, 2013, and the Certificate Authorizing Registration was issued by the Bureau of Internal Revenue (BIR) on December 26, 2013.

The Receiving Shareholder received one common share of Top Frontier for every ten common shares of the Parent Company. Fractional shares below ten were dropped. The fair value of the Top Frontier shares is P178.00 per share, based on the Valuation and Fairness Opinion rendered by an independent advisor.

The property dividend distribution resulted in the Parent Company's public shareholders owning about 11.8% of Top Frontier. As a result of the property dividend distribution, the Group recognized a remeasurement gain on property dividends amounting to P4,812, included as part of "Other income (charges)" account in the 2013 consolidated statement of income (Note 32).

As a result of the dividend distribution, the remaining investment in 2,561,031 common shares and 1,904,540 preferred shares of Top Frontier amounting to P35,829 were reclassified to "Available-for-sale financial assets" account in the 2013 consolidated statement of financial position (Note 14). As a result of the reclassification, the Group recognized a remeasurement gain of P51, included as part of "Other income (charges)" account in the 2013 consolidated statement of income (Note 32).

The fair value of Top Frontier shares applied a combination of the following approaches below:

Net Asset Value (NAV) Method. The NAV method bases the valuation of an entity's equity on the net realizable value of its assets less its liabilities and preferred stockholdings. The values based on the most recent audited financial statements, adjusted to reflect current market value, were used as basis for the NAV.

Relative Valuation Method - Price-to-Book Value (PBV) Approach. To estimate the fair value of shares under this method, the net book value of an entity to be used, and the determination of the appropriate price-to-book value multiple to be used, were determined. To arrive at an entity's equity shares fair value, the computed net assets is multiplied by the selected PBV multiple.

In determining the appropriate book value, the most recent available financial statements were used. The net book value is obtained by deducting the reported total liabilities from an entity's total assets.

A representative PBV multiple was derived by evaluating the PBV multiples of comparable entities. The entity's comparability is typically assessed in terms of business activity, industry grouping, capitalization, asset structure, turnover level, and growth trends.

On December 18, 2013, the PSE approved the application for the listing by way of introduction of all the common shares of Top Frontier. The shares were listed on the PSE on January 13, 2014.

f. Meralco

On May 14, 2012, the Group received the stock certificates for the property dividend from Meralco consisting of 1,042,801,676 common shares of stock of Rockwell Land Corporation with a book value of P1,522. The shares received from Meralco as property dividends were sold through the PSE at P2.01 per share on July 27, 2012. The Group recognized a gain of P571, included as part of "Gain on sale of investments and property and equipment" account, in the 2012 consolidated statement of income.

On July 19, 2013, the Parent Company sold 64,333,330 shares of common stock in Meralco at P270.00 per share.

On September 30, 2013, the Parent Company, together with SMPFC and SMC Global, entered into a Share Purchase Agreement with JG Summit Holdings, Inc., for the sale of the remaining 305,689,397 shares of stock of Meralco for P71,837. The Parent Company received P40,400 as downpayment in 2013. The remaining balance amounting to P31,437, included as part of "Non-trade" under "Trade and other receivables" account in the 2013 consolidated statement of financial position, was received by the Group on March 25, 2014 (Note 10).

The Group recognized a gain of P40,423, included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

Investments in Shares of Stock of Joint Ventures:

a. TSML

The Parent Company through GSMI's subsidiary, GSMIL, has an existing Joint Venture (JV) with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which GSMIL owns 40% ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

Through the acquisition by SHL, a subsidiary of GSMI, of the 49% ownership interest in Siam Wine Liquor Co., Ltd. (SWL) and SWL's acquisition of shares representing 10% ownership of the outstanding capital stock of TSML, the Group's share in TSML increased from 40% to 44.9%.

b. TGT

The Parent Company through GSMI's subsidiary, GSMIHL, also has an existing 40% ownership interest in TGT, which was formed as another JV with Thai Life. TGT functions as the selling and distribution arm of TSML.

Through the acquisition of SWL of the 10% ownership interest in TGT, the Group's share in TGT increased from 40% to 44.9%.

c. Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings, Corp. (KWPP)

In accordance with the agreement of the Parent Company through PVEI, a subsidiary of SMC Global, and Korea Water Resources Corporation (K-Water) to enter into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water, PVEI deposited US$26 to an escrow account.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US$39 as full payment of the share purchase price. The payment was funded in part by the deposit in escrow.

In accordance with the entry of SMC Global into Angat Hydro and KWPP, K-Water and SMC Global are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, SMC Global agreed to pay K-Water a support fee amounting to 3% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant.

Angat Hydro was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations, electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with EPIRA Law (RA 9136: "Electric Power Industry Reform Act of 2001").

Advances:

a. SMPI provided deposits to Primeria Commercio Holdings, Inc. (PCHI) amounting to P804 and P800 as of December 31, 2014 and 2013, respectively. The deposits will be applied against future stock subscriptions of SMPI to the shares of stock of PCHI.

b. Vega has made deposits to a telecommunications company, a future investee, amounting to P5,958 as of December 31, 2014 and 2013, to be applied against future stock subscriptions.

c. SMC Global and SMEC made deposits to certain land holding companies for future stock subscriptions amounting to P8,602 and P5,752, as of December 31, 2014 and 2013, respectively.

d. Other advances pertain to deposits made to certain companies which will be applied against future stock subscriptions.

The details of the Group's material investments in shares of stock of associates and joint ventures which are accounted for using the equity method are as follows:

	December 31, 2014							December 31, 2013							
	AAIBV	NCC	LTHI	Angat Hydro and KWPP	TGT and TSML	Others	Total	Trustmark and Zuma	AAIBV	Fortunate Star	NCC	LTHI	TGT and TSML	Others	Total
Country of incorporation	Netherlands	Philippines	Philippines	Philippines	Thailand			Philippines	Netherlands	Cayman Islands	Philippines	Philippines	Thailand		
Percentage of ownership	46.53%	35.00%	45.58%	60.00%	44.90%			49.00%	46.53%	20.00%	35.00%	41.48%	44.90%		
Share in net income (loss)	P1,246	P170	(P389)	(P11)	(P66)	P305	P1,255	(P3,219)	P275	P -	P206	(P600)	(P75)	P2,446	(P967)
Share in other comprehensive income (loss)	199	(24)	-	-	6	(6)	175	-	(393)	-	-	(39)	6	122	(304)
Share in total comprehensive income (loss)	P1,445	P146	(P389)	(P11)	(P60)	P299	P1,430	(P3,219)	(P118)	P -	P206	(P639)	(P69)	P2,568	(P1,271)
Dividends received from associates	P -	P -	P -	P -	P -	P5	P5	P -	P -	P -	P70	P -	P -	P3,787	P3,857
Carrying amount of investments in shares of stock of associates and joint ventures	P8,732	P3,782	P2,915	P1,819	P659	P1,707	P19,614	P15,642	P7,287	P5,821	P3,636	P1,557	P720	P1,642	P36,305

The following are the unaudited condensed financial information of the Group's material investments in shares of stock of associates and joint ventures:

	December 31, 2014					December 31, 2013				
	AAIBV	NCC	LTHI	Angat Hydro and KWPP	TGT and TSML	Trustmark and Zuma	AAIBV	NCC	LTHI	TGT and TSML
Current assets	P21,293	P1,763	P936	P407	P1,295	P28,477	P7,407	P2,061	P889	P1,319
Noncurrent assets	60,669	4,374	2,532	20,187	1,330	97,608	57,498	3,325	3,208	1,536
Current liabilities	(7,914)	(719)	(1,989)	(19,714)	(30)	(80,385)	(6,930)	(699)	(5,251)	(642)
Noncurrent liabilities	(60,740)	(178)	(330)	(17)	(1,300)	(41,135)	(50,840)	(141)	(368)	(609)
Net assets (liabilities)	P13,308	P5,240	P1,149	P863	P1,295	P4,565	P7,135	P4,546	(P1,522)	P1,604
Sales	P11,831	P4,545	P427	P154	P848	P85,045	P11,534	P4,022	P447	P1,124
Net income (loss)	P2,759	P761	(P897)	(P19)	(P148)	(P6,924)	P4,590	P760	(P1,446)	(P167)
Other comprehensive loss	(131)	(69)	-	-	-	-	(1,341)	-	(96)	-
Total comprehensive income (loss)	P2,628	P692	(P897)	(P19)	(P148)	(P6,924)	P3,249	P760	(P1,542)	(P167)

14. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	Note	2014	2013
Equity securities		**P40,968**	P41,420
Government and other debt securities		**722**	815
Proprietary membership shares and others		**200**	171
	4, 40, 41	**41,890**	42,406
Less current portion	*12*	**431**	358
		P41,459	P42,048

Equity Securities

a) *Top Frontier.* The investments in Top Frontier consist of 2,561,031 common shares and 1,904,540 preferred shares, which were reclassified to "Available-for-sale financial assets" account in 2013 as a result of the property dividend distribution (Note 13).

b) *Indophil.* The Parent Company through Coastal View, a subsidiary of SMHC, has approximately 3.99% equity interest in Indophil as of December 31, 2014 and 2013.

Indophil is an Australian company listed on the Australian Stock Exchange, which owns a 37.5% beneficial interest in Sagittarius Mines, Inc. (SMI). SMI has the rights to the Tampakan gold and copper mine in South Cotabato.

The investment in Indophil amounting to P527 was reclassified to "Assets held for sale" account in the 2014 consolidated statement of financial position in view of the sale of Indophil shares to APIC on January 23, 2015 (Note 8).

Government Securities

a) Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 6% to 8.875% in 2014 and 2013.

b) Ovincor's ROP9 Bonds are maintained at the HSBC Bank Bermuda Limited and carried at fair value with fixed annual interest rates of 8.25% to 8.875%.

The methods and assumptions used to estimate the fair value of AFS financial assets are discussed in Note 41.

15. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
Cost									
January 1, 2013	P22,664	P39,722	P214,319	P48,744	P14,276	P113,401	P1,706	P66,645	P521,477
Additions	1,999	6,554	7,441	1,086	2,130	6,674	415	39,566	65,865
Disposals/reclassifications/ acquisition of subsidiaries	778	334	-	(255)	(789)	1,035	50	2,361	3,514
Currency translation adjustments	33	894	-	73	52	2,410	5	(78)	3,389
December 31, 2013	25,474	47,504	221,760	49,648	15,669	123,520	2,176	108,494	594,245
Additions	771	3,438	5,028	789	1,292	5,852	112	21,669	38,951
Disposals/reclassifications/ acquisition of subsidiaries	2,788	(749)	-	682	(426)	(4,518)	(32)	5,988	3,733
Currency translation adjustments	(428)	(450)	-	(587)	(393)	(489)	(37)	(173)	(2,557)
December 31, 2014	**28,605**	**49,743**	**226,788**	**50,532**	**16,142**	**124,365**	**2,219**	**135,978**	**634,372**
Accumulated Depreciation and Amortization									
January 1, 2013	2,664	16,933	15,813	28,096	9,152	66,990	737	-	140,385
Additions	137	1,547	5,312	2,364	1,175	6,111	121	-	16,767
Disposals/reclassifications/ acquisition of subsidiaries	24	(129)	-	(226)	(687)	(670)	291	-	(1,397)
Currency translation adjustments	(13)	286	-	51	33	851	3	-	1,211
December 31, 2013	2,812	18,637	21,125	30,285	9,673	73,282	1,152	-	156,966
Additions	181	1,805	5,804	1,887	1,310	6,637	144	-	17,768
Disposals/reclassifications/ acquisition of subsidiaries	421	(227)	-	(40)	(274)	(3,149)	(21)	-	(3,290)
Currency translation adjustments	(31)	(276)	-	86	(238)	(796)	(5)	-	(1,260)
December 31, 2014	**3,383**	**19,939**	**26,929**	**32,218**	**10,471**	**75,974**	**1,270**	**-**	**170,184**

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
Accumulated Impairment Losses									
January 1, 2013	P385	P2,027	P -	P -	P -	P6,692	P 1	P -	P9,105
Additions	-	388	-	-	-	1,151	-	-	1,539
Disposals and reclassifications	(119)	-	-	-	-	(52)	-	-	(171)
Currency translation adjustments	-	248	-	-	-	726	-	-	974
December 31, 2013	266	2,663	-	-	-	8,517	1	-	11,447
Additions	-	-	-	-	-	19	-	-	19
Disposals and reclassifications	-	(403)	-	-	-	(885)	-	-	(1,288)
Currency translation adjustments	-	10	-	-	-	39	-	-	49
December 31, 2014	**266**	**2,270**	**-**	**-**	**-**	**7,690**	**1**	**-**	**10,227**
Carrying Amount									
December 31, 2013	P22,396	P26,204	P200,635	P19,363	P5,996	P41,721	P1,023	P108,494	P425,832
December 31, 2014	**P24,956**	**P27,534**	**P199,859**	**P18,314**	**P5,671**	**P40,701**	**P948**	**P135,978**	**P453,961**

"Equipment, furniture and fixtures" includes machinery, telecommunications equipment, transportation equipment, tools and small equipment and office equipment.

Total depreciation, amortization and impairment losses/reversals recognized in profit or loss amounted to P17,787, P18,306 and P14,489 in 2014, 2013 and 2012, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P19, P13 and P14 in 2014, 2013 and 2012, respectively.

The Group has interest amounting to P3,708 and P5,544 which was capitalized in 2014 and 2013, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 4.88% to 8.10% and 5.59% to 6.3131% in 2014 and 2013, respectively. The unamortized capitalized borrowing costs amounted to P9,148 and P5,650 as of December 31, 2014 and 2013, respectively.

The combined carrying amounts of power plants and equipment under finance lease amounted to P188,155 and P193,356 as of December 31, 2014 and 2013, respectively (Notes 4 and 34).

a) Davao PET Plant

On November 4, 2013, the Parent Company, BPI and SMYPC signed respective Sale and Purchase Agreements and Asset Purchase Agreements with Coca-Cola Bottlers Philippines, Inc. and its subsidiary, Luzviminda Land Holdings, Inc., for the sale of the PET Plant and other properties located in Davao for P1,263. The Group recognized a gain amounting to P186, which was included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

b) San Miguel (Vietnam) Co. Ltd. (SMVCL)

On February 23, 2012, SMVCL sold its building and land use rights in Amata Industrial Zone, Vietnam for US$12. The Group recognized a gain amounting to P256 included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

SMVCL is formerly a wholly-owned subsidiary of SMFBIL. The State Securities Commission of Vietnam approved the dissolution of SMVCL on May 31, 2012.

c) PTSMIFB

On September 28, 2012, PTSMIFB sold its land use rights, building and equipment for US$27. The Group recognized a gain amounting to P45 included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

d) Sumilao Property

Land and land improvements include a 144-hectare property in Sumilao, Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs amounted to P37.

To settle the land dispute, a MOA was executed among SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in the last quarter of 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal of the cases pending with the Supreme Court and the OP for their concurrence. Pursuant to the Joint Manifestation and Motion for Dismissal dated March 3, 2011 filed by SMFI and NQSR Management and Development Corporation, the original owner of the Sumilao property, the Supreme Court and the OP, in a Resolution dated March 15, 2011 and in an Order dated April 6, 2011, respectively, dismissed the appeal of MAPALAD on the DAR's denial of their petition for the revocation of the conversion order. SMFI considers the said Order and Resolution to have attained finality as at March 19, 2015. SMFI is not aware of any appeal or relief therefrom filed or applied for by MAPALAD.

16. Investment Property

The movements in investment property are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Total
Cost					
January 1, 2013	P2,581	P620	P1,108	P840	P5,149
Additions	11	3	-	789	803
Reclassifications	(299)	(116)	(643)	2	(1,056)
Disposals	(12)	-	-	-	(12)
Currency translation adjustments	25	27	-	-	52
December 31, 2013	2,306	534	465	1,631	4,936
Additions	970	4	6	19	999
Reclassifications	125	-	3	(1,631)	(1,503)
Disposals	-	-	(6)	-	(6)
Currency translation adjustments	2	3	-	-	5
December 31, 2014	**3,403**	**541**	**468**	**19**	**4,431**
Accumulated Depreciation and Amortization					
January 1, 2013	106	256	999	-	1,361
Additions	8	16	21	-	45
Disposals and reclassifications	(18)	(77)	(574)	-	(669)
Currency translation adjustments	5	10	-	-	15
December 31, 2013	101	205	446	-	752
Additions	8	13	11	-	32
Disposals	-	-	(6)	-	(6)
Currency translation adjustments	1	1	-	-	2
December 31, 2014	**110**	**219**	**451**	**-**	**780**
Accumulated Impairment Losses					
December 31, 2013 and 2014	**8**	**-**	**-**	**-**	**8**
Carrying Amount					
December 31, 2013	P2,197	P329	P19	P1,631	P4,176
December 31, 2014	**P3,285**	**P322**	**P17**	**P19**	**P3,643**

No impairment loss was recognized in 2014, 2013 and 2012.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2014, 2013 and 2012.

The fair value of investment property amounting to P6,561 and P6,434 as of December 31, 2014 and 2013, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs
The valuation of investment property applied one or more or a combination of the three approaches below:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

17. Biological Assets

Biological assets consist of:

	Note	2014	2013
Current:			
Growing stocks		**P2,977**	P3,086
Goods in process		**343**	341
		3,320	3,427
Noncurrent:			
Breeding stocks - net	*4*	**1,973**	1,911
		P5,293	P5,338

The amortization of breeding stocks recognized in profit or loss amounted to P1,537, P1,524 and P1,311 in 2014, 2013 and 2012, respectively (Note 28).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	2014	2013
Cost			
Balance at beginning of year		**P6,036**	P6,213
Increase (decrease) due to:			
Production		**38,787**	38,170
Purchases		**896**	996
Mortality		**(734)**	(657)
Sales and harvest		**(37,411)**	(37,438)
Retirement		**(1,401)**	(1,288)
Currency translation adjustments		**-**	40
Balance at end of year		**6,173**	6,036
Accumulated Amortization			
Balance at beginning of year		**698**	489
Additions	*28*	**1,537**	1,524
Disposals		**(16)**	(26)
Retirement		**(1,339)**	(1,288)
Currency translation adjustments		**-**	(1)
Balance at end of year		**880**	698
Carrying Amount		**P5,293**	P5,338

The Group harvested approximately 452.9 million and 472.5 million kilograms of grown broilers in 2014 and 2013, respectively, and 0.75 million and 0.86 million heads of marketable hogs and cattle in 2014 and 2013, respectively.

18. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	Note	**2014**	2013
Goodwill	*5, 38*	**P41,211**	P41,752
Other intangible assets		**45,114**	36,032
		P86,325	P77,784

The movements in goodwill are as follows:

	Note	**2014**	2013
Balance at beginning of year		**P41,752**	P48,724
Additions	*5, 38*	**7**	1,572
Disposals		**-**	(8,783)
Currency translation adjustments and others		**(548)**	239
Balance at end of year		**P41,211**	P41,752

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	**Trademarks and Brand Names**	**Total**
Cost			
January 1, 2013	P6,987	P413	P7,400
Currency translation adjustments	18	23	41
December 31, 2013	7,005	436	7,441
Currency translation adjustments	4	1	5
December 31, 2014	**7,009**	**437**	**7,446**
Accumulated Impairment Losses			
January 1, 2013	-	176	176
Currency translation adjustments	-	17	17
December 31, 2013	-	193	193
Currency translation adjustments	-	1	1
December 31, 2014	**-**	**194**	**194**
Carrying Amount			
December 31, 2013	P7,005	P243	P7,248
December 31, 2014	**P7,009**	**P243**	**P7,252**

The movements in other intangible assets with finite useful lives are as follows:

	Note	**Toll Road Concession Rights**	**Leasehold and Land Use Rights**	**Mineral Rights and Evaluation Assets**	**Airport Concession Right**	**Computer Software and Licenses**	**Power Concession Right**	**Project Development Cost**	**Others**	**Total**
Cost										
January 1, 2013		P29,039	P3,190	P1,987	P295	P269	P -	P -	P2,024	P36,804
Additions		586	-	107	393	6	-	11,040	94	12,226
Acquisition of subsidiaries	*5, 38*	12,726	-	13,111	-	-	-	-	-	25,837
Disposals and reclassifications		(29,039)	(1,749)	(13,485)	229	(56)	-	-	(16)	(44,116)
Currency translation adjustments		-	141	-	-	(1)	-	-	17	157
December 31, 2013		13,312	1,582	1,720	917	218	-	11,040	2,119	30,908
Additions		7,540	-	-	1,402	34	496	-	127	9,599
Acquisition of subsidiaries	*5, 38*	-	-	165	-	-	-	-	-	165
Disposals and reclassifications		11,040	(95)	-	-	(11)	-	(11,040)	104	(2)
Currency translation adjustments		-	6	-	-	1	-	-	(30)	(23)
December 31, 2014		**31,892**	**1,493**	**1,885**	**2,319**	**242**	**496**	**-**	**2,320**	**40,647**
Accumulated Amortization and Impairment Losses										
January 1, 2013		8,438	448	-	13	101	-	-	953	9,953
Additions	*5, 38*	803	33	-	12	21	-	-	253	1,122
Disposals and reclassifications		(8,983)	(16)	-	-	-	-	-	(4)	(9,003)
Currency translation adjustments		-	45	-	-	-	-	-	7	52
December 31, 2013		258	510	-	25	122	-	-	1,209	2,124
Additions	*5, 38*	336	33	-	12	13	15	-	289	698
Disposals and reclassifications	*6*	-	(22)	-	-	-	-	-	(1)	(23)
Currency translation adjustments		-	2	-	-	-	-	-	(16)	(14)
December 31, 2014		**594**	**523**	**-**	**37**	**135**	**15**	**-**	**1,481**	**2,785**
Carrying Amount										
December 31, 2013		P13,054	P1,072	P1,720	P892	P96	P -	P11,040	P910	P28,784
December 31, 2014		**P31,298**	**P970**	**P1,885**	**P2,282**	**P107**	**P481**	**P -**	**P839**	**P37,862**

Project development cost represents the upfront fee paid by Vertex on June 25, 2013 to the DPWH for the NAIA Expressway Project. The amount was reclassified to toll road concession rights as of December 31, 2014 (Notes 6 and 34).

Goodwill, licenses and trademarks and brand names with indefinite lives and mineral rights and evaluation assets with finite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2014			2013		
	Goodwill	**Licenses, Trademarks and Brand Names**	**Mineral Rights and Evaluation Assets**	Goodwill	Licenses, Trademarks and Brand Names	Mineral Rights and Evaluation Assets
Fuel and oil	**P30,947**	**P -**	**P -**	P31,412	P -	P -
Infrastructure	**3,580**	**-**	**-**	3,556	-	-
Food	**2,820**	**229**	**-**	2,945	229	-
Packaging	**2,069**	**-**	**-**	2,053	-	-
Beverage	**1,000**	**1,802**	**-**	999	1,798	-
Telecommunications	**733**	**5,221**	**-**	726	5,221	-
Energy	**-**	**-**	**1,720**	-	-	1,720
Others	**62**	**-**	**165**	61	-	-
Total	**P41,211**	**P7,252**	**P1,885**	P41,752	P7,248	P1,720

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value-in-use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 6% to 14% in 2014 and 2013. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

Impairment loss recognized in 2014 amounted to P127 (Note 32). No impairment loss was recognized in 2013 and 2012.

The recoverable amount of trademarks and brand names has been determined based on a valuation using cash flow projections (value-in-use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The range of the growth rates used is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections ranged from 6.4% to 16.6% and from 6.6% to 21.4% in 2014 and 2013, respectively. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique.

No impairment loss was recognized in 2014, 2013 and 2012.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins.* Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.
- *Discount Rates.* The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

19. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2014**	2013
Noncurrent receivables and deposits - net	*33, 35, 39, 40, 41*	**P14,967**	P25,297
Deferred containers - net	*4*	**8,278**	7,950
Retirement assets	*35*	**3,830**	6,737
Noncurrent prepaid rent		**2,989**	5,039
Catalyst		**1,540**	179
Noncurrent prepaid input tax		**1,435**	1,768
Restricted cash	*40, 41*	**1,055**	1,800
Idle assets	*4*	**785**	1,066
Deferred exploration and development costs	*4, 34*	**673**	526
Others		**2,824**	2,706
		P38,376	P53,068

Noncurrent receivables and deposits include amounts owed by related parties amounting to P11,427 and P19,994 as of December 31, 2014 and 2013, respectively (Note 33) and the costs related to the capitalized expenditures for the development of the Metro Rail Transit Line 7 (MRT 7) Project amounting to P2,429 and P2,393 as of December 31, 2014 and 2013, respectively (Note 34).

Restricted cash represents: (i) SPI's Cash Flow Waterfall Accounts with a local bank amounting to P1,021 and P626 as of December 31, 2014 and 2013, respectively, as part of the provisions in the Omnibus Loan and Security Agreement; (ii) APEC's reinvestment fund for sustainable capital expenditures and cash collected from customers for membership fees and bill deposits which are refundable amounting to P34 as of December 31, 2014; and (iii) amounts deposited in an escrow account amounting to P1,174 as of December 31, 2013 in connection with the MOA entered into by PVEI and K-Water. In 2014, the amount was withdrawn and paid to the sellers (Note 13).

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 41.

20. Loans Payable

Loans payable consist of:

	Note	**2014**	2013
Parent Company			
Peso-denominated		**P7,685**	P7,750
Subsidiaries			
Peso-denominated		**136,265**	114,246
Foreign currency-denominated		**36,109**	21,230
	40, 41	**P180,059**	P143,226

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks. Interest rates for peso-denominated loans range from 2% to 5.50% and from 0.50% to 6.50% in 2014 and 2013, respectively. Interest rates for foreign currency-denominated loans range from 1.625% to 9% and from 1.16% to 13.78% in 2014 and 2013, respectively (Note 30).

Loans payable include interest-bearing amounts payable to a related party amounting to P6,400 and P4,275 as of December 31, 2014 and 2013, respectively (Note 33).

Loans payable of the Group are not subject to covenants.

21. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2014**	2013
Non-trade		**P56,447**	P37,013
Trade		**56,250**	71,288
Accrued payroll		**4,528**	3,333
Accrued interest payable		**2,379**	2,414
Payables on the purchase of shares of stock		**1,206**	1,337
Amounts owed to related parties	*33*	**499**	1,297
Derivative liabilities	*40, 41*	**325**	455
Retirement liabilities	*35*	**127**	100
Subscriptions payable		**28**	-
Current portion of IRO	*4*	**21**	16
Others		**34**	4
	40, 41	**P121,844**	P117,257

Trade payables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade payables include contract growers/breeders' fees, guarantee deposits, utilities, rent and other expenses payable to third parties.

"Others" include accruals for materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 41.

22. Long-term Debt

Long-term debt consists of:

	2014	2013
Parent Company		
Term notes:		
Peso-denominated:		
Floating interest rate based on PDST-F plus margin, with maturities up to 2015 (a)	**P7,850**	P8,649
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities in various dates through 2018 (b)	**73,506**	72,641
Fixed interest rate of 4.875% with maturities up to 2023 (c)	**35,336**	35,034
Fixed interest rate of 2.00% with maturities up to 2014 (d)	**-**	9,511
	116,692	125,835

Forward

	2014	2013
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 8.875% and 10.50% maturing in 2014 and 2019, respectively (e)	**P2,793**	P25,078
Fixed interest rate of 6.05%, 5.93% and 6.60% maturing in 2017, 2019 and 2022, respectively (f)	**19,862**	19,837
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (g)	**14,863**	-
Foreign currency-denominated:		
Fixed interest rate of 7.00% maturing in 2016 (h)	**13,190**	13,247
Term notes:		
Peso-denominated:		
Fixed interest rate of 7.00% maturing in 2017 (i)	**19,891**	19,859
Fixed interest rate of 6.2921% and 6.0606% with maturities up to 2023 (j)	**13,386**	12,117
Fixed interest rate of 6.3212% and 7.1827% with maturities up to 2018 and 2021, respectively (k)	**3,466**	3,498
Fixed interest rate of 6.175% and 6.145% maturing in 2016 (l)	**1,500**	1,500
Fixed interest rate of 5.4885% maturing in 2015 (m)	**798**	797
Fixed interest rate of 8.14% and 9.33% maturing in 2014 and 2016, respectively (n)	**-**	9,782
Fixed interest rate of 7.25% maturing in 2014 (o)	**-**	1,269
Fixed interest rate of 7.89% and 7.25% maturing in 2015 (p)	**-**	812
Floating interest rate based on PDST-F plus margin, with maturities up to 2021 (q)	**11,415**	6,941
Floating interest rate based on PDST-F plus margin, maturing in 2015 (m)	**3,693**	3,686
Floating interest rate based on PDST-F plus margin or BSP overnight rate plus margin, whichever is higher, with maturities up to 2019 (r)	**3,240**	3,486
Floating interest rate based on PDST-F plus margin, with maturities up to 2023 (s)	**3,462**	2,064
Floating interest rate based on PDST-F plus margin, with maturities up to 2022 (t)	**3,175**	2,344
Floating interest rate based on PDST-F plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018 (u)	**457**	572
Floating interest rate based on PDST-F plus margin, with maturities up to 2021 (v)	**349**	-
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities up to 2018 (w)	**21,984**	21,725
Floating interest rate plus a fixed spread, with maturities up to 2019 (x)	**20,821**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2017 (y)	**15,094**	21,069
Floating interest rate based on LIBOR plus margin, with maturities up to 2016 (z)	**9,052**	11,979
Floating interest rate based on COF plus margin, with maturities up to 2019 (aa)	**3,805**	-
	186,296	181,662
	302,988	307,497
Less current maturities	**19,852**	42,807
	P283,136	P264,690

a. The amount represents drawdown of various loans in 2009 and 2010 by the Parent Company used for financing general and corporate requirements.

Unamortized debt issue costs amounted to P1 as of December 31, 2013.

b. The amount represents drawdown by the Parent Company on various dates in 2013 to pay in full and refinance the US$1,000 loan availed of in 2010, to fund infrastructure investments and for general corporate purposes.

Unamortized debt issue costs amounted to P1,176 and P1,499 as of December 31, 2014 and 2013, respectively.

c. The amount represents the drawdown of US$800 Notes (the "Notes") issued on April 19, 2013, from the Parent Company's US$2,000 Medium Term Note Programme which was listed on the SGX-ST on the same date. The Notes bear interest at the rate of 4.875% per annum, payable semi-annually in arrears every 26th of April and October of each year.

Unamortized debt issue costs amounted to P440 and P482 as of December 31, 2014 and 2013, respectively.

On March 19, 2015, the Parent Company announced in the SGX-ST the tender offer for the purchase of up to US$400 of the US$800 Notes.

d. The amount represents the balance of the US$600 Exchangeable Bonds (the "Bonds") of the Parent Company issued on May 5, 2011 and listed on the SGX-ST on the same date. The Bonds bear interest at the rate of 2.00% per annum, payable semi-annually in arrears, every 5th of May and November of each year, with the 1st interest payment made on November 5, 2011.

The Bonds are exchangeable for common shares from the treasury shares of the Parent Company (Note 25). The number of common shares to be delivered in exchange of a Bond is determined by dividing the principal amount of the Bond to be exchanged (translated into Philippine Peso at the fixed rate of P43.34=US$1.00) by the initial exchange price of P137.50 per share, subject to adjustment in certain circumstances.

Pursuant to the resolution of the BOD of the Parent Company authorizing management to refinance its existing financial obligations under such terms and conditions which are favorable and advantageous to the Parent Company, the Parent Company solicited the consent of the bondholders to tender their bonds for repurchase. On various dates in 2013, the Parent Company has repurchased Bonds having an aggregate principal amount of US$363. The aggregate cash amount paid by the Parent Company based on the aggregate principal amount of the Bond repurchased, as well as accrued interest, is US$398. The Group recognized a loss on redemption of exchangeable bonds amounting to P1,500, shown as part of "Other income (charges)" account in the 2013 consolidated statement of income (Note 32).

A total of US$24 and US$22 worth of exchangeable bonds representing 9,794,587 and 8,717,014 common shares of the Parent Company were exchanged at issue prices ranging from P80.44 to P113.24 as of December 31, 2014 and 2013, respectively (Note 25).

On May 5, 2014, the Parent Company redeemed the remaining balance of the exchangeable bonds amounting to US$213, in accordance with the terms and conditions of the said exchangeable bonds.

Unamortized bond issue costs amounted to P25 as of December 31, 2013.

e. The amount represents SMB's peso-denominated fixed rate bonds (Bonds) worth P38,800 which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 17, 2009 and were listed on the Philippine Dealing & Exchange Corp. (PDEx) for trading.

The Bonds were issued in three series: Series A Bonds with a fixed interest rate of 8.25% per annum; Series B Bonds with a fixed interest rate of 8.875% per annum; and Series C Bonds with a fixed interest rate of 10.50% per annum (Series ABC Bonds).

The Series A Bonds (P13,590) and the Series B Bonds (P22,400) matured on April 3, 2012 and April 4, 2014, respectively, and were redeemed by SMB on the said dates.

The Series C Bonds with an aggregate principal amount of P2,810 remain outstanding as of December 31, 2014.

Unamortized debt issue costs amounted to P17 and P34 as of December 31, 2014 and 2013, respectively.

f. The amount represents SMB's Bonds worth P20,000, which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 16, 2012. The Bonds were issued on April 2, 2012 at the issue price of 100.00% of face value in three series: Series D Bonds with fixed interest rate of 6.05% per annum; Series E Bonds with a fixed interest rate of 5.93% per annum; and Series F Bonds with a fixed interest rate of 6.60% per annum. The proceeds were used to refinance SMB's existing financial indebtedness and for general working capital purposes.

The Series E Bonds and Series F Bonds were listed on the PDEx on April 2, 2012 while the Series D Bonds were listed for trading on the PDEx effective October 3, 2012.

Unamortized debt issue costs amounted to P138 and P163 as of December 31, 2014 and 2013, respectively.

g. On February 7, 2014, the BOD of SMB approved the issuance of Philippine peso-denominated bonds of up to P15,000, subject to an option on the part of SMB to increase the amount by up to P5,000 in case of an oversubscription, with a minimum tenor of seven years and a maximum of 15 years, to support the redemption of the Series B of the Series ABC Bonds, maturing on April 4, 2014.

Pursuant to such approval and registration statement rendered effective by the SEC on March 17, 2014, SMB offered for sale to the public on March 17 to 25, 2014, the Philippine peso fixed rate bonds in the aggregate principal amount of P15,000, consisting of Series G Bonds in the aggregate principal amount of P12,462 with a term of 7 years and interest rate of 5.50% per annum and Series H bonds in the aggregate principal amount of P2,538 with a term of 10 years and interest rate of 6.00% per annum (Series GH Bonds).

Interest on the Series GH Bonds is paid every April 2 and October 2 of each year (each an Interest Payment Date). SMB may also (but shall be likewise not be obligated to) redeem all (and not a part only) of the outstanding Series GH Bonds on the 11th Interest Payment Date for the Series G Bonds, and on the 14th, 16th or 18th Interest Payment Dates for the Series H Bonds.

The Series GH Bonds were issued and listed on the PDEx on April 2, 2014.

Unamortized debt issue costs amounted to P137 as of December 31, 2014.

On December 5 and 16, 2014, the BOD of SMB (through the Executive Committee in the December 16, 2014 meeting) approved the conduct of a consent solicitation process for the holders of record as of December 15, 2014 of the Series C Bonds, Series D Bonds, Series E Bonds and Series F Bonds (Record Bondholders) for the amendment of the negative covenants in the trust agreements covering the Series C Bonds, Series D Bonds, Series E Bonds and Series F Bonds to align the same with the negative covenants of the Series GH Bonds, and allow SMB to engage, or amend its articles of incorporation to engage in the business of manufacturing, selling, distributing, and/or dealing, in any and all kinds of beverage products (Negative Covenant Amendment). SMB obtained the consents of Record Bondholders representing 90% of the outstanding aggregate principal amount of the Series C Bonds and 81.05% of the outstanding aggregate principal amount of the Series D Bonds, Series E Bonds and Series F Bonds for the Negative Covenant Amendment. The supplemental agreements amending the trust agreements covering the Series C Bonds, Series D Bonds, Series E Bonds and Series F Bonds to reflect the Negative Covenant Amendment were executed by SMB and the respective trustees of the said Bonds on February 2, 2015.

h. The amount represents US$300, 7%, five-year bond issued by SMC Global in 2011 under the Regulations of the US Securities Act of 1933, as amended. The unsecured bond issue is listed on the SGX-ST.

Unamortized bond issue costs amounted to P72 and P71 as of December 31, 2014 and 2013, respectively.

i. The amount represents P20,000 peso-denominated notes issued by Petron in 2010. The principal and interest will be translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment. The notes bear interest of 7% per annum, payable semi-annually in arrears every 10th of May and November of each year. The notes will mature on November 10, 2017.

Unamortized debt issue costs amounted to P109 and P141 as of December 31, 2014 and 2013, respectively.

j. The amount represents P1,500 and P12,300 drawdowns by SPI on September 30, 2014 and 2013, respectively, from the P13,800, 10-year term loan facility agreement with syndicate of banks with fixed interest rate of 6.5446% and 6.3131%, respectively. Effective November 29, 2014, Step Down Interest Rate is 6.2921% and 6.0606% for the 2014 and 2013 drawdowns, respectively. The Facility Agreement has a final maturity date of September 2023.

The proceeds of the loan were used for the acquisition of the Power Plant Phase 1 and Power Plant Phase 2 in Limay, Bataan, from Petron (Note 6). The drawdown includes payable to BOC amounting to P3,451 and P3,120 as of December 31, 2014 and 2013, respectively (Note 33).

Unamortized debt issue costs amounted to P221 and P183 as of December 31, 2014 and 2013, respectively.

k. The amount represents Fixed Rate Corporate Notes (FXCN) issued by Petron in 2011 consisting of Series A Notes amounting to P690 having a maturity of seven years from the issue date and Series B Notes amounting to P2,910 having a maturity of 10 years from the issue date. The Notes are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements.

Unamortized debt issue costs amounted to P27 and P30 as of December 31, 2014 and 2013, respectively.

l. The amount represents drawdown by SMCSLC in 2011, from a local bank, which was used for working capital requirements.

m. The amount represents corporate notes which SMFI offered for sale and subscription to the public in December 2010. These are Philippine peso-denominated fixed rate and floating rate notes with principal amounts of P800 and P3,700, respectively. Both types of notes have a term of five years and one day beginning on December 10, 2010 and ending on December 11, 2015. The fixed rate note bears interest of 5.4885% per annum while the floating rate note bears interest based on 3-month PDST-F plus an agreed margin. Proceeds from the issuance of the notes were used to fund expansion and investment in new businesses by SMFI and for general corporate purposes.

Unamortized debt issue costs amounted to P9 and P17 as of December 31, 2014 and 2013, respectively.

n. The amount represents FXCN issued by Petron amounting to P5,200 and P4,800 or a total of P10,000. The P5,200 five-year notes bear a fixed rate of 8.14% per annum and were redeemed on maturity date in June 2014. On the other hand, the P4,800 seven-year notes bear a fixed rate of 9.33% per annum with six principal payments of P48 per year commencing in June 2010 with the final payment of P4,512 in December 2016. Petron exercised the early redemption option and made a final payment of P4,560 in December 2014.

Unamortized debt issue costs amounted to P26 as of December 31, 2013.

o. The amount represents syndicated loans obtained by SMYAC which were used for capital expenditures. The loan was fully paid in 2014.

Unamortized debt issue costs amounted to P1 as of December 31, 2013.

p. The amount represents drawdown by GSMI, from a local bank, which was used for working capital requirements. The loan was fully paid in December 2014.

Unamortized debt issue costs amounted to P2 as of December 31, 2013.

q. The amount represents series of drawdowns by PIDC amounting to P4,500 and P7,000 in 2014 and 2013, respectively, from the P11,500 loan facility agreement with local banks, which were used to finance the TPLEX Project (Note 5). The loan is payable in 24 quarterly installments commencing on the 51st month.

Unamortized debt issue costs amounted to P85 and P59 as of December 31, 2014 and 2013, respectively.

r. The amount represents drawdown from the loan agreement entered into by SMYPC with BOC in October 2012 amounting to P3,500 used for general financing and corporate requirements maturing on October 11, 2019. In April 2014, SMYPC paid P250 as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P10 and P14 as of December 31, 2014 and 2013, respectively.

s. The amount represents series of drawdowns by SIDC amounting to P1,411 and P2,089 in 2014 and 2013, respectively, from the P3,500 loan facility agreement used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. The loan is payable in 32 quarterly installments commencing on the 27th month.

Unamortized debt issue costs amounted to P38 and P25 as of December 31, 2014 and 2013, respectively.

t. The amount represents series of drawdowns amounting to P832, P1,601 and P755 in 2014, 2013 and 2012, respectively, from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in 28 quarterly installments commencing on the 12th quarter (Note 33).

Unamortized debt issue costs amounted to P14 and P12 as of December 31, 2014 and 2013, respectively.

u. The amount represents EPSBPI's unsecured loan used to finance the construction of its bottling facilities. The loan is payable in equal quarterly installments starting February 18, 2012, bearing an interest rate equivalent to the higher of benchmark rate (three-month PDST-F rate) plus a spread or the overnight rate (BSP overnight reverse repo rate on interest rate settling date).

v. The amount represents the seven-year bank loan obtained by CAI from BOC in April 2014 amounting to P350. The loan was obtained for capital expenditure purposes (Note 33).

Unamortized debt issue costs amounted to P1 as of December 31, 2014.

w. The amount represents SMC Global's drawdown of US$500 from the US$650, five-year term loan with a syndicate of banks signed on September 8, 2013. The loan proceeds were used to refinance SMC Global's existing US$200 three-year term loan and to finance new investments in power-related assets. On November 15, 2013, the US$650 facility agreement was amended to increase the facility amount to US$700. Drawn amount from the facility agreement amounted to US$500 as of December 31, 2014.

Unamortized debt issue costs amounted to P376 and P473 as of December 31, 2014 and 2013, respectively.

x. The amount represents the US$300 loan facility signed and executed by Petron on May 14, 2014. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. The total amount was drawn in 2014 and the proceeds were used to refinance existing debt and for general corporate purposes. Petron completed the syndication of the facility, and increased the facility amount to US$475 on September 29, 2014. Drawdowns related to the additional US$175 were made on October 24 and November 6, 2014. Amortization in seven equal amounts will start in May 2016, with final amortization due in May 2019.

Unamortized debt issue costs amounted to P421 as of December 31, 2014.

y. The amount represents amount drawn from the loan facility signed and executed by Petron on October 31, 2012, amounting to US$485 with a syndicate of nine banks. The facility is amortized over five years with two-year grace period and is subject to a floating interest rate plus a fixed spread. Petron has drawn US$210 and US$275 in 2013 and 2012, respectively. The proceeds were used to finance the capital expenditure requirements of RMP-2 Project. The loan is payable in seven equal amounts starting in November 2014, with final payment due in November 2017. Petron made partial payments on June 24 and October 24, 2014 amounting to US$70 for each payment date.

Unamortized debt issue costs amounted to P335 and P463 as of December 31, 2014 and 2013, respectively.

z. The amount represents the US$480 term loan facility signed and executed by Petron on September 30, 2011. The 1st drawdown of US$80 was made on November 25, 2011. Petron availed of the remaining US$400 of the term loan facility on February 15, 2012. The loan proceeds were used to finance the capital expenditure requirements of the RMP-2 Project. Petron made partial payments amounting to US$69, US$26 and US$180 in 2014, 2013 and 2012, respectively. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread.

Unamortized debt issue costs amounted to P148 and P198 as of December 31, 2014 and 2013, respectively.

aa. The amount represents the Malaysian ringgit (MYR) 300 loan availed by Petron Malaysia in 2014. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of Cost of Fund (COF) plus margin.

Unamortized debt issue costs amounted to P33 as of December 31, 2014.

Long-term debt includes interest-bearing amounts payable to a related party amounting to P10,240 and P8,976 as of December 31, 2014 and 2013, respectively (Note 33).

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group is in compliance with the covenants of the debt agreements as of December 31, 2014 and 2013.

The movements in debt issue costs are as follows:

	Note	**2014**	2013
Balance at beginning of year		**P3,919**	P2,679
Additions		**1,093**	3,204
Amortization	*30*	**(764)**	(1,322)
Reclassification, capitalized and others		**(441)**	(642)
Balance at end of year		**P3,807**	P3,919

Repayment Schedule
The annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2015	P20,203	P351	P19,852
2016	37,935	609	37,326
2017	41,198	333	40,865
2018	110,287	1,664	108,623
2019 and thereafter	97,172	850	96,322
Total	**P306,795**	**P3,807**	**P302,988**

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 40.

23. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	**2014**	2013
Retirement liabilities	*35*	**P7,970**	P7,466
ARO	*4*	**1,659**	1,004
Cash bonds		**870**	363
Cylinder deposits		**442**	210
Obligation to ROP - service concession agreement	*4, 18, 34*	**71**	73
IRO	*4*	**68**	63
Redeemable preferred shares	*4*	**15**	14
Retention payable		**-**	3,913
Others		**996**	513
	40, 41	**P12,091**	P13,619

"Redeemable preferred shares" represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year PDST-F). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

"Others" include amounts owed to related parties amounting to P54 and P49 as of December 31, 2014 and 2013, respectively (Note 33).

24. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2014	2013
Allowance for impairment losses on trade and other receivables and inventory	**P3,643**	P3,611
NOLCO	**1,408**	1,994
MCIT	**486**	446
Undistributed net earnings of foreign subsidiaries	**(713)**	(3,361)
Unrealized intercompany charges and others	**2,007**	1,857
	P6,831	P4,547

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2014**	2013
Deferred tax assets	*4*	**P14,651**	P15,608
Deferred tax liabilities		**(7,820)**	(11,061)
		P6,831	P4,547

As of December 31, 2014, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
2012	December 31, 2015	P794	P83
2013	December 31, 2016	2,010	78
2014	December 31, 2017	1,888	325
		P4,692	**P486**

The components of income tax expense are shown below:

	2014	2013	2012
Current	**P10,891**	P11,712	P9,248
Deferred	**(607)**	(8,012)	(842)
	P10,284	P3,700	P8,406

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2014	2013	2012
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**(3.13%)**	(1.95%)	(2.77%)
Equity in losses (net earnings) of associates and joint ventures	**(0.98%)**	0.53%	(1.72%)
Gain on sale of investments subject to final or capital gains tax	**(0.38%)**	(22.44%)	(2.57%)
Others, mainly income subject to different tax rates - net	**1.27%**	0.66%	(4.69%)
Effective income tax rate	**26.78%**	6.80%	18.25%

25. Equity

a. The following are the significant developments:

Amendments to the Articles of Incorporation

On July 23, 2009, during the annual stockholders' meeting of the Parent Company, the stockholders approved the amendments to the Articles of Incorporation of the Parent Company providing for the declassification of the common shares of the Parent Company. The authorized capital stock of the Parent Company amounting to P22,500 was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares with a par value of P5.00 per share and 1,110,000,000 Series "1" preferred shares with a par value of P5.00 per share, and defined the terms and features of the Series "1" preferred shares. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Parent Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Parent Company, to increase the authorized capital stock of the Parent Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value of P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series "2" preferred shares.

Exchange of Capital Stock

On July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one common share for one Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

Series "1" Preferred Shares

On October 15, 2009, the BOD of the Parent Company approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

Series "2" Preferred Shares

On June 26, 2012, the Parent Company filed with the SEC a Notice of Filing of Registration Statement for the registration of up to 1,067,000,000 Series "2" preferred shares with par value of P5.00 per share, to be offered by way of public offering, inclusive of shares for oversubscription.

b. Capital Stock

Common Shares

On July 27, 2010, the BOD of the Parent Company approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share.

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and are considered as common shares without distinction, as approved by the SEC. Both shall be available to foreign investors, subject to the foreign ownership limit.

The Parent Company has a total of 37,194 common stockholders as of December 31, 2014.

The movements in the number of issued and outstanding shares of common stock are as follows:

	Note	**2014**	2013	2012
Issued and outstanding shares at beginning of year		**3,282,756,743**	3,281,546,290	3,279,334,575
Issuances during the year	*39*	**140,928**	1,210,453	2,211,715
Issued shares at end of year		**3,282,897,671**	3,282,756,743	3,281,546,290
Less treasury shares		**904,752,537**	905,761,960	908,892,669
Issued and outstanding shares at end of year		**2,378,145,134**	2,376,994,783	2,372,653,621

Preferred Shares

i. Series "1" Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the BOD of the Parent Company at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period.

Series "1" preferred shares are non-voting except as provided for under the Corporation Code. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the residual assets of the Parent Company, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On October 3, 2011 and December 8, 2010, the Parent Company listed 97,333,000 and 873,173,353 Series "1" preferred shares worth P7,300 and P65,488, respectively.

ii. Series "2" Preferred Shares

Series "2" preferred shares consisting of 1,067,000,000 shares were fully subscribed at the issue price of P75.00 per share. The Series "2" preferred shares were issued in three sub-series (Subseries "2-A", Subseries "2-B" and Subseries "2-C") and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting on the 3rd, 5th and 7th year and every dividend payment thereafter, with a "step-up" rate effective on the 5th, 7th and 10th year, respectively, if the shares are not redeemed. Dividend rates are 7.500%, 7.625% and 8.000% per annum for Subseries "2-A", "2-B" and "2-C", respectively.

Bulk of the proceeds from the issuance of Series "2" preferred shares were used by the Parent Company to redeem the Series "1" preferred shares as well as for general corporate purposes, including short-term debt repayment.

On September 28, 2012, the Parent Company listed the Series "2" preferred shares on the PSE.

The Parent Company has 1,067,000,000 outstanding Series "2" preferred shares and has a total of 935 preferred stockholders as of December 31, 2014.

c. Treasury Shares

Treasury shares consist of:

	2014	2013	2012
Common	**P67,093**	P67,166	P67,336
Preferred	**72,788**	72,788	72,788
	P139,881	P139,954	P140,124

I. Common Shares

The movements in the number of common shares held in treasury are as follows:

	Note	**2014**	2013	2012
Number of shares at beginning of year		**905,761,960**	908,892,669	910,303,273
Cancellation of ESPP	*39*	**68,150**	3,410,250	-
Conversion of exchangeable bonds	*22*	**(1,077,573)**	(6,540,959)	(1,410,604)
Number of shares at end of year		**904,752,537**	905,761,960	908,892,669

1. A portion of the total treasury shares of the Parent Company came from 25,450,000 common shares, with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the Parent Company shares under an agreement executed on March 26, 1986.

   Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

   On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

   On October 10, 2000, the Parent Company filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

   On April 17, 2001, the Supreme Court denied the motion for reconsideration.

   On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by the Parent Company. The financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan Resolution.

   On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

   At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

   In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

   The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

   The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized the Parent Company's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

   On July 23, 2009, the stockholders of the Parent Company approved the amendment of the Articles of Incorporation to issue Series "1" preferred shares, and the offer to exchange common shares to Series "1" preferred shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in the Parent Company in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series "1" preferred shares.

   On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series "1" preferred shares of the Parent Company, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series "1" preferred shares are remitted to the escrow account established with UCPB. On October 5, 2012, the Parent Company redeemed all Series "1" preferred shares including those Series "1" preferred shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series "1" preferred shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As of October 5, 2012, CIIF Holding Companies are no longer stockholders of the Parent Company.

On June 30, 2011, the PCGG filed with the Supreme Court relating to an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, the Parent Company filed a Comment on the Urgent Motion in compliance with the Supreme Court's Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of the Parent Company.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a "Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the "Treasury Shares" Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct San Miguel Corporation (SMC) to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38" ("Manifestation and Omnibus Motion").

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required the Parent Company to comment on COCOFED, et al.'s "Manifestation" dated October 4, 2012 and PCGG's "Manifestation and Omnibus Motion." Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a "Manifestation Re: 'Resolution' dated November 20, 2012," dated December 17, 2012, alleging that (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) the Parent Company is likewise not a party in those cases, and if the Parent Company is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished the Parent Company; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that "no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court's directive".

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required the Parent Company to file its comment on the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the latest Resolution, dated September 10, 2013, the Supreme Court directed the Parent Company, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted the Parent Company's motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

The Parent Company, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion…' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and G.R. No. 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

2. In 2009, 873,173,353 common shares were acquired through the exchange of common shares to preferred shares, on a one-for-one basis, at P75.00 per share amounting to P65,488.

3. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from the treasury shares of the Parent Company and 82,740,000 common shares of Top Frontier. The Offer Shares were priced at P110.00 per share on April 20, 2011.

4. Also on May 5, 2011, US$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the SGX-ST. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds are exchangeable for common shares from the treasury shares of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into common shares is P137.50 per share.

   On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011 and February 10 and 16, 2012, the delivered common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US$600 exchangeable bonds of the Parent Company.

   On April 29, 2014 and on various dates in 2013 and 2012, additional 1,077,573, 6,540,959 and 1,410,604 common shares, respectively, were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from P80.44 to P113.24 per share. The additional common shares of stock of the Parent Company were transacted and crossed at the PSE on various dates via special block sales.

   A total of 9,794,587 and 8,717,014 common shares were issued to the bondholders of the Parent Company's exchangeable bonds as of December 31, 2014 and 2013, respectively (Note 22).

5. A total of 68,150 and 3,410,250 common shares under the ESPP were cancelled and reverted to treasury shares in 2014 and 2013, respectively (Note 39).

II. Series "1" Preferred Shares

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series "1" preferred shares at a redemption price of P75.00 per share. On October 5, 2012, 970,506,353 Series "1" preferred shares were reverted to treasury and were no longer outstanding but remained issued as of December 31, 2014.

d. Unappropriated Retained Earnings

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093, P67,166 and P67,336 in 2014, 2013 and 2012, respectively, representing the cost of common shares held in treasury.

The Group's unappropriated retained earnings includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

e. Appropriated Retained Earnings

The BOD of certain subsidiaries approved additional appropriations amounting to P23,858, P1,015 and P5,904 in 2014, 2013 and 2012, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P4 and P3,000 in 2013 and 2012, respectively.

26. Cost of Sales

Cost of sales consists of:

	Note	**2014**	2013	2012
Inventories		**P515,138**	P498,098	P468,655
Taxes and licenses		**40,088**	36,551	30,804
Energy fees	*34*	**30,776**	31,269	33,150
Depreciation, amortization and impairment	*28*	**15,541**	14,096	13,117
Fuel and oil		**11,834**	10,448	13,269
Freight, trucking and handling		**11,653**	10,300	7,890
Contracted services		**9,227**	8,672	7,477
Communications, light and water		**8,933**	5,978	5,562
Construction cost		**8,735**	970	85
Personnel	*29*	**6,484**	5,528	5,020
Power purchase		**6,046**	3,929	4,452
Repairs and maintenance		**2,934**	3,391	3,425
Rent	*4, 34*	**683**	655	754
Others		**1,569**	1,971	1,921
		P669,641	P631,856	P595,581

27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2014	2013	2012
Selling	**P28,823**	P29,892	P28,970
Administrative	**28,195**	31,079	23,630
	P57,018	P60,971	P52,600

Selling expenses consist of:

	Note	2014	2013	2012
Personnel	*29*	**P7,330**	P6,884	P6,890
Freight, trucking and handling		**7,194**	7,020	6,407
Advertising and promotions		**5,035**	6,952	7,085
Depreciation, amortization and impairment	*28*	**3,076**	2,679	2,239
Rent	*4, 34*	**2,807**	2,398	2,232
Repairs and maintenance		**1,071**	1,266	1,320
Taxes and licenses		**621**	634	524
Professional fees		**562**	499	487
Supplies		**453**	209	422
Communications, light and water		**451**	470	396
Others	*4, 10, 39*	**223**	881	968
		P28,823	P29,892	P28,970

Administrative expenses consist of:

	Note	2014	2013	2012
Personnel	*29*	**P13,773**	P12,392	P11,433
Depreciation, amortization and impairment	*28*	**4,464**	4,613	4,633
Professional fees		**2,623**	2,206	2,013
Taxes and licenses		**2,060**	1,712	1,119
Advertising and promotion		**1,175**	1,027	1,105
Communications, light and water		**840**	916	745
Repairs and maintenance		**782**	776	835
Supplies		**645**	873	682
Freight, trucking and handling		**265**	306	269
Rent	*4, 34*	**159**	262	33
Research and development		**134**	113	119
Others	*39*	**1,275**	5,883	644
		P28,195	P31,079	P23,630

"Others" consist of entertainment and amusement, gas and oil, and other administrative expenses.

28. Depreciation, Amortization and Impairment

Depreciation, amortization and impairment are distributed as follows:

	Note	2014	2013	2012
Cost of sales:				
Property, plant and equipment	*7, 15*	**P13,071**	P12,181	P11,972
Deferred containers, biological assets and others	*17, 19*	**2,470**	1,915	1,145
	26	**15,541**	14,096	13,117
Selling and administrative expenses:				
Property, plant and equipment	*7, 15*	**4,697**	4,624	4,022
Deferred containers and others	*19*	**2,843**	2,668	2,850
	27	**7,540**	7,292	6,872
		P23,081	P21,388	P19,989

"Others" include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

29. Personnel Expenses

Personnel expenses consist of:

	Note	2014	2013	2012
Salaries and wages		**P13,291**	P11,935	P11,010
Retirement costs	*35*	**1,191**	1,362	1,108
Other employee benefits		**13,105**	11,507	11,225
		P27,587	P24,804	P23,343

Personnel expenses are distributed as follows:

	Note	2014	2013	2012
Cost of sales	*26*	**P6,484**	P5,528	P5,020
Selling expenses	*27*	**7,330**	6,884	6,890
Administrative expenses	*27*	**13,773**	12,392	11,433
		P27,587	P24,804	P23,343

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	2014	2013	2012
Interest expense		**P26,566**	P27,191	P26,852
Other financing charges	*12*	**3,144**	3,779	2,948
		P29,710	P30,970	P29,800

Amortization of debt issue costs included in "Other financing charges" amounted to P764, P1,322 and P1,234 in 2014, 2013 and 2012, respectively (Note 22).

Interest expense on loans payable, long-term debt and finance lease liabilities is as follows:

	Note	2014	2013	2012
Loans payable	*20*	**P5,028**	P6,114	P5,411
Long-term debt	*22*	**10,820**	10,093	10,110
Finance lease liabilities	*34*	**10,718**	10,984	11,331
		P26,566	P27,191	P26,852

31. Interest Income

Interest income consists of:

	Note	2014	2013	2012
Interest from short-term investments, cash in banks and others		**P3,530**	P2,446	P2,730
Interest on amounts owed by related parties	*33, 35*	**482**	1,093	1,523
		P4,012	P3,539	P4,253

32. Other Income (Charges)

Other income (charges) consists of:

	Note	2014	2013	2012
Gains (losses) on derivatives - net	*41*	**P7,513**	P2,448	(P1,270)
PSALM monthly fees reduction		**815**	872	918
Remeasurement of property dividends and AFS financial assets	*13*	**-**	4,863	-
Loss on redemption of exchangeable bonds	*22*	**-**	(1,500)	-
Reversal (additional provision) on impairment (a)	*15, 18, 19*	**(242)**	(1,501)	1,060
Gains (losses) on foreign exchange	*40*	**(2,412)**	(19,436)	11,373
Others (b)		**633**	474	608
		P6,307	(P13,780)	P12,689

a. *Reversal (Additional Provision) on Impairment of Property, Plant and Equipment, Trademarks and Brand Names and Idle Assets.*

SMBHK and San Miguel (Guangdong) Brewery Company Limited (SMGB)
The Group has determined that no further impairment losses, nor reversals of previously recognized impairment losses are required as of December 31, 2014 and 2013. The recoverable amount, which is the value in use, exceeds the carrying amount.

SMBHK. In 2012, there was a change in the estimates used to determine the SMBHK cash-generating unit's (SMBHK CGU) recoverable amount as the Group was able to determine fair value less cost to sell based on a reliable estimate of the amount obtainable from the sale of most of the assets belonging to the SMBHK CGU under an arm's length transaction between knowledgeable and willing parties, due to recent comparable transaction data becoming available. The fair value less costs to sell of the SMBHK CGU was greater than the value-in-use as of December 31, 2012. Hence, the Group determined the recoverable amount based on the fair value less costs to sell and reversed a part of previously recognized impairment losses in respect of the SMBHK CGU to the extent that the revised carrying amount of individual assets does not exceed the smaller of: (i) the fair value less costs to sell as of December 31, 2012; and (ii) what would have been determined had no impairment loss been recognized in prior years.

The estimates of the cash-generating unit's fair value less costs to sell were determined by reference to the observable market prices for similar assets. In estimating this amount, the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, that has among its staff, members of the Hong Kong Institute of Surveyors.

Also in 2012, the Group noted an increase in the investment property's recoverable amount, mainly arising from an increase in the fair value less costs to sell, which exceeded the relevant carrying amount. Hence, the Group reversed previously recognized impairment losses on the investment property to the extent that the revised carrying amount does not exceed the smaller of: (i) the fair value less costs to sell as of December 31, 2012; and (ii) what would have been determined had no impairment loss been recognized in prior years.

The estimates of the investment property's fair value less costs to sell were determined by reference to the observable market prices for similar assets. In estimating this amount, the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, that has among its staff, members of the Hong Kong Institute of Surveyors.

A reversal of an impairment loss was made to the carrying amount that would have been determined had no impairment loss been recognized in prior years with respect to interests in leasehold land held for own use under operating leases, as there has been a favorable change in the estimates used to determine the recoverable amount.

SMGB. In 2012, the Group noted that fierce market competition resulted in the decline in the demand for its products in mainland China compared to previous sales forecasts. Consequently, operating losses were incurred. These factors are indications that non-current assets of the operations in mainland China, comprising mainly of the production plant located in Shunde, Guangdong Province and other tangible assets may be impaired. The Group recognized an impairment loss amounting to P20 in 2012.

The estimates of recoverable amount were based on the assets' fair values less costs to sell, determined by reference to the observable market prices for similar assets. In estimating this amount, the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, that has among its staff, members of the Hong Kong Institute of Surveyors.

Based on the Group's assessment of the recoverable amounts of the CGUs to which these assets belong, the carrying amounts of the assets in the CGUs were written down (up) by (P1,428) included as part of "Other income (charges)" account in 2012.

SMGFB. SMGFB's plant ceased operations due to significant decline in market demand for its products. As a result, the Group estimated the recoverable amount of the assets and noted that such is below the carrying amount. Accordingly, an impairment loss amounting to P1,501 was recognized in profit or loss in 2013.

b. "Others" consist of rent income, commission income, dividend income from AFS financial assets, changes in fair value of financial assets at FVPL, gain on settlement of ARO and insurance claims.

33. 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 December 31:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	*36*	**2014**	**P26**	**P -**	**P5,677**	**P551**	On demand or less than 4 to 6 years;	Unsecured;
		2013	-	-	5,658	551	Interest and non-interest bearing	No impairment
Retirement Plans	*10, 19, 35*	**2014**	**216**	**-**	**12,686**	**-**	On demand;	Unsecured;
		2013	25	-	22,604	-	Interest bearing	No impairment
Associates	*10, 19, 21, 23*	**2014**	**2,066**	**98**	**7,473**	**159**	On demand;	Unsecured;
		2013	11,078	332	10,173	1	Interest and non-interest bearing	No impairment
	20, 22	**2014**	**-**	**-**	**-**	**16,640**	Less than 1 to 10 years;	Unsecured and secured
		2013	-	-	-	13,251	Interest bearing	
JVC	*10, 19, 21*	**2014**	**-**	**83**	**674**	**1**	On demand;	Unsecured;
		2013	-	137	325	28	Non-interest bearing	No impairment
Shareholders in subsidiaries	*10, 21, 23*	**2014**	**107**	**15**	**20**	**347**	On demand;	Unsecured;
		2013	-	36	61	239	Non-interest bearing	No impairment
Others	*10, 21, 23*	**2014**	**92**	**-**	**6,931**	**46**	On demand;	Unsecured;
		2013	10	-	11	1,078	Non-interest bearing	No impairment
Total		**2014**	**P2,507**	**P196**	**P33,461**	**P17,744**		
Total		2013	P11,113	P505	P38,832	P15,148		

a. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

b. Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable (Note 36).

c. The amounts owed to associates include interest bearing loans to BOC presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

d. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	**2014**	2013	2012
Short-term employee benefits		**P544**	P489	P447
Retirement benefits	*35*	**(1)**	(15)	(251)
Share-based payments	*39*	**-**	10	17
		P543	P484	P213

34. Significant Agreements and Lease Commitments

Significant Agreements:

- **Energy**

a. *Independent Power Producer (IPP) Administration (IPPA) Agreements*

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the Agreements and further confirms that for so long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

i. The right and obligation to manage and control the contracted capacity of the power plant for its own account and at its own cost and risks;

ii. The right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. The right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the corporation period or in case of buy-out;

iv. For SMEC and SPPC, the right to receive an assignment of NPC's interest to existing short-term bilateral power supply contracts;

v. The obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. Maintain the performance bond in full force and effect with a qualified bank; and

vii. The obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payment for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees for 2014 and 2013 amounted to P30,776 and P31,269, respectively (Note 26). SMEC, SPDC and SPPC renewed their performance bonds in US dollar amounting to US$58, US$20 and US$60, which will expire on November 3, 2015, January 25, 2015 and June 16, 2015, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2016.

b. *Market Participation Agreements (MPA)*

SMEC, SPDC and SPPC have entered into a MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by Energy Regulatory Commission (ERC). For the years ended December 31, 2014 and 2013, PEMC's market fees charged to SMEC, SPDC and SPPC amounted to P234 and P247, respectively.

In March 2013, SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2015, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. *Power Supply Agreements*

SMEC, SPPC, SPDC and SPI have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions of the parties.

Certain customers, like electric cooperatives, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. However, as stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged the capacity fees based on the contracted capacity even if there is no associated energy taken during the month.

SMEC, SPPC, SPDC and APEC purchases replacement power from WESM and other power generation companies during periods when the power generated from the power plant is not sufficient to meet customers' power requirements.

d. *Coal Supply Agreements*

SMEC and SPI have supply agreements with various coal suppliers for their power plants' coal requirements.

e. *Retail Supply Agreements*

SMELC has retail supply agreements with customers to supply or sell electricity purchased from related parties and WESM. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. However, as stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy with adjustments if customer has not fully taken or failed to consume the contracted capacity.

f. *Retail Electricity Supplier's (RES) License*

On August 22, 2011, SMELC was granted a RES License by the ERC pursuant to Section 29 of the RA No. 9136 or the EPIRA Law which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of five years from the time it was granted and renewable thereafter.

g. *Concession Agreement*

SMC Global entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

The Concession Agreement include, among others, the following rights and obligations: i) SMC Global shall organize and establish APEC, a fully-owned and controlled subsidiary which shall assume all the rights and interests and perform the obligations of SMC Global under the Concession Agreement. APEC was incorporated on November 19, 2013. The assignment by SMC Global to APEC is effective January 3, 2014; ii) as Concession Fee, APEC shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement; (b) the amount of P2 every quarter beginning January 1, 2014 for the upkeep of residual ALECO; iii) if the net cash flow of APEC is positive within five years or earlier from the date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,049; iv) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and v) at the end of the concession period, all assets and system shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO turned over the operations to APEC on February 26, 2014.

h. *MOA with San Roque Power Corporation (SRPC)*

On December 6, 2012, SPDC entered into a five-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant.

Under the MOA: i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties.

v *Coal Operating Contracts (COC)*

Daguma Agro-Minerals, Inc.'s (DAMI) coal property covered by COC No. 126, issued by the Department of Energy (DOE), is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 94 million metric tons as of December 31, 2014, based on exploratory drilling and additional in-fill drilling.

Sultan Energy Phils. Corp. (SEPC) has a coal property and right over an aggregate area of 7,000 hectares, more or less, composed of seven coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2014, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons, based on exploratory drilling and confirmatory drilling.

Bonanza Energy Resources, Inc.'s (BERI) COC No. 138, issued by the DOE, is located in Sarangani Province and South Cotabato consisting of eight coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 23 million metric tons as of December 31, 2014, based on initial exploratory drilling.

Status of Operations
In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

* *The term is followed by another 10-year extension, and thereafter, renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

In May 2011, DAMI, SEPC and BERI separately requested the DOE for a moratorium on suspension of the implementation of the production timetable as specified in the Five-Year Development and Productive Work Progress of COC Nos. 126, 134 and 138 due to the newly enacted Environment Code of South Cotabato which prohibits open-pit mining and other related activities, hence, constrained these companies into implementing the production time table without violating this local ordinance. On April 27, 2012, the DOE granted DAMI, SEPC and BERI's request for a moratorium on their work commitments from the effective dates of their respective COCs when these were converted to Development/Production Phase until December 31, 2012.

On December 27, 2012, DAMI, SEPC and BERI submitted separately their Five-Year Work Program (WP) to the DOE. The DOE, however, imposed certain requirements before it can further process the WP. On August 8, 2013, DAMI, SEPC and BERI resubmitted the Five-Year WP incorporating additional requirements of the DOE.

On April 29, 2014, these companies requested for a suspension of their work commitments under their respective COCs until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first. On January 26, 2015, DOE granted the companies' request.

- **Fuel and Oil**

Supply Agreement
Petron has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron's crude oil requirements from Saudi Arabian American Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron for such purchases are included as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as of December 31, 2014 and 2013 (Note 21).

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 70% of crude and condensate volume processed are from EMEPMI with balance of around 30% from spot purchases.

Supply Contract with NPC and PSALM
Petron entered into various fuel supply contracts with NPC and PSALM. Under these contracts, Petron supplies the bunker fuel, diesel fuel oil and engine lubricating oil requirements of selected NPC and PSALM plants, and NPC-supplied IPP plants.

- **Infrastructure**

  - Airport Concession Agreement

    The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its revised implementing rules and regulations.

    On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the Department of Transportation and Communication (DOTC) and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the extension or expansion of the Boracay Airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years, and to collect the fees, rentals and other charges as may be agreed from time to time based on the Parametric Formula as defined in the Concession Agreement.

    The following are the salient features of the Concession Agreement:

    1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.

    2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. TADHC has yet to pay the OMPS as of December 31, 2014 and 2013, since it is payable only after the completion of the construction of the Airport Project.

    3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the Concession Agreement are fulfilled or waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.

    4. TADHC shall finance the cost of the Airport Project, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to third party loans. TADHC's estimated capital commitment to develop the Airport Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC fully issued its authorized capital stock as a leverage to the loan obtained from a related party (Note 33).

    5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC to develop the Airport Project. This performance security shall be partially released by the ROP from time to time to the extent of the percentage-of-completion of the Airport Project. TADHC has paid P1 premium both in 2014 and 2013, for the Work Performance Security. The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 12).

    6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The 1st payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

    After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTC was accepted by TADHC on December 18, 2009.

    The Concession Agreement may be renewed or extended for another 25 years upon written agreement of the parties through the execution of a renewal or extension contract.

    In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway is currently ongoing and various pre-construction work is being done for the new terminal, such as project design, clearing and acquisition of the right of way.

  - MRT 7 Concession Agreement

    In 2008, the ROP awarded ULC the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is proposed to be an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme which is a modified Build-Transfer-Operate (BTO) arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its revised implementing rules and regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

    On June 18, 2008, ULC entered into a Concession Agreement with the ROP, through the DOTC, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC has been granted the right to finance, construct and operate and maintain the proposed MRT 7 Project, which consists of 44 km of rail transportation (from North Avenue station in EDSA, Quezon City passing through Commonwealth Avenue, Regalado Avenue, Quirino Highway up to Intermodal Transportation Terminal in San Jose del Monte, Bulacan) and road (from San Jose del Monte, Bulacan to Bocaue Interchange of the North Luzon Expressway).

    The following are the salient features of the Concession Agreement:

    1. The MRT 7 Project cost shall be financed by ULC through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC's estimated capital commitment to develop the MRT 7 Project amounts to US$1,235.60, adjusted to 2008 prices at US$1,540 per National Economic and Development Authority Board approval of June 2013. ULC shall endeavor to have signed the financing agreements not later than 18 months from the signing of the Concession Agreement.

    2. ULC shall post a Performance Security for Construction and Operation and Maintenance (O&M) in favor of the ROP as guarantee for faithful performance by ULC to develop the MRT 7 Project. This performance security for O&M shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.

    3. In the event that the MRT 7 Project is not completed by the end of the grace period, which is 100 calendar days following the project completion target as defined in the Concession Agreement, ULC shall pay the ROP liquidated damages of US$0.1 for every calendar day of delay.

    4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC shall start when the MRT 7 Project is substantially completed.

    5. Net passenger revenue shall be shared by the ROP and ULC on a 30:70 basis.

    6. All rail-based revenues above 11.90% internal rate of return of ULC for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.

    7. The ROP grants ULC the exclusive and irrevocable commercial development rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines,

fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the development rights granted, ULC or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the development rights.

On July 23, 2014, the ROP through the ROP/DOTC confirmed their obligations under the MRT 7 Agreement dated June 18, 2008. On August 19, 2014, ULC received the Performance Undertaking (PU) issued by the Department of Finance. The PU is a recognition of the obligations of the ROP thru the DOTC under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC. The issuance of the PU triggers the obligation of ULC to achieve financial close within 18 months from the date of receipt of the PU. As of December 31, 2014, the construction of MRT 7 Project has not yet started.

- Toll Road Concession Agreements

(i) TPLEX Project

PIDC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 88.85 km. The two-lane expressway will have nine toll plazas from start to end. Under the Concession Agreement, PIDC will:

a) finance, design and construct the TPLEX Project;
b) undertake the operations and maintenance of the TPLEX Project;
c) obtain financing on a limited recourse project finance basis; and
d) impose and collect tolls from the users of the TPLEX Project.

The initial toll rate was submitted by PIDC as part of its bid and was duly confirmed by the DPWH and incorporated as part of the Concession Agreement. Toll rate shall be collected using the close-system which may be changed into an open-system whenever there is a new interchange required to be built as per Concession Agreement.

The toll revenue collected from the operation of the TPLEX Project is the property of PIDC. PIDC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

In the event that PIDC is disallowed from charging and collecting the authorized amounts of the toll rates as prescribed in the Concession Agreement from the users of the TPLEX Project, PIDC shall be entitled to compensation on a monthly basis based on actual traffic volume for the month, the resulting loss of revenue which would have been collected had said adjustment been implemented.

The concession period shall be for a term of 35 calendar years starting from the effectivity of the Concession Agreement and any approved extension thereof.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of PIDC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each section of the TPLEX Project.

On October 31, 2013, PIDC partially opened the first section of the TPLEX Project. The first section which is a 23-km stretch is comprised of three segments: (1) Tarlac to Victoria, (2) Victoria to Gerona and (3) Gerona to Paniqui. During the soft opening, segments one and two were opened to the public free of toll fare charges.

On December 23, 2013, the TPLEX Project was formally opened to the public.

On January 18, 2014, PIDC obtained approval from the TRB to collect toll fares (inclusive of VAT) for the use of the three segments of section one.

The stretch from Carmen to Urdaneta is nearing completion and is expected to be fully operational by the 2nd quarter of 2015. On the other hand, the last section from Urdaneta to Rosario is targeted for completion by 2016.

(ii) STAR Project

On July 18, 1998, SIDC and the ROP, individually and collectively, acting by and through the DPWH and the TRB, entered into a Concession Agreement covering the STAR Project.

Under the Concession Agreement, the activities are defined related to the following components of the STAR Project:

1. The preliminary and final engineering design, financing and construction of Stage II of the STAR Project.

2. The design and construction of all ancillary toll road facilities, toll plazas, interchanges and related access facilities of Stage I of the STAR Project, a ROP-constructed toll road, and for Stage II of the STAR Project road to be constructed by SIDC.

3. The operation and maintenance of the STAR Project as toll road facilities within the concession period of 30 years from January 1, 2000 up to December 31, 2029.

   However, based on the Concession Agreement amendatory agreement dated December 2006, the concession period is extended for an additional six years, to compensate for the delay in the commencement of the construction of the Stage II of the STAR Project, Phase II toll road. Accordingly, the concession period shall be deemed to end on December 31, 2035.

4. The financing of the STAR Project is through equity and debt instruments until its full satisfaction and for the operation and maintenance of the toll road and its facilities within the concession period.

Also pursuant to the Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. Provided, that the right of way shall be titled in the ROP's name regardless of the construction thereon.

The STAR Project consists of two stages as follows:

Stage I O&M of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas

Stage II Finance, design, construction, O&M of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas

SIDC started its commercial operations on August 1, 2001 after the issuance by the TRB to SIDC of the Toll Operation Certificate (TOC) for the O&M of the Stage I toll road facility of the STAR Project on July 31, 2001.

The TRB issued to SIDC the TOC for the O&M of the Stage II, Phase I toll road facility of the STAR Project on April 16, 2008. SIDC started the construction of the remaining portion of Stage II in 2013 and was completed in October 17, 2014.

(iii) NAIA Expressway Project

On July 8, 2013, Vertex entered into a Concession Agreement with the ROP, through DPWH, for a 30-year concession period subject to extensions, as may be provided for under the Concession Agreement. Based on the Concession Agreement, Vertex has been granted the right to finance, construct, and operate and maintain the NAIA Expressway Project, which consists of a 4-lane, 7.75 km elevated expressway and 2.22 km At-Grade feeder road that will provide access to NAIA Terminals 1, 2 and 3, and link the Skyway and the Manila-Cavite Toll Expressway.

The following are the salient features of the Concession Agreement:

1. Vertex shall at all times during the concession period maintain a leverage ratio not exceeding 80%.

2. Vertex shall post a Performance Security for Construction and O&M in favor of the ROP as guarantee for faithful performance to develop the NAIA Expressway Project. The Performance Security for Construction shall be reduced on the date of expiry of the At-Grade Works and Phase II(a) Defects Liability Period to the amounts as specified in the Concession Agreement.

   Throughout the construction period, the DPWH and the TRB shall be allowed to monitor, inspect and check progress and quality of the activities and works undertaken by Vertex to ensure compliance with the Concession Agreement's Minimum Performance Standards and Specifications, Certified Detailed Engineering Design (DED) or At-Grade Works DED. Vertex shall directly pay for the cost of the Project Overhead Expenses incurred by the DPWH or the TRB until the end of the construction period. The liability of Vertex for the Project Overhead Expenses due to the TRB and DPWH shall not exceed P25 and P50, respectively.

3. If by the Completion Deadline, the Independent Consultant has not issued written notice that all conditions in the Concession Agreement in relation to the At-Grade Works, Phase II(a) and Phase II(b) have been fulfilled, Vertex shall be liable to the DPWH for the payment of liquidated damages in the amount of P0.15, P1.5 and P2 for every day of delay beyond the At-Grade Works, Phase II(a) and Phase II(b) Construction Completion Deadline, respectively.

4. The toll revenues collected from the operations of the NAIA Expressway Project are the property of Vertex. Vertex has the right to assign or to enter into such agreements with regard to the toll revenues and their collection, custody, security and safekeeping.

5. The equity structure of Vertex shall comply with the equity requirements set out in the Concession Agreement. During the lock-up period, which is from the signing date until the end of the third year of the Operation Period, Vertex shall not register or otherwise permit any transfer of its equity or any rights in relation to its equity except: (a) if after the transfer, (i) the Qualifying Initial Stockholders continue to meet its Equity Requirement; (ii) the Initial Shareholders collectively continue to meet its Equity Requirements, and in each case any new shareholder is approved by the DPWH such consent not to be unreasonably withheld; (b) with the DPWH's prior written consent; (c) by way of the grant of a Permitted Security Interest or the exercise of rights under a Permitted Security Interest; or such transfer is necessary to comply with any applicable foreign ownership restrictions and the transferee and the terms of the transfer are both approved by the DPWH.

6. At the end of the concession period, Vertex shall turnover to the DPWH the NAIA Expressway in the condition required for turnover as described in the Minimum Performance Standards Specifications.

In January 2014, the construction of the 5.4-km NAIA Expressway started. This will connect the Skyway system to PAGCOR City and Roxas Boulevard and provide convenient access to NAIA Terminals 1, 2 and 3.

- **Telecommunications**

Franchise with the National Telecommunications Commission (NTC)

- BellTel

  In 1994, the Philippine Congress passed RA No. 7692 which granted a franchise to BellTel to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

On October 28, 1997, the NTC, under NTC Case No. 94-229, granted a Provisional Authority (PA) to BellTel, valid for 18 months, or until April 27, 1999, to install, operate and maintain the following telecommunication services:

- international gateway facility;
- inter-exchange carrier facility;
- VSAT system nationwide;
- telephone systems in the selected cities and municipalities in the Luzon area;
- Wireless Local Loop telephone systems in the cities of Muntinlupa, Las Piñas, Pasig, Mandaluyong, Makati, Pasay, Parañaque, Taguig and Marikina; and in the municipalities of Pateros and San Juan; and
- telephone systems in all economic zones identified under RA No. 7916.

Since then, this PA had been extended several times, the latest extension of which is valid until March 5, 2015. An ex-parte motion was filed on March 5, 2015 which is still pending the approval with the NTC.

In an Order dated October 19, 2007 (CCC Case No. 94-223), the NTC granted BellTel a PA, valid for 18 months or until April 19, 2009, to install, operate and maintain a Mobile Telecommunication Network as set forth in the said Order. Since then, this PA had been extended, the latest extension of which is valid until April 17, 2015.

o ETPI

On October 3, 2002, RA No. 9172 entitled "An Act Renewing and Amending the Franchise Granted to ETPI (Eastern Extension Australasia and China Telegraph Company Limited) under RA No. 808, as Amended" extended for another 25 years ETPI's legislative franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, throughout the Philippines and between the Philippines and other countries and territories, the following telecommunications services:

- wire and/or wireless telecommunications systems, including but not limited to mobile, cellular, paging, fiber optic, multi-channel distribution system, local multi-point distribution system, satellite transmit and receive systems, switches, and their value-added services such as, but not limited to, transmission of voice, data, facsimile, control signs, audio and video, information services bureau and all other telecommunications systems technologies as are at present available or will be made available through technological advances or innovations in the future; and

- construct, acquire, lease and operate or manage transmitting and receiving stations, lines, cables or systems, as is, or are, convenient or essential to efficiently carry out the purpose of the franchise.

o TTPI

TTPI has an approved congressional franchise granted under RA No. 7671, as amended by RA No. 7674, to install, operate and maintain telecommunications systems throughout the Philippines.

On September 25, 1996, the NTC granted TTPI a PA to install, operate and maintain Local Exchange Carrier (LEC) services in the provinces of Batanes, Cagayan, Isabela, Kalinga, Apayao, Nueva Vizcaya, Ifugao and Quirino and the cities of Manila and Caloocan as well as the municipality of Navotas in order to commence compliance with the requirements of Executive Order No. 109 (s. 1993), which required ETPI to put up a minimum of 300,000 LEC lines. TTPI is allowed to deploy Public Calling Offices in municipalities and barangays within its authorized service area in lieu of rolling out LEC lines.

On January 18, 2006, the NTC granted TTPI a Certificate of Public Convenience and Necessity (CPCN) to install, operate and maintain LEC services in the cities of Manila and Caloocan, as well as in the provinces of Cagayan and Isabela. In addition, in a letter dated August 14, 2006, the NTC confirmed that TTPI has already completely served the remaining areas it needs to serve under the PA of September 25, 1996. On January 8, 2010, TTPI was granted a CPCN to install, operate and maintain LEC services in the municipality of Navotas and the provinces of Cagayan, Isabela, Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

On September 25, 1996, October 16, 2006 and December 23, 2008, the NTC issued separate PAs in favor of TTPI to install, operate and maintain LEC services in the remaining cities and municipalities of Metro Manila, in the provinces of Cavite, Laguna, Batangas, Rizal and Quezon (CALABARZON) and in the provinces of Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

The NTC granted TTPI a PA to install, operate and maintain LEC service in the rest of the Greater Manila Area on October 16, 2006. The PA was extended by the NTC on September 11, 2008 for three years but not beyond April 16, 2011. The motion for an extension of the PA is still pending with the NTC as of December 31, 2014.

Lease Commitments:

■ Finance Leases

Group as Lessee

a. IPPA Agreements

The IPPA Agreements are with the conformity of NPC, a government-owned and controlled corporation created by virtue of RA No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively.

The IPPA Agreements provide the Group with a right to receive a transfer of the power station in case of buy-out or termination.

In accounting for the Group's IPPA Agreements with PSALM, the Group's management has made a judgment that the IPPA Agreement is an agreement that contains a finance lease. The Group's management has also made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the carrying amount of the Group's capitalized asset and related liability of P188,133 and P186,304 as of December 31, 2014 and P193,319 and P195,003 as of December 31, 2013, respectively, (equivalent to the present value of the minimum lease payments using the Group's incremental borrowing rates for US dollar and Philippine peso payments) are presented as part of "Property, plant and equipment" and "Finance lease liabilities" accounts in the consolidated statements of financial position (Notes 4 and 15).

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P10,718, P10,984, and P11,331, in 2014, 2013 and 2012, respectively (Note 30).

The future minimum lease payments for each of the following periods are as follows:

2014

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$239**	**P10,668**	**P11,423**	**P22,091**
More than one year and not later than five years	**1,027**	**45,928**	**49,178**	**95,106**
Later than five years	**1,413**	**63,225**	**67,753**	**130,978**
	2,679	**119,821**	**128,354**	**248,175**
Less: Future finance charges on finance lease liabilities	**462**	**20,677**	**41,194**	**61,871**
Present values of finance lease liabilities	**US$2,217**	**P99,144**	**P87,160**	**P186,304**

2013

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$218	P9,679	P10,438	P20,117
More than one year and not later than five years	997	44,284	47,766	92,050
Later than five years	1,682	74,666	80,589	155,255
	2,897	128,629	138,793	267,422
Less: Future finance charges on finance lease liabilities	547	24,282	48,137	72,419
Present values of finance lease liabilities	US$2,350	P104,347	P90,656	P195,003

The present values of minimum lease payments for each of the following periods are as follows:

2014

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	**US$195**	**P8,719**	**P7,486**	**P16,205**
More than one year and not later than five years	**765**	**34,207**	**26,605**	**60,812**
Later than five years	**1,257**	**56,218**	**53,069**	**109,287**
	US$2,217	**P99,144**	**P87,160**	**P186,304**

2013

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$185	P8,221	P7,410	P15,631
More than one year and not later than five years	771	34,230	27,918	62,148
Later than five years	1,394	61,896	55,328	117,224
	US$2,350	P104,347	P90,656	P195,003

b. Equipment

The Group's finance leases cover equipment needed for business operations. The agreements do not allow subleasing. The net carrying amount of leased assets is P22 and P37 as of December 31, 2014 and 2013, respectively (Notes 4 and 15).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2014

	Minimum Lease Payable	Interest	Principal
Within one year	**P16**	**P2**	**P14**
After one year but not more than two years	**14**	**2**	**12**
	P30	**P4**	**P26**

2013

	Minimum Lease Payable	Interest	Principal
Within one year	P27	P4	P23
After one year but not more than two years	22	-	22
	P49	P4	P45

- Operating Leases

Group as Lessor
The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 16). The non-cancellable leases have remaining terms of 3 to 14 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The future minimum lease receipts under non-cancellable operating leases are as follows:

	2014	2013	2012
Within one year	**P4,317**	P322	P340
After one year but not more than five years	**12,003**	544	494
After five years	**25**	43	69
	P16,345	P909	P903

Rent income recognized in the consolidated statements of income amounted to P1,672, P1,428 and P1,139 in 2014, 2013 and 2012, respectively (Note 4).

Group as Lessee
The Group leases a number of office, warehouse and factory facilities under operating leases. The leases typically run for a period of 1 to 16 years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Non-cancellable operating lease rentals are payable as follows:

	2014	2013	2012
Within one year	**P1,930**	P1,684	P1,418
After one year but not more than five years	**3,946**	4,052	3,230
More than five years	**10,706**	9,357	7,680
	P16,582	P15,093	P12,328

Rent expense recognized in the consolidated statements of income amounted to P3,649, P3,315 and P3,019 in 2014, 2013 and 2012, respectively (Notes 4, 26 and 27).

35. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of the Parent Company and majority of its subsidiaries pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2014. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the BIR as tax-qualified plans under RA No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. The Board of Trustees of the Group's Retirement Plans exercises voting rights over the shares and approve material transactions. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of the Parent Company.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Balance at beginning of year	**P29,235**	P25,559	**(P26,013)**	(P24,573)	**(P4,051)**	(P3,965)	**(P829)**	(P2,979)
Benefit asset of newly-acquired and disposed subsidiaries	**-**	-	**-**	36	**-**	-	**-**	36
Recognized in profit or loss								
Service costs	**-**	-	**(1,258)**	(1,205)	**-**	-	**(1,258)**	(1,205)
Interest expense	**-**	-	**(1,148)**	(1,213)	**-**	-	**(1,148)**	(1,213)
Interest income	**1,297**	1,239	**-**	-	**-**	-	**1,297**	1,239
Interest on the effect of asset ceiling	**-**	-	**-**	-	**(178)**	(183)	**(178)**	(183)
Settlements	**-**	-	**96**	-	**-**	-	**96**	-
	1,297	1,239	**(2,310)**	(2,418)	**(178)**	(183)	**(1,191)**	(1,362)
Recognized in other comprehensive income								
Remeasurements:								
Actuarial (gains) losses arising from:								
Experience adjustments	**-**	-	**(1,167)**	(583)	**-**	-	**(1,167)**	(583)
Changes in financial assumptions	**-**	-	**(166)**	(608)	**-**	-	**(166)**	(608)
Changes in demographic assumptions	**-**	-	**537**	63	**-**	-	**537**	63
Return on plan asset excluding interest	**(4,756)**	3,016	**-**	-	**-**	-	**(4,756)**	3,016
Changes in the effect of asset ceiling	**-**	-	**-**	-	**1,443**	97	**1,443**	97
	(4,756)	3,016	**(796)**	(1,128)	**1,443**	97	**(4,109)**	1,985
Others								
Contributions	**1,692**	1,356	**-**	-	**-**	-	**1,692**	1,356
Benefits paid	**(2,040)**	(1,977)	**2,145**	2,046	**-**	-	**105**	69
Transfers from other plans	**-**	43	**-**	(43)	**-**	-	**-**	-
Transfers to other plans	**-**	(43)	**-**	43	**-**	-	**-**	-
Other adjustments	**16**	42	**49**	24	**-**	-	**65**	66
	(332)	(579)	**2,194**	2,070	**-**	-	**1,862**	1,491
Balance at end of year	**P25,444**	P29,235	**(P26,925)**	(P26,013)	**(P2,786)**	(P4,051)	**(P4,267)**	(P829)

The Group's annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement benefits recognized in the consolidated statements of income by the Parent Company amounted to P31, P63 and P57 in 2014, 2013 and 2012, respectively (Note 29).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P1,222, P1,425 and P1,165 in 2014, 2013 and 2012, respectively (Note 29).

As of December 31, 2014, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,830 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P127 and P7,970, respectively (Notes 21 and 23).

As of December 31, 2013, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P6,737 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P100 and P7,466, respectively (Notes 21 and 23).

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2014 and 2013.

The Group's plan assets consist of the following:

	In Percentages	
	2014	2013
Investments in marketable securities and shares of stock	**70.11**	74.54
Investments in pooled funds:		
Fixed income portfolio	**7.47**	5.69
Stock trading portfolio	**5.78**	3.58
Investments in real estate	**0.49**	0.38
Others	**16.15**	15.81

Investments in Marketable Securities

As of December 31, 2014, the plan assets include:

- 21,733,617 common shares, 6,661,840 Series "2", Subseries "2-A" and 32,511,970 Series "2", Subseries "2-B" preferred shares of the Parent Company with fair market value per share of P73.80, P75.60 and P78.15, respectively;
- 731,516,097 common shares and 2,945,000 preferred shares of Petron with fair market value per share of P10.60 and P101.80, respectively;
- 18,959,785 common shares of GSMI with fair market value per share of P15.88;
- 226,998 common shares and 54,835 preferred shares of SMPFC with fair market value per share of P208.00 and P1,009.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00; and
- 2,170,861 common shares of Top Frontier with fair market value per share of P124.00.

As of December 31, 2013, the plan assets include:

- 19,203,227 common shares, 4,046,420 Series "2", Subseries "2-A" and 32,536,970 Series "2", Subseries "2-B" preferred shares of the Parent Company with fair market value per share of P62.50, P76.15 and P76.30, respectively;
- 1,492,681,097 common shares and 2,945,000 preferred shares of Petron with fair market value per share of P13.96 and P109.00, respectively;
- 18,959,785 common shares of GSMI with fair market value per share of P23.00;
- 226,998 common shares and 54,835 preferred shares of SMPFC with fair market value per share of P238.00 and P1,045.00, respectively; and
- 33,635,700 common shares of SMB with fair market value per share of P20.00.

The fair market value per share of the above marketable securities is determined based on quoted market prices in active markets as of the reporting date (Note 4).

The Group's Retirement Plans recognized gains (losses) on the investment in marketable securities of Top Frontier, Parent Company and its subsidiaries amounting to (P6,096) and P4,426 in 2014 and 2013, respectively.

Dividend income from the investment in shares of stock of Parent Company and its subsidiaries amounted to P365 and P713 in 2014 and 2013, respectively.

Investments in Shares of Stock

a. BOC

San Miguel Corporation Retirement Plan (SMCRP) has 39.94% equity interest in BOC amounting to P8,870, representing 44,834,286 common shares, accounted for under the equity method as of December 31, 2013. SMCRP recognized its share in accumulated equity in net losses amounting to P630 in 2013.

In 2014, SMCRP is still committed to sell its equity ownership interest in BOC. SMCRP engaged the services of an international bank to handle the process of negotiating the sale of SMCRP's equity ownership interest in BOC with interested foreign and domestic groups that intend to expand business in the Philippines. Accordingly, SMCRP's investment in BOC is reclassified from "Investment in shares of stock" to "Noncurrent assets held for sale" account in the SMCRP's statement of net asset available for plan benefits as of December 31, 2014.

b. PAHL

Petron Corporation Employees Retirement Plan (PCERP) has an investment in PAHL with a carrying amount of P1,553 and P1,660 as of December 31, 2014 and 2013, respectively, equivalent to 54.1% equity interest, representing 273,000,000 Class A shares and 102,142,858 Class B shares.

PCERP recognized its share in accumulated equity in net earnings (losses) amounting to (P107) and P61 in 2014 and 2013, respectively.

c. BPI

The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in BPI representing 4,708,494 and 2,389,494 preferred shares as of December 31, 2014 and 2013, respectively.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Approximately 16% and 15% of the Retirement Plans investments in pooled funds in stock trading portfolio include investments in shares of stock of the Parent Company and its subsidiaries as of December 31, 2014 and 2013, respectively.

Approximately 49% and 57% of the Retirement Plans investments in pooled funds in fixed income portfolio include investments in shares of stock of the Parent Company and its subsidiaries as of December 31, 2014 and 2013, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties as of December 31, 2014 and 2013.

Others

Others include the Retirement Plans' investments in trust account, government securities, bonds and notes, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute the amount of P1,947 to the Retirement Plans in 2015.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

Longevity and Salary Risks. The present value of the defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of the plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2014	2013
Discount rate	**3.44 - 8.80**	3.44 - 6.75
Salary increase rate	**4.00 - 8.00**	4.00 - 8.00

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation ranges from 1.5 to 27.78 years and 1.5 to 28.18 years as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2014		2013	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P1,108)**	**P1,281**	(P1,215)	P1,395
Salary increase rate	**1,138**	**(1,009)**	1,251	(1,117)

The outstanding balances of the Group's receivables from the retirement plans are as follows:

a. Petron has advances to PCERP amounting to P6,263 and P16,393 as of December 31, 2014 and 2013, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 10 and 19). The advances are subject to interest of 5% in 2014 and 2013.

b. The Parent Company has advances to SMCRP amounting to P6,420 and P6,208 as of December 31, 2014 and 2013, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10). The advances are subject to interest of 5.75% in 2014 and 2013.

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as of December 31, 2014 and 2013 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from the Retirement Plans for the years ended December 31, 2014, 2013 and 2012.

36. Cash Dividends

Cash dividends declared by the BOD of the Parent Company to common shareholders amounted to P1.40 per share both in 2014 and 2013.

Cash dividends declared by the BOD of the Parent Company to all Series "2" - Subseries "2-A", Subseries "2-B" and Subseries "2-C" preferred shareholders, amounted to P5.625, P5.71875 and P6.00 per share, respectively, in 2014.

Cash dividends declared by the BOD of the Parent Company to all Series "2" - Subseries "2-A", Subseries "2-B" and Subseries "2-C" preferred shareholders, amounted to P7.03125, P7.1484375 and P7.50 per share, respectively, in 2013.

37. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	Note	**2014**	2013	2012
Income attributable to equity holders of the Parent Company		**P14,692**	P38,053	P26,806
Dividends on preferred shares for the year	*25, 36*	**(6,106)**	(6,106)	(6,127)
Net income attributable to common shareholders of the Parent Company (a)		**P8,586**	P31,947	P20,679
Weighted average number of common shares outstanding (in millions) - basic (b)		**2,378**	2,378	2,370
Effect of dilution - common	*39*	**13**	14	16
Weighted average number of common shares outstanding (in millions) - diluted (c)		**2,391**	2,392	2,386
Earnings per common share attributable to equity holders of the Parent Company				
Basic (a/b)		**P3.61**	P13.43	P8.72
Diluted (a/c)		**3.59**	13.36	8.67

38. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2014	2013	2012
Trade and other receivables - net	**(P457)**	(P21,181)	(P25,704)
Inventories	**(3,649)**	1,797	(1,018)
Prepaid expenses and other current assets	**(12,690)**	(2,604)	(8,972)
Service concession assets	**(6,265)**	(12,018)	-
Loans payable	**(1,021)**	1,023	(231)
Accounts payable and accrued expenses	**451**	27,882	6,831
Income and other taxes payable and others	**(1,236)**	2,636	1,469
Changes in noncash current assets, certain current liabilities and others	**(P24,867)**	(P2,465)	(P27,625)

b. Acquisition of subsidiaries (Note 5)

	Note	**2014**	2013	2012
Cash and cash equivalents		**P1,022**	P1,477	P12,011
Trade and other receivables - net		**86**	2,450	12,844
Inventories		**-**	1,048	13,164
Prepaid expenses and other current assets		**213**	1,407	686
Investments and advances - net		**-**	-	168
Property, plant and equipment - net		**1,184**	3,078	18,859
Investment property - net		**-**	-	412
Other intangible assets - net		**165**	25,837	20,601
Deferred tax assets		**9**	144	29
Other noncurrent assets - net		**2**	72	6,520
Loans payable		**-**	(1,792)	(15,353)
Accounts payable and accrued expenses		**(1,309)**	(6,209)	(19,326)
Income and other taxes payable		**(2)**	(2)	(754)
Long-term debt - net of debt issue costs		**-**	(8,069)	(19,411)
Deferred tax liabilities		**-**	(740)	(1,496)
Other noncurrent liabilities		**-**	(11,376)	(853)
Non-controlling interests		**(32)**	(3,351)	(10,900)
Net assets		**1,338**	3,974	17,201
Cash and cash equivalents		**(1,022)**	(1,477)	(12,011)
Goodwill in subsidiaries	*4, 18*	**7**	1,572	18,272
Investment at equity		**(21)**	(3,569)	(4,871)
Revaluation increment		**-**	12	-
Net cash flows		**P302**	P512	P18,591

39. Share-Based Transactions

ESPP
Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

The current portion of receivable from employees amounted to P109 and P126 as of December 31, 2014 and 2013, respectively, presented as part of "Non-trade" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10).

The noncurrent portion of P157 and P327 as of December 31, 2014 and 2013, respectively, is presented as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account in the consolidated statements of financial position (Note 19).

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock. As of December 31, 2014 and 2013, 3,478,400 and 3,410,250 common shares under the ESPP, respectively, were cancelled and held in treasury (Note 25).

There were no shares offered under the ESPP in 2014 and 2013.

LTIP
The Parent Company also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of the date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its 10-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

There were no LTIP offered to executives in 2014 and 2013.

Options to purchase 13,278,578 shares and 13,660,856 shares in 2014 and 2013, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 382,278 shares and 3,024,920 shares in 2014 and 2013, respectively.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average price under the LTIP is shown below:

	2014		2013	
	Number of Share Stock Options	**Weighted Average Price**	Number of Share Stock Options	Weighted Average Price
Class "A"				
Number of shares at beginning of year	**9,716,435**	**P70.75**	11,456,960	P69.78
Exercised during the year	**(101,241)**	**53.21**	(807,234)	57.54
Expired during the year	**(204,574)**	**102.54**	(933,291)	70.30
Number of shares at end of year	**9,410,620**	**70.25**	9,716,435	70.75
Class "B"				
Number of shares at beginning of year	**3,944,421**	**67.20**	5,228,816	71.10
Exercised during the year	**(39,687)**	**58.08**	(403,219)	73.03
Expired during the year	**(36,776)**	**66.25**	(881,176)	87.67
Number of shares at end of year	**3,867,958**	**P67.30**	3,944,421	67.20

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and considered as common shares without distinction. However, as of December 31, 2014 and 2013, the number of the outstanding share stock options and related weighted average price under LTIP were presented as Class "A" and Class "B" common shares to recognize the average price of stock options granted prior to August 26, 2010.

The fair value of equity-settled share options granted is estimated as of the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The range of prices for options outstanding was P40.50 to P120.30 as of December 31, 2014 and 2013.

Share-based payment charged to operations, included under "Administrative expenses - personnel expenses" account, amounted to P1, P95 and P242 in 2014, 2013 and 2012, respectively (Note 27).

40. Financial Risk and Capital 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 exposure to each of the foregoing risks, objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, option deposit, AFS financial assets, financial assets at 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 trade-related financial assets and financial liabilities of the Group 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 outstanding derivative instruments of the Group 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 operating and financing activities.

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

The risk management policies of the Group 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 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 Audit Committee oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The 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 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 financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the 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 annual report of the Group.

The accounting policies in relation to derivatives are set out in Note 3 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 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 investment policy of the Group 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 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 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 P1,655 and P1,579 in 2014 and 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

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2014	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P2,438**	**P4,033**	**P26,141**	**P4,384**	**P17,171**	**P38,042**	**P92,209**
Interest rate	**5.4885% - 8.2498%**	**6.0606% - 8.2498%**	**6.05% - 8.2498%**	**6.0606% - 8.2498%**	**5.93% - 10.50%**	**5.50% - 8.2498%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**13,262**	**-**	**-**	**-**	**35,776**	**49,038**
Interest rate		**7%**				**4.875%**	
Floating Rate							
Philippine peso-denominated	**11,664**	**1,495**	**1,511**	**1,512**	**1,147**	**1,467**	**18,796**
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, which-ever is higher**	**PDST-F + margin or BSP overnight rate + margin, which-ever is higher**	**PDST-F + margin or BSP overnight rate + margin, which-ever is higher**	**PDST-F + margin**	
Foreign currency-denominated (expressed in Philippine peso)	**6,101**	**19,145**	**13,546**	**104,391**	**3,569**	**-**	**146,752**
Interest rate	**LIBOR + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**		
	P20,203	**P37,935**	**P41,198**	**P110,287**	**P21,887**	**P75,285**	**P306,795**

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%		7%			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, which-ever is higher	PDST-F + margin or BSP overnight rate + margin, which-ever is higher	PDST-F + margin or BSP overnight rate + margin, which-ever is higher	PDST-F + margin or BSP overnight rate + margin, which-ever 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 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 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:

	December 31, 2014		December 31, 2013	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,761**	**P123,571**	US$1,354	P60,037
Trade and other receivables	**900**	**40,264**	1,160	51,472
Prepaid expenses and other current assets	**26**	**1,150**	25	1,111
Restricted cash	**-**	**-**	26	1,174
AFS financial assets	**-**	**-**	7	314
Noncurrent receivables	**184**	**8,199**	191	8,464
	3,871	**173,184**	2,763	122,572
Liabilities				
Loans payable	**808**	**36,109**	478	21,230
Accounts payable and accrued expenses	**1,220**	**54,576**	1,509	66,971
Long-term debt (including current maturities)	**4,378**	**195,790**	4,244	188,416
Finance lease liabilities (including current portion)	**2,218**	**99,169**	2,351	104,392
Other noncurrent liabilities	**713**	**31,912**	507	22,494
	9,337	**417,556**	9,089	403,503
Net foreign currency-denominated monetary liabilities	**(US$5,466)**	**(P244,372)**	(US$6,326)	(P280,931)

The Group reported net gains (losses) on foreign exchange amounting to (P2,412), (P19,436) and P11,373 in 2014, 2013 and 2012, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 32). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2014	**44.720**
December 31, 2013	44.395
December 31, 2012	41.050

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):

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
December 31, 2014	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P2,242)**	**(P2,091)**	**P2,242**	**P2,091**
Trade and other receivables	**(261)**	**(821)**	**261**	**821**
Prepaid expenses and other current assets	**(26)**	**(18)**	**26**	**18**
Noncurrent receivables	**(166)**	**(135)**	**166**	**135**
	(2,695)	**(3,065)**	**2,695**	**3,065**
Loans payable	**454**	**675**	**(454)**	**(675)**
Accounts payable and accrued expenses	**494**	**1,069**	**(494)**	**(1,069)**
Long-term debt (including current maturities)	**4,292**	**3,091**	**(4,292)**	**(3,091)**
Finance lease liabilities (including current portion)	**2,218**	**1,552**	**(2,218)**	**(1,552)**
Other noncurrent liabilities	**637**	**522**	**(637)**	**(522)**
	8,095	**6,909**	**(8,095)**	**(6,909)**
	P5,400	**P3,844**	**(P5,400)**	**(P3,844)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2013	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	(25)	(18)	25	18
Restricted cash	(26)	(18)	26	18
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 to meet payment obligations when they fall under normal and stress circumstances.

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 receipts and payments used for liquidity management.

December 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	**P258,606**	**P258,606**	**P258,606**	**P -**	**P -**	**P -**
Trade and other receivables - net	**136,036**	**136,036**	**136,036**	**-**	**-**	**-**
Option deposit (included under "Prepaid expenses and other current assets" account)	**1,118**	**1,118**	**1,118**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**360**	**360**	**360**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**136**	**136**	**136**	**-**	**-**	**-**
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**41,890**	**41,927**	**460**	**41,253**	**214**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**14,967**	**14,977**	**-**	**2,434**	**8,072**	**4,471**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**2,659**	**2,659**	**1,604**	**1,055**	**-**	**-**
Financial Liabilities						
Loans payable	**180,059**	**181,011**	**181,011**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	**121,371**	**121,371**	**121,371**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**325**	**325**	**325**	**-**	**-**	**-**
Long-term debt (including current maturities)	**302,988**	**367,781**	**34,219**	**50,063**	**196,766**	**86,733**
Finance lease liabilities (including current portion)	**186,330**	**248,201**	**22,105**	**23,173**	**71,945**	**130,978**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**2,394**	**2,397**	**-**	**1,907**	**3**	**487**

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	25,307	-	12,294	8,576	4,437
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	2,185	2,185	385	1,800	-	-
Financial Liabilities						
Loans payable	143,226	143,787	143,787	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	116,686	116,686	116,686	-	-	-
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 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 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 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 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 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.

	Note	**2014**	2013
Cash and cash equivalents (excluding cash on hand)	*9*	**P255,786**	P187,515
Trade and other receivables - net	*10*	**136,036**	168,141
Option deposit	*12*	**1,118**	1,110
Derivative assets	*12*	**360**	681
Financial assets at FVPL	*12*	**136**	117
AFS financial assets	*12, 14*	**41,890**	42,406
Noncurrent receivables and deposits - net	*19*	**14,967**	25,297
Restricted cash	*12, 19*	**2,659**	2,185
		P452,952	P427,452

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 a 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 Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock, cumulative translation adjustments, reserve for retirement plan and revaluation increment 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 external environment and the risks underlying the Group's business, operation and industry.

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

41. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	December 31, 2014		December 31, 2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P258,606**	**P258,606**	P191,613	P191,613
Trade and other receivables - net	**136,036**	**136,036**	168,141	168,141
Option deposit (included under "Prepaid expenses and other current assets" account)	**1,118**	**1,118**	1,110	1,110
Derivative assets (included under "Prepaid expenses and other current assets" account)	**360**	**360**	681	681
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**136**	**136**	117	117
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**41,890**	**41,890**	42,406	42,406
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**14,967**	**14,591**	25,297	24,854
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**2,659**	**2,659**	2,185	2,185
Financial Liabilities				
Loans payable	**180,059**	**180,059**	143,226	143,226
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	**121,371**	**121,371**	116,686	116,686
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**325**	**325**	455	455
Long-term debt (including current maturities)	**302,988**	**327,077**	307,497	326,940
Finance lease liabilities (including current portion)	**186,330**	**186,330**	195,048	195,048
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**2,394**	**2,394**	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 2.5% to 4.3% and 0.4% to 3.8% as of December 31, 2014 and 2013, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 2.1% and 0.2% to 2.9% as of December 31, 2014 and 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 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$1,673 and US$1,445 as of December 31, 2014 and 2013, respectively, and with various maturities in 2015 and 2014. The net positive fair value of these currency forwards amounted to P0.4 and P640 as of December 31, 2014 and 2013, respectively.

Currency Options
As of December 31, 2014, the Group has outstanding currency options with an aggregate notional amount of US$245 and with various maturities in 2015. The negative fair value of these currency options amounted to P140 as of December 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 2015 and 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 610 and 960 metric tons as of December 31, 2014 and 2013, respectively. The net negative fair value of these swaps amounted to P2 and P6 as of December 31, 2014 and 2013, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2015 and 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 6.6 and 2.0 million barrels as of December 31, 2014 and 2013, respectively. The positive fair value of these swaps amounted to P1,420 and P6 as of December 31, 2014 and 2013, respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with notional quantities of 5,987 and 174,248 metric tons as of December 31, 2014 and 2013, respectively. These options can be exercised at various calculation dates in 2015 and 2014 with specified quantities on each calculation date. The net negative fair value of these options amounted to P5 and P186 as of December 31, 2014 and 2013, respectively.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 1.0 million barrels as of December 31, 2013. These call and put 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 P41 as of December 31, 2013. The Group has no outstanding commodity options on the purchase of crude oil as of December 31, 2014.

Embedded Derivatives
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$152 and US$183 as of December 31, 2014 and 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 P54 and P163 as of December 31, 2014 and 2013, respectively.

Embedded Currency Options
The total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$1 and US$3 as of December 31, 2014 and 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 December 31, 2014 and 2013.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P7,513, P2,448 and (P1,270) in 2014, 2013 and 2012, respectively (Note 32).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2014	2013
Balance at beginning of year	**P226**	(P224)
Net change in fair value of non-accounting hedges	**7,513**	2,448
	7,739	2,224
Less fair value of settled instruments	**7,704**	1,998
Balance at end of year	**P35**	P226

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 (Note 3).

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

	December 31, 2014			December 31, 2013		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P360**	**P360**	P -	P681	P681
Financial assets at FVPL	**136**	**-**	**136**	117	-	117
AFS financial assets	**533**	**41,357**	**41,890**	956	41,450	42,406
Financial Liabilities						
Derivative liabilities	**-**	**325**	**325**	-	455	455

The Group has no financial instruments valued based on Level 3 as of December 31, 2014 and 2013. As of December 31, 2014, AFS financial assets with a carrying amount of P318 was transferred from Level 2 to Level 1 fair value category with the listing of the common shares of Top Frontier in the PSE as discussed in Note 7. During the year, there were no transfers out of Level 3 fair value measurement.

42. Registration with the Board of Investments (BOI)

a. SMC Global

SEPC
On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investment Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-pioneer Status and was entitled to certain incentives that include, among others, an Income Tax Holiday (ITH) for four years from June 2011 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMEC, SPDC and SPPC
SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plant on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension beginning August 1, 2010, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

SMCPC and SCPC
In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six years beginning December 2015 and February 2016, respectively, or start of commercial operations whichever is earlier, subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investment Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. The ITH incentive shall be limited only to the revenues generated from the sale of the electricity from the power plants.

On September 3, 2013 and January 28, 2014, the BOI issued a Certificate of Authority to SMCPC and SCPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". Authority shall be valid for one year from the date of issuance. Advanced authority to import capital equipment was granted on May 21, 2013. For the subsequent year, BOI issued new Certificates of Authority dated September 4, 2014 and February 6, 2015 to SMCPC and SCPC, respectively, both with a validity of one year from the date of issuance.

b. SMPFC

Certain operations of consolidated subsidiaries of SMPFC are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives.

GBGTC
GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in the Omnibus Investments Code of 1987 (Executive Order No. 226), GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI
SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investments Code of 1987 (Executive Order No. 226) on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which include, among others, ITH for a period of six years, extendable under certain conditions to eight years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

c. Petron

Benzene, Toluene and Propylene Recovery Units
On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order No. 226) as: (1) a pioneer, new export producer status of Benzene and Toluene; and (2) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 50% of the combined production of Benzene and Toluene.

As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

a. ITH: (1) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (2) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for 10 years from start of commercial operations.

c. Simplification of custom procedures.

d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to custom rules and regulations provided firm exports at least 50% of combined production of Benzene and Toluene.

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a 10-year period from the date of registration.

f. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.

g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 50% of combined production of Benzene and Toluene.

h. Petron may qualify to import capital equipment, spare parts, and accessories at zero (one percent for Propylene) duty from date of registration up to June 5, 2006 pursuant to Executive Order No. 313 and its implementing rules and regulations.

The BOI extended Petron's ITH incentive for its Propylene sales from December 2013 to November 2014 and for its Benzene and Toluene sales from May 2014 to April 2015.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit
On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment in its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from December 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the percentage share of product that are subject to retooling.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a 10-year period from date of registration.

f. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.

g. Exemption from real property tax on production equipment or machinery.

h. Exemption from contractor's tax.

PetroFCC entitlement period ended in February 2013 and registration with BOI was cancelled on July 4, 2013.

70 MW Coal-Fired Power Plant (Limay, Bataan)
On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (Executive Order No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier. The ITH incentive is limited to the revenue generated from the electricity sold to the grid.

b. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.

c. Petron may qualify to import capital equipment, spare parts and accessories at zero percent duty from date of registration up to June 16, 2011 pursuant to Executive Order No. 528 and its implementing rules and regulations.

The power plant started commercial operations on May 10, 2013 and Petron availed of ITH from May to September 2013.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration No. 2010-181 covering the 70 MW Coal-Fired Power Plant Project to SPI, the new owner of the said facility.

RMP-2 Project
On June 3, 2011, the BOI approved Petron's application under RA No. 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

e. Exemption from real property tax on production equipment or machinery.

f. Exemption from contractor's tax.

70 MW Solid Fuel-Fired Power Plant
On February 14, 2013, Petron registered with the BOI as an expanding operator of a 70 MW Solid Fuel-Fired Power Plant on a pioneer status under Omnibus Investments Code of 1987 (Executive Order No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for three years from December 2014 or actual start of commercial operations, whichever is earlier. The ITH incentive is limited to the revenue generated from the electricity sold to the grid, other entities and/or communities.

b. Importation of capital equipment, spare parts and accessories at zero duty from the date of effectivity of Executive Order No. 70 and its implementing rules and regulations for a period of five years reckoned from the date of registration or until the expiration of Executive Order No. 70, whichever is earlier.

c. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration No. 2013-047 covering the 70 MW Solid Fuel-Fired Power Plant Project to SPI, the new owner of the said plant.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

d. SMYAC

SMYAC is registered with the BOI as a new domestic producer of glass containers for the new production facility (Phase I) and as expanding producer of glass containers for the expansion of the existing production facility (Phase II), both on a non-pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226).

As a registered enterprise, SMYAC is entitled to the following ITH benefits:

a. Phase I - for a period of four years from February 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than March 23, 2005, the date of registration.

b. Phase II - for a period of three years from August 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than March 23, 2005, the date of registration.

SMYAC's entitlement for ITH for Phase I expired in August 2010 while the entitlement for ITH for Phase II was extended until November 2012.

e. SMCSLC

SMCSLC is registered with the BOI for the operation of domestic cargo vessels and motor tankers with the following incentives:

a. *Operation of Motor Tanker (Samho Snipe).* The project was registered on May 26, 2009, where SMCSLC is entitled to ITH for six years from July 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

b. *Operation of Two Brand New Double-hulled Oil Tanker Vessels (SL Tanglad and SL Banaba).* The project was registered on December 23, 2009, where SMCSLC is entitled to ITH for six years from August 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

c. *Operation of Brand New Non-propelled Barge (M/V Kalusugan 2).* The project was registered on July 22, 2010, where SMCSLC is entitled to ITH for six years from August 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

d. *Operation of Leased Oil Tanker Vessel (SL Maple).* The project was registered on September 16, 2010, where SMCSLC is entitled to ITH for six years from September 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

e. *Operation of Brand New Non-propelled Barge (M/V Katarungan 2).* The project was registered on November 11, 2010, where SMCSLC is entitled to ITH for six years from November 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

f. *Operation of Brand New Oil Tanker (SL Bignay).* The project was registered on August 13, 2010, where SMCSLC is entitled to ITH for six years from June 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

g. *Operation of Brand New Non-propelled Barge (M/V Katapatan 2).* The project was registered on June 9, 2011, where SMCSLC is entitled to ITH for six years from July 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

h. *Operation of Double-hulled Marine Tanker Vessel (MMM Ashton).* The project was registered on January 6, 2012, where SMCSLC is entitled to ITH for four years from January 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

i. *Operation of Brand New Domestic/Inter-island Shipping Vessel (M/T SL Beluga).* The project was registered on February 20, 2013, where SMCSLC is entitled to ITH for six years from February 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

j. *Operation of New Domestic/Inter-Island Shipping Operator Vessel (MV SL Venus 8).* The project was registered on February 27, 2014, where SMCSLC is entitled to ITH for four years from February 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

---

43. Events After the Reporting Date

a. *Acquisition of the 49% interest in SMPFI Limited*

On January 26, 2015, SMPFIL, a wholly-owned subsidiary of SMPFC incorporated in the BVI, signed an Agreement for the purchase from Hormel Netherlands B.V., of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owns the remaining 51% of SMPFI Limited. SMPFI Limited is the sole investor in SMHVN, a company incorporated in Vietnam that engages in live hog farming and the production of feeds and fresh and processed meats. Following completion of the transaction, SMPFI Limited has become a wholly-owned subsidiary of SMPFIL.

b. *Acquisition of La Pacita IP Rights*

In February 2015, the acquisition by SMPFC of FMC's IP Rights relating to FMC's La Pacita biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions and payment of the consideration for such IP Rights (Note 6).

c. *Redemption of SMPFC of Outstanding Preferred Shares*

On February 3, 2015, the BOD of SMPFC approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of the treasury shares of SMPFC.

d. *Issuance of Series "2" Perpetual Preferred Shares (PFP2 Shares)*

On January 20, 2015, the PSE approved, subject to SEC approval and certain conditions, the application of SMPFC to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover SMPFC's preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered the Registration Statement of SMPFC covering the registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share (the "PFP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC's application to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover the PFP2 Shares Offering at an offer price of P1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by the BOD of SMPFC to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

A summary of the Terms of the Offer is set out below:

SMPFC, through the underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated PFP2 shares at an offer price of P1,000.00 per share during the period from February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD of SMPFC. The PFP2 Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The PFP2 Shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the PFP2 Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the three-day average of the seven-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMPFC, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, the 15,000,000 PFP2 Shares of SMPFC with par value of P10.00 per share were issued and listed with the PSE.

e. *Acquisition of 44% Equity Interest in AAIBV and Exercise of Option to Acquire Additional 4.47%*

On March 5, 2015, a Notarial Deed of Transfer of Shares in accordance with the requirements of the laws of the Netherlands was executed whereby Padma transferred to SMHC the following: (i) 44% additional equity interest in AAIBV for a total purchase price of US$158; and (ii) exercise of 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement.

With the purchase of additional 44% equity interest and the exercise of option for the 4.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is controlled by SMHC effective March 5, 2015.

SMHC has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	2015
Assets	
Cash and cash equivalents	P22,481
Trade and other receivables - net	124
Prepaid expenses and other current assets	806
Investments and advances - net	1,344
Property, plant and equipment - net	49
Other intangible assets - net	53,975
Other noncurrent assets - net	848
Liabilities	
Accounts payable and accrued expenses	(3,915)
Income and other taxes payable	(536)
Dividends payable	(268)
Long-term debt - net of debt issue costs	(59,164)
Deferred tax liabilities	(4,348)
Other noncurrent liabilities	(590)
Total Identifiable Net Assets at Fair Value	P10,806

Goodwill was recognized as a result of the acquisition as follows:

	2015
Total consideration transferred	P16,906
Non-controlling interest measured at proportionate interest in identifiable net assets	7,832
Total identifiable net assets at fair value	(10,806)
Goodwill	P13,932

The Group is currently completing the purchase price allocation exercise on the acquisitions. The identifiable assets and liabilities are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

44. Other Matters

a. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

- Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy". The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund. As of December 31, 2014, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Second Division of the Supreme Court a Petition for Review which was docketed as G.R. No. 205045. This case is now with the Third Division of the Court.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P781, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045. Both cases are now with the Third Division.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company's counsel and the BIR Commissioner, through the Office of the Solicitor General, have filed their respective Memoranda. The two cases are deemed submitted for decision.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400; on July 30, 2012, its fourth claim for refund under case number 8591; and on December 19, 2013, its fifth claim for refund with the CTA (2nd Division) under case number 8748. CTA case numbers 7973, 8209, 8400, and 8591 have all been decided by the respective CTA Divisions, where they are pending, in favor of the Parent Company. The counsel for the BIR Commissioner are now in the process of appealing to the CTA *En Banc* the decisions rendered by the CTA Divisions in CTA case numbers 7973 and 8400. On the other hand, the decision in CTA case number 8209 has been declared final and executory by the CTA Division concerned for failure on the part of the BIR Commissioner to file a Motion for Reconsideration on the decision. In CTA case number 8591, the BIR Commissioner filed a Motion for Reconsideration, which we opposed and which has been denied. With respect to CTA Case number 8748, the same is still undergoing trial in the Second Division. In December 2014, SMB filed its sixth claim for refund with the CTA under case number 8955. The BIR has asked for additional time to file its Answer.

- Deficiency Tax Liabilities

  The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities including interest and penalties for the tax year 2009. IBI treated the royalties earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to the 20% final tax. However, the BIR is of the position that said royalties are business income subject to the 30% regular corporate income tax.

  On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued last January 7, 2013, the BIR denied IBI's protest and reiterated the demand to pay the deficiency income tax including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case is docketed as CTA case number 8607 and is already submitted for discussion.

  For the taxable year 2010, on November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate income tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA and the case was docketed as CTA case number 8813.

- Tax Credit Certificates Cases

  In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to Petron's use of P659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CTA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, Petron filed its comment on the petition for review filed by the BIR. The petition is still pending as of December 31, 2014.

- Pandacan Terminal Operations

  In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into an MOU with the City of Manila and the DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance No. 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the Regional Trial Court (RTC) to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

  The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

  However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, Petron also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, Petron, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

  In May 2009, the Mayor of Manila approved Ordinance No. 8187, which amended Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

  On August 24, 2012 (August 24 Decision), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. On September 25, 2012, Petron sought clarification and partial consideration of the August 24 Decision and prayed for the nullification of the entire Ordinance No. 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by Petron. Petron filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila directed that the records of the case be forwarded to the Court of Appeals. On April 15, 2013, Petron received an Order dated April 1, 2013 requiring it to file its appellant's brief. Petron submitted its appellant's brief on July 29, 2013. On December 19, 2013, Petron, through its counsel, received the City of Manila's appellee's brief dated December 12, 2013. Petron filed its appellant's reply brief on February 11, 2014. As of December 31, 2014, the appeal remained pending.

  With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinment of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

  On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. Petron, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila. Acting on a motion for reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by Petron, on March 10, 2015, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily include removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule.

  On January 5, 2015, Petron filed a Manifestation of Understanding of the dispositive portion of the November 25 Decision of the Supreme Court declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan and requiring Petron, Shell and Chevron to submit to the RTC of Manila within 45 days from receipt of the November 25 Decision a comprehensive plan and relocation schedule. The manifestation conveyed the understanding of Petron that the submission of the comprehensive plan and relocation schedule as required by the Supreme Court is intended to assure that the Pandacan oil terminals would cease to operate in line with Ordinance 8119. On January 12, 2015, Shell filed a motion for reconsideration thereby preventing the November 25 Decision from becoming final.

- Oil Spill Incident in Guimaras

  On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTC and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

  In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (RA No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against Petron. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar I and the former President and Chairman of Petron for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

  Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amounted to P292. Both cases are still pending as of December 31, 2014.

- Generation Payments to PSALM

  SPPC disputed the claims of PSALM for energy fees. The claims arose from differing interpretations of certain provisions in the IPPA Agreement related to generation payments, the fees payable to PSALM for the generation of power to customers. SPPC's management is in discussions with PSALM to secure a common understanding through amicable means. However, management and its legal counsel assessed that SPPC's bases for the amounts due to PSALM are consistent with the terms of the Ilijan IPPA Agreement. The information usually required is not disclosed on the grounds that it may prejudice the outcome of the discussion.

b. *Master Year Limited (MYL)*

  On September 30, 2013, Privado Holdings, Corp. (Privado) acquired 368,140,516 common shares of the Parent Company from MYL. The acquisition was transacted thru the PSE at P75.00 per share.

  On February 14, 2014, Privado acquired 50,000 common shares of stock of the Parent Company at the PSE at P58.00 per share.

c. *Philippine Foundation of Blessed Mary Mother of the Poor, Inc. (the Foundation)*

  On January 11, 2011, SMPI entered into a contract with the Foundation, a non-profit religious organization, for the donation of a 33-hectare parcel of land located in Alfonso, Cavite (the Donated Property). The land title of the Donated Property was transferred in the name of the Foundation on April 28, 2011.

  In accordance with the Deed of Donation, the Donated Property shall be used and devoted exclusively by the Foundation for the construction, operation and maintenance of its project, the Montemaria Oratory of the Blessed Virgin Mary (the Montemaria Project). The Montemaria Project will consist of a Shrine of the Blessed Virgin Mary, churches and chapels, Way of the Cross and such other structures and facilities for Roman Catholic religious purposes, and socio-civic and non-profit activities and programs of the Foundation.

  Further, the Deed of Donation requires that the Montemaria Project must be at least 50% completed by 2015 and fully completed by 2020. If the Foundation will not be able to comply with this requirement, the Donated Property will revert back to SMPI.

On February 24, 2014, the Board of Trustees of the Foundation had resolved to return the Donated Property to SMPI. However, the Foundation has not formally returned the Donated Property as of December 31, 2014.

d. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2014 amounted to P38,770.

Amount authorized but not yet disbursed for capital projects as of December 31, 2014 is approximately P25,600.

e. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of P44.72 and P44.395 in 2014 and 2013, respectively, for consolidated statements of financial position accounts; and average rates of P44.39, P42.43 and P42.24 in 2014, 2013 and 2012, respectively, for income and expense accounts.

f. *Temporary Restraining Order (TRO) Issued to Meralco*

On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC, is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon. As of December 31, 2013, the outcome of this case cannot be determined.

On January 16, 2014, the Supreme Court granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment. The settlement of which shall be covered by a 24-month Special Payment Arrangement agreed with PEMC which took effect in June 2014. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders.

g. *Electric Power Industry Reform Act of 2001*

RA No. 9136, otherwise known as the EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity.

h. Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

SAN MIGUEL CORPORATION

CONTACT US

CORPORATE HEAD OFFICE
SAN MIGUEL CORPORATION
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines
P.O. Box 271 Manila Central Post Office
T (632) 632-3000

SAN MIGUEL CUSTOMER CARE CENTER

San Miguel Customer Care Hotline
T (632) 632-2000
F (632) 632-3299 routing code 2005
Toll Free 1-800-1888-7621
Email: customercare@smg.sanmiguel.com.ph

SHAREHOLDER SERVICES AND ASSISTANCE

SMC STOCK TRANSFER SERVICE CORPORATION
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines
T (632) 632-3450 to 52
F (632) 632-3535
Email: smc_stsc@smg.sanmiguel.com.ph

INSTITUTIONAL INVESTOR INQUIRIES

Ms. Reyna-beth D. de Guzman
SMC - Investor Relations
T (632) 632-3752/ 632-3422
F (632) 632-3313/ 632-3749

OUR WEBSITE

http://www.sanmiguel.com.ph



SAN MIGUEL 125
1890 2015

www.sanmiguel.com.ph