



SAN MIGUEL CORPORATION

August 14, 2014

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

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

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period ended June 30, 2014.

Very truly yours,


MARY ROSE S. TAN
Assistant Corporate Secretary

COVER SHEET

P W - 2 7 7

S. E. C. Registration Number

S A N

M I G U E L

C O R P O R A T I O N

(Company's Full Name)

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

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

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

1 2

Month

3 1

Day

SEC FORM (2nd Quarter-2014)

1 7 - Q

FORM TYPE

2nd Tuesday of June

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

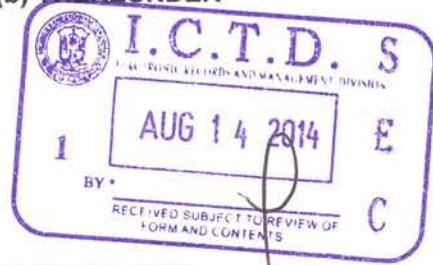
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**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**



1. For the quarterly period ended June 30, 2014
2. Commission identification number **PW00000227**
3. BIR Tax Identification No **000-060-741-000**
4. Exact name of issuer as specified in its charter **SAN MIGUEL CORPORATION**
5. **Philippines**
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **No. 40 San Miguel Avenue,**
Mandaluyong City **1550**
Address of issuer's principal office Postal Code
8. **(632) 632-3000**
Issuer's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Number of shares of stock and
debt outstanding (as of June 30, 2014)

Common Shares	2,377,024,797
Preferred Shares – Series “2”	
Subseries “A”	721,012,400
Subseries “B”	90,428,200
Subseries “C”	255,559,400
Total Liabilities	P787,678 million

11. Are any or all of the securities listed on a Stock Exchange?
Yes [x] No []

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

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

12. Indicate by check mark whether the registrant:

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

Yes ☒ No ☐

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

Yes ☒ No ☐

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2014 (with comparative figures as of December 31, 2013 and for the period ended June 30, 2013) and Selected Notes to Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

PART II--OTHER INFORMATION

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

NONE

SIGNATURES

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

Issuer **SAN MIGUEL CORPORATION**

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

Date August 14, 2014

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

Date August 14, 2014

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and December 31, 2013
(In Millions)

ANNEX "A"

ASSETS

	2014 Unaudited	2013 Audited
Current Assets		
Cash and cash equivalents (Notes 7 and 8)	P 199,828	P 191,613
Trade and other receivables - net (Notes 3, 7 and 8)	134,366	168,141
Inventories	90,738	79,391
Current portion of biological assets - net	3,415	3,427
Prepaid expenses and other current assets (Notes 7 and 8)	41,990	37,636
	<u>470,337</u>	<u>480,208</u>
Assets held for sale	8,798	8,798
Total Current Assets	<u>479,135</u>	<u>489,006</u>
Noncurrent Assets		
Investments and advances - net	67,184	60,654
Available-for-sale financial assets (Notes 7 and 8)	41,833	42,048
Property, plant and equipment - net (Note 4)	436,333	425,832
Investment property - net	5,882	4,176
Biological assets - net of current portion	1,987	1,911
Goodwill - net	41,786	41,752
Other intangible assets - net	40,140	36,032
Deferred tax assets	16,430	15,608
Other noncurrent assets - net (Notes 3, 7 and 8)	43,358	53,068
Total Noncurrent Assets	<u>694,933</u>	<u>681,081</u>
	<u>P 1,174,068</u>	<u>P 1,170,087</u>

LIABILITIES AND EQUITY

	2014 Unaudited	2013 Audited
Current Liabilities		
Loans payable (Notes 3, 7 and 8)	P 149,294	P 143,226
Accounts payable and accrued expenses (Notes 3, 7 and 8)	119,834	117,490
Finance lease liabilities - current portion (Notes 7 and 8)	15,763	15,654
Income and other taxes payable	11,836	13,058
Dividends payable	1,965	3,311
Current maturities of long-term debt - net of debt issue costs (Notes 3, 7 and 8)	4,841	42,807
Total Current Liabilities	<u>303,533</u>	<u>335,546</u>
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 3, 7 and 8)	289,008	264,690
Deferred tax liabilities	12,002	11,061
Finance lease liabilities - net of current portion (Notes 7 and 8)	172,955	179,394
Other noncurrent liabilities (Notes 3, 7 and 8)	10,180	13,619
Total Noncurrent Liabilities	<u>484,145</u>	<u>468,764</u>
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	16,414	16,414
Capital stock - preferred	10,187	10,187
Additional paid-in capital	178,095	178,085
Revaluation increment	764	764
Reserve for retirement plan	860	862
Cumulative translation adjustments	4,811	4,863
Retained earnings:		
Appropriated	28,987	28,230
Unappropriated	146,329	138,256
Treasury stock	(139,874)	(139,954)
	<u>246,573</u>	<u>237,707</u>
Non-controlling Interests	139,817	128,070
Total Equity	<u>386,390</u>	<u>365,777</u>
	<u>P 1,174,068</u>	<u>P 1,170,087</u>

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

CERTIFIED CORRECT:

Bella O. Navarra
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Periods Ended June 30, 2014 and 2013
(In Millions, Except Per Share Data)

	2014		2013		For the Quarters Ended		2014		2013	
	Unaudited		Unaudited		Unaudited		Unaudited		Unaudited	
SALES (Note 2)	P	404,708	P	358,011	P	209,872	P	179,480		
COST OF SALES		<u>344,995</u>		<u>302,952</u>		<u>178,512</u>		<u>152,785</u>		
GROSS PROFIT		59,713		55,059		31,360		26,695		
SELLING AND ADMINISTRATIVE EXPENSES		(26,840)		(26,123)		(14,012)		(13,198)		
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(14,771)		(16,140)		(7,347)		(8,003)		
INTEREST INCOME		1,880		1,858		889		849		
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES		377		(133)		700		(277)		
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT		63		590		(69)		545		
OTHER INCOME (CHARGES) - Net		<u>3,426</u>		<u>(12,373)</u>		<u>4,585</u>		<u>(13,641)</u>		
INCOME (LOSS) BEFORE INCOME TAX		23,848		2,738		16,106		(7,030)		
INCOME TAX EXPENSE (BENEFIT)		<u>5,440</u>		<u>(215)</u>		<u>3,714</u>		<u>(2,397)</u>		
NET INCOME (LOSS)	P	<u>18,408</u>	P	<u>2,953</u>	P	<u>12,392</u>	P	<u>(4,633)</u>		
Net Income (Loss) Attributable to :										
Equity Holders of the Parent Company	P	12,021	P	(2,400)	P	9,867	P	(6,637)		
Non-controlling Interests		<u>6,387</u>		<u>5,353</u>		<u>2,525</u>		<u>2,004</u>		
	P	<u>18,408</u>	P	<u>2,953</u>	P	<u>12,392</u>	P	<u>(4,633)</u>		
Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 5):										
Basic	P	3.77	P	(2.30)	P	3.51	P	(3.44)		
Diluted	P	3.75	P	(2.28)	P	3.49	P	(3.41)		

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

CERTIFIED CORRECT:

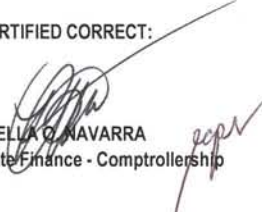

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Periods Ended June 30, 2014 and 2013
(In Millions)

	2014	2013	For the Quarters Ended	
	Unaudited	Unaudited	2014	2013
			Unaudited	Unaudited
NET INCOME (LOSS)	P 18,408	P 2,953	P 12,392	P (4,633)
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	(3)	-	-	-
INCOME TAX BENEFIT	1	-	-	-
SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net	257	104	64	110
	<u>255</u>	<u>104</u>	<u>64</u>	<u>110</u>
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(344)	1,646	(1,021)	2,059
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(232)	(69)	114	5
INCOME TAX BENEFIT (EXPENSE)	15	1	(8)	-
	<u>(561)</u>	<u>1,578</u>	<u>(915)</u>	<u>2,064</u>
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	(306)	1,682	(851)	2,174
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax	P 18,102	P 4,635	P 11,541	P (2,459)
Attributable to :				
Equity Holders of the Parent Company	P 11,967	P (2,233)	P 9,609	P (6,254)
Non-controlling Interests	6,135	6,868	1,932	3,795
	<u>P 18,102</u>	<u>P 4,635</u>	<u>P 11,541</u>	<u>P (2,459)</u>

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

CERTIFIED CORRECT:


BELIA Q. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Periods Ended June 30, 2014 and 2013
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company															Non-controlling Interests	Total Equity									
	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Reserve for Retirement Plan	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock	Total															
	Common	Preferred				Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated																	
As of January 1, 2014 (Audited)	P	16,414	P	10,187	P	178,085	P	764	P	862	P	4,079	P	784	P	28,230	P	138,256	P	(139,954)	P	237,707	P	128,070	P	365,777
Loss on exchange differences on translation of foreign operations		-		-		-		-		(99)		-		-		-		-		-		(99)		(245)		(344)
Share in other comprehensive income (loss) of associates and joint ventures - net		-		-		-		-		261		-		-		-		-		-		261		(4)		257
Equity reserve for retirement plan		-		-		-		(2)		-		-		-		-		-		-		(2)		-		(2)
Net loss on available-for-sale financial assets		-		-		-		-		(214)		-		-		-		-		-		(214)		(3)		(217)
Other comprehensive income (loss)		-		-		-		(2)		(99)		47		-		-		-		-		(54)		(252)		(306)
Net income		-		-		-		-		-		-		-		12,021		-		-		12,021		6,387		18,408
Total comprehensive income (loss) for the period		-		-		-		(2)		(99)		47		-		12,021		-		-		11,967		6,135		18,102
Issuance of common shares		-		-		1		-		-		-		-		-		-		-		1		-		1
Conversion of exchangeable bonds from treasury shares		-		-		9		-		-		-		-		-		80		-		89		-		89
Net addition to non-controlling interests and others		-		-		-		-		-		-		-		-		-		-		-		13,128		13,128
Appropriations - net		-		-		-		-		-		-		-		757		(757)		-		-		-		-
Cash dividends (Note 6):		-		-		-		-		-		-		-		-		-		-		-		-		-
Common		-		-		-		-		-		-		-		-		(1,665)		-		(1,665)		(4,860)		(6,525)
Preferred		-		-		-		-		-		-		-		-		(1,526)		-		(1,526)		(2,656)		(4,182)
As of June 30, 2014 (Unaudited)	P	16,414	P	10,187	P	178,095	P	764	P	860	P	3,980	P	831	P	28,987	P	146,329	P	(139,874)	P	246,573	P	139,817	P	386,390
As of January 1, 2013 (Audited)	P	16,408	P	10,187	P	177,762	P	1,467	P	(176)	P	5,522	P	(491)	P	27,219	P	154,475	P	(140,124)	P	252,249	P	96,688	P	348,937
Gain on exchange differences on translation of foreign operations		-		-		-		-		-		129		-		-		-		-		129		1,517		1,646
Share in other comprehensive income of associates - net		-		-		-		-		-		-		104		-		-		-		104		-		104
Net loss on available-for-sale financial assets		-		-		-		-		-		-		(66)		-		-		-		(66)		(2)		(68)
Other comprehensive income		-		-		-		-		-		129		38		-		-		-		167		1,515		1,682
Net income (loss)		-		-		-		-		-		-		-		-		(2,400)		-		(2,400)		5,353		2,953
Total comprehensive income (loss) for the period		-		-		-		-		-		129		38		-		(2,400)		-		(2,233)		6,868		4,635
Issuance of common shares		2		-		21		-		-		-		-		-		-		-		23		-		23
Conversion of exchangeable bonds from treasury shares		-		-		183		-		-		-		-		-		-		485		668		-		668
Stock options		-		-		46		-		-		-		-		-		-		-		46		-		46
Net addition to non-controlling interests and others		-		-		-		(136)		-		-		-		-		-		-		(136)		30,251		30,115
Appropriations - net		-		-		-		-		-		-		-		750		(750)		-		-		-		-
Cash dividends (Note 6):		-		-		-		-		-		-		-		-		(1,666)		-		(1,666)		(3,833)		(5,499)
Common		-		-		-		-		-		-		-		-		(3,053)		-		(3,053)		(1,076)		(4,129)
As of June 30, 2013 (Unaudited)	P	16,410	P	10,187	P	178,012	P	1,331	P	(176)	P	5,651	P	(453)	P	27,969	P	146,606	P	(139,639)	P	245,898	P	128,898	P	374,796

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

CERTIFIED CORRECT:

BELLA C. MAYARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Periods Ended June 30, 2014 and 2013
(In Millions)

	2014 Unaudited	2013 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 23,848	P 2,738
Adjustments for:		
Depreciation, amortization and others - net	7,075	23,376
Interest expense and other financing charges	14,771	16,140
Interest income	(1,880)	(1,858)
Equity in net losses (earnings) of associates and joint ventures	(377)	133
Gain on sale of investments and property and equipment	(63)	(590)
Operating income before working capital changes	43,374	39,939
Changes in noncash current assets, certain current liabilities and others	(16,860)	(14,181)
Cash generated from operations	26,514	25,758
Interest and other financing charges paid	(10,693)	(8,860)
Income taxes paid	(5,838)	(6,087)
Net cash flows provided by operating activities	9,983	10,811
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	(247)	(751)
Additions to investments and advances	(5,135)	(7,055)
Additions to property, plant and equipment	(15,399)	(37,328)
Decrease (increase) in other noncurrent assets and others	245	(14,239)
Proceeds from sale of investments and property and equipment	31,600	1,609
Interest received	1,773	1,500
Dividends received from associates	5	2,534
Net cash flows provided by (used in) investing activities	12,842	(53,730)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	391,649	445,678
Long-term borrowings	34,005	94,297
Payments of:		
Short-term borrowings	(385,751)	(440,443)
Long-term borrowings	(45,066)	(60,043)
Payment of finance lease liabilities	(10,069)	(9,414)
Cash dividends paid	(4,417)	(4,676)
Dividends paid to non-controlling shareholders	(7,636)	(4,687)
Proceeds from issuance of capital stock	1	23
Proceeds from issuance of undated subordinated capital securities of a subsidiary	13,140	30,546
Decrease in non-controlling interests	-	(544)
Net cash flows provided by (used in) financing activities	(14,144)	50,737
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(466)	594
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,215	8,412
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	191,613	125,507
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 199,828	P 133,919

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
JUNE 30, 2014
(Amounts in Millions)

			Past Due		
	Total	Current	1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	₱ 67,918	₱ 52,176	₱ 5,088	₱ 1,361	₱ 9,293
Non-trade	56,289	30,468	5,453	514	19,854
Others	18,079	18,062	13	3	1
Total	142,286	100,706	10,554	1,878	29,148
Less allowance for impairment losses	7,920				
Net	₱ <u>134,366</u>				

SAN MIGUEL CORPORATION AND SUBSIDIARIES

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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as of and for the period ended June 30, 2014 and comparative financial statements for the same period in 2013 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

Amendments to Standard and Interpretations Adopted in 2014

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

- Recoverable Amount Disclosures for Non-financial Assets (*Amendments to PAS 36, Impairment of Assets*). The amendments clarify that the recoverable amount disclosure only applies to impaired assets (or cash-generating unit) and require additional disclosures to be made on fair value measurement on impaired assets when the recoverable amount is based on fair value less costs of disposal. The amendments harmonize the disclosure requirement for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32, Financial Instruments Presentation*). The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- Philippine Interpretation IFRIC 21, *Levies*. The interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an

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

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

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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing the interim consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements of the Group. The Group does not plan to adopt these standards early.

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

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

including the following: (a) a performance condition must contain a service condition; (b) a performance target must be met while the counterparty is rendering service; (c) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (d) a performance condition may be a market or non-market condition and; (e) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendments are required to be prospectively applied to share-based payment transactions with a grant date on or after July 1, 2014.

- Accounting for contingent consideration in a business combination (*Amendment to PFRS 3, Business Combinations*). The amendment clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9, *Financial Instruments*. The amendments are required to be prospectively applied to business combination for which the acquisition date is on or after July 1, 2014.
- Disclosures on the aggregation of operating segments (*Amendment to PFRS 8, Operating Segments*). The amendments explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (a) a brief description of the operating segments that have been aggregated; and (b) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies 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 retrospectively applied for annual periods beginning July 1, 2014.
- Short-term receivables and payables (*Amendment to PFRS 13, Fair Value Measurement*) clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of the discounting is immaterial. The adoption of the amendments is required to be applied for annual periods beginning July 1, 2014.
- Key management personnel (*Amendment to PAS 24, Related Parties*). The amendment clarifies that a management entity—an entity that provides key management personnel services—is a related party subject to the related party disclosures. In addition, an entity that uses management entity is required to disclose the expenses incurred for management services. The adoption of the amendments is required to be prospectively applied for annual periods beginning July 1, 2014.
- Scope exceptions for joint ventures (*Amendment to PFRS 3*). The amendment clarifies that: (a) joint arrangements are outside the scope of PFRS 3, not just joint ventures and; (b) the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The adoption of the amendments is required to be prospectively applied for annual periods beginning July 1, 2014.
- Scope paragraph 52 (portfolio exception) (*Amendment to PFRS 13*). The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The adoption of the

amendments is required to be prospectively applied for annual periods beginning July 1, 2014.

- Restatement of accumulated depreciation (amortization) on revaluation (Amendment to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets*). The amendments clarify the requirements of the revaluation model in PAS 16 and PAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset. PAS 16 and PAS 38 have been amended to clarify that, at the date of revaluation: (a) The gross carrying amount: (i) is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset – e.g., restated in proportion to the change in the carrying amount or by reference to observable market data; and (ii) the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; and (b) the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset. The adoption of the amendments is required to be retrospectively applied for annual periods beginning July 1, 2014.
- Clarifying the interrelationship of PFRS 3 and PAS 40, *Investment Property*, when classifying property as investment property or owner-occupied property. The amendment clarifies that the description of ancillary services in PAS 40 differentiates between investment property and owner-occupied property. PFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination. The adoption of the amendments is required to be prospectively applied for annual periods beginning July 1, 2014.
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38). The amendments are the following: (a) 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: (i) revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’; or (ii) when the intangible asset is expressed as a measure of revenue; and (b) 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 effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to PFRS 11, *Joint Arrangements*). The amendments require: (a) business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business; (b) Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control; (c) The additional interest acquired will be measured at fair value; and (d) 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 a 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 apply prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- PFRS 9, *Financial Instruments*. PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* 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, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduce significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

- PFRS 15, *Revenue from Contracts with Customers*, replaces most of the detailed guidance on revenue recognition that currently exists under PFRS. The core principle of PFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities will apply a five-step model to determine when to recognize revenue, and at what amount. The new standard provides application guidance on numerous topics, including warranties and licenses. It also provides guidance on when to capitalize costs of obtaining or fulfilling a contract that are not addressed in other accounting standards.

PFRS 15 is effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted under PFRS. The standard may be adopted retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of adoption on each line of profit or loss (the ‘cumulative effect approach’). Practical expedients are available to those taking a retrospective approach.

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

2. Segment Information

Operating Segments

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

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

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

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

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

The energy segment is engaged in power generation, distribution and trading and coal mining. The power generation assets supply electricity to a variety of customers, including Manila Electric Company, electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market.

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

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

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

Inter-segment Transactions

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

Financial information about reportable segments are as follows:

	Beverage		Food		Packaging		Energy		Fuel and Oil		Infra-structure		Telecommu-nications		Others		Eliminations		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Sales																				
External sales	P44,477	P42,571	P49,169	P47,075	P9,618	P9,171	P40,817	P37,309	P255,092	P216,933	P4,442	P3,746	P739	P655	P354	P551	P –	P –	P404,708	P358,011
Inter-segment sales	150	291	7	6	1,896	2,307	2,943	295	3,138	1,848	–	–	–	–	2,753	2,130	(10,887)	(6,877)	–	–
Total sales	P44,627	P42,862	P49,176	P47,081	11,514	11,478	P43,760	P37,604	P258,230	P218,781	P4,442	P3,746	P739	P655	P3,107	P2,681	(P10,887)	(P6,877)	P404,708	P358,011
Results																				
Segment results	P10,326	P9,871	P2,697	P2,399	P1,014	P1,150	P14,932	P11,012	P5,866	P4,303	(P87)	P2,562	(P140)	(P115)	(P2,200)	(P2,428)	P465	P182	P32,873	P28,936

3. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, 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 June 30, 2014 and December 31, 2013:

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	June 30, 2014	P23	P -	P5,615	P -	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2013	-	-	5,659	-		
Retirement plans	June 30, 2014	14	-	13,448	-	On demand; Interest bearing	Unsecured; No impairment
	December 31, 2013	25	-	22,604	-		
Associates	June 30, 2014	9,048	14	9,623	1	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2013	11,078	332	10,173	1		
	June 30, 2014	-	-	-	13,739	Less than 1 to 10 years; Interest bearing	Unsecured and secured
	December 31, 2013	-	-	-	11,751		
Joint Ventures	June 30, 2014	-	39	672	28	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2013	-	137	325	28		
Shareholders in subsidiaries	June 30, 2014	98	13	22	192	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2013	-	36	61	239		
Others	June 30, 2014	654	-	187	1,084	On demand; Non-interest bearing	Unsecured; No impairment
	December 31, 2013	10	-	10	1,078		
Total	June 30, 2014	P9,837	P66	P29,567	P15,044		
Total	December 31, 2013	P11,113	P505	P38,832	P13,097		

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

4. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2014

	January 1, 2014	Additions and Transfers	Disposals and Reclassifications	Currency Translation Adjustments	June 30, 2014
Cost:					
Land and land improvements	P25,474	P401	P2,120	P58	P28,053
Buildings and improvements	47,504	368	(31)	(156)	47,685
Power plants	221,760	-	-	-	221,760
Refinery and plant equipment	49,648	163	(34)	84	49,861
Service stations and other equipment	15,669	670	(190)	53	16,202
Machinery and equipment	94,752	997	(830)	(561)	94,358
Telecommunications equipment	6,995	46	-	-	7,041
Transportation equipment	12,774	125	(74)	(11)	12,814
Tools and small equipment	2,806	319	(4)	15	3,136
Office equipment, furniture and fixtures	5,364	127	(51)	1	5,441
Molds	829	208	(178)	-	859
Leasehold improvements	2,176	39	(31)	(1)	2,183
Construction in progress	108,494	11,936	2,827	14	123,271
	594,245	15,399	3,524	(504)	612,664
Accumulated depreciation and amortization:					
Land improvements	2,812	82	421	4	3,319
Buildings and improvements	18,637	879	(20)	(42)	19,454
Power plants	21,125	2,845	-	-	23,970
Refinery and plant equipment	30,285	923	(34)	346	31,520
Service stations and other equipment	9,673	642	(156)	29	10,188
Machinery and equipment	56,466	2,083	(145)	(242)	58,162
Telecommunications equipment	5,444	157	-	-	5,601
Transportation equipment	4,426	493	(47)	(5)	4,867
Tools and small equipment	2,099	114	(81)	5	2,137
Office equipment, furniture and fixtures	4,388	463	(14)	(285)	4,552
Molds	459	42	(60)	-	441
Leasehold improvements	1,152	70	(314)	-	908
	156,966	8,793	(450)	(190)	165,119
Accumulated impairment losses:					
Land improvements	266	-	-	-	266
Buildings and improvements	2,663	-	-	(68)	2,595
Machinery and equipment	8,445	-	6	(195)	8,256
Transportation equipment	12	-	(3)	-	9
Tools and small equipment	18	-	25	1	44
Office equipment, furniture and fixtures	42	-	-	(1)	41
Leasehold improvements	1	-	-	-	1
	11,447	-	28	(263)	11,212
Net book value	P425,832	P6,606	P3,946	(P51)	P436,333

June 30, 2013

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

Depreciation and amortization charged to operations amounted to P8,793 and P8,009 in June 2014 and 2013, respectively.

5. Basic and Diluted Earnings Per Share (EPS)

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

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

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

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

	June 30	
	2014	2013
Income (loss) attributable to equity holders of the Parent Company	P12,021	(P2,400)
Less dividends on preferred shares for the period † (a)	3,053	3,053
Net income (loss) attributable to common shareholders of the Parent Company (b)	P8,968	(P5,453)
Weighted average number of common shares outstanding (in millions) - basic (c)	2,377	2,373
Effect of dilution - common	14	16
Weighted average number of common shares outstanding (in millions) - diluted (d)	2,391	2,389
Common:		
Basic earnings (loss) per share (b/c)	P3.77	(P2.30)
Diluted earnings (loss) per share (b/d)	P3.75	(P2.28)

6. Dividends

Cash dividends declared by the Parent Company's Board of Directors (BOD) to common shareholders amounted to P0.70 per share both in June 2014 and 2013. Cash dividend declared on June 10, 2014 at P0.35 per share is payable on July 21, 2014 to all common shareholders as of June 27, 2014.

On May 12, 2014, the Parent Company's BOD declared cash dividends on the Series "2" preferred shares, as follows: P1.40625 per share for Subseries "2-A", P1.4296875 per share for Subseries "2-B", and P1.50 per share for Subseries "2-C", payable on June 27, 2014 to the holders of the Series "2" preferred shares as of June 13, 2014.

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

On May 10, 2013, the Parent Company's BOD declared cash dividends on the Series "2" preferred shares, as follows: P1.40625 per share for Subseries "2-A", P1.4296875 per share for Subseries "2-B", and P1.50 per share for Subseries "2-C", payable on July 3, 2013 to the holders of the Series "2" preferred shares as of June 18, 2013.

7. 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 Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

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

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

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

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

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

The BOD constituted the Group's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the Group's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance by the Group with legal and regulatory requirements, including the Group's disclosure control and procedures; e) evaluation of management's process to assess and manage the Group's enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report.

The Group's accounting policies in relation to derivatives are set out in Note 8 to the consolidated financial statements.

Interest Rate Risk

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

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,689 and P1,579 for the period ended June 30, 2014 and for the year ended December 31, 2013, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at June 30, 2014 and December 31, 2013, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

June 30, 2014	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,379	P8,250	P4,438	P21,438	P14,890	P30,703	P81,098
Interest rate	6.3131% - 9.33%	5.4885% - 9.33%	6.05% - 7.1827%	6.3131% - 7.1827%	5.93% - 10.5%	5.50% - 7.1827%	
Foreign currency-denominated (expressed in Philippine peso)	-	13,095	-	-	-	34,920	48,015
Interest rate		7.00%				4.875%	
Floating Rate							
Philippine peso-denominated	714	12,920	2,507	3,024	3,510	9,743	32,418
Interest rate	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	2,993	10,821	16,381	72,845	33,435	-	136,475
Interest rate	LIBOR + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin		
	P5,086	P45,086	P23,326	P97,307	P51,835	P75,366	P298,006

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

Foreign Currency Risk

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

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

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

	June 30, 2014		December 31, 2013	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$1,700	P74,224	US\$1,354	P60,037
Trade and other receivables	1,200	52,374	1,160	51,472
Prepaid expenses and other current assets	59	2,581	51	2,285
AFS financial assets	7	316	7	314
Noncurrent receivables	171	7,487	191	8,464
	3,137	136,982	2,763	122,572
Liabilities				
Loans payable	530	23,070	478	21,230
Accounts payable and accrued expenses	1,548	67,504	1,509	66,971
Long-term debt (including current maturities)	4,226	184,490	4,244	188,416
Finance lease liabilities (including current portion)	2,286	99,762	2,351	104,392
Other noncurrent liabilities	557	24,247	507	22,494
	9,147	399,073	9,089	403,503
Net foreign currency- denominated monetary liabilities	(US\$6,010)	(P262,091)	(US\$6,326)	(P280,931)

The Group reported net foreign exchange gains (losses) amounting to P3,669 and (P13,155) for the periods ended June 30, 2014 and 2013, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
December 31, 2012	41.05
June 30, 2013	43.20
December 31, 2013	44.395
June 30, 2014	43.65

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

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as of June 30, 2014 and December 31, 2013:

June 30, 2014	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,298)	(P1,311)	P1,298	P1,311
Trade and other receivables	(233)	(1,130)	233	1,130
Prepaid expenses and other current assets	(52)	(43)	52	43
AFS financial assets	-	(7)	-	7
Noncurrent receivables	(162)	(120)	162	120
	(1,745)	(2,611)	1,745	2,611
Loans payable	50	515	(50)	(515)
Accounts payable and accrued expenses	563	1,379	(563)	(1,379)
Long-term debt (including current maturities)	4,149	2,981	(4,149)	(2,981)
Finance lease liabilities (including current portion)	2,286	1,600	(2,286)	(1,600)
Other noncurrent liabilities	491	409	(491)	(409)
	7,539	6,884	(7,539)	(6,884)
	P5,794	P4,273	(P5,794)	(P4,273)

December 31, 2013

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

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of June 30, 2014 and December 31, 2013.

June 30, 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	P199,828	P199,828	P199,828	P -	P -	P -
Trade and other receivables - net	134,366	134,366	134,366	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account)	1,091	1,091	1,091	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	297	297	297	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	127	127	127	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	42,229	42,242	413	41,776	53	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	16,034	16,034	-	16,034	-	-
Restricted cash (included under "Other noncurrent assets" account)	1,371	1,371	1,371	-	-	-
Financial Liabilities						
Loans payable	149,294	150,182	150,182	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	118,778	118,778	118,778	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	779	779	779	-	-	-
Long-term debt (including current maturities)	293,849	364,213	19,069	58,076	198,237	88,831

(forward)

June 30, 2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Finance lease liabilities (including current portion)	P188,718	P255,351	P20,909	P22,381	P70,293	P141,768
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	1,591	1,597	-	1,004	13	580
December 31, 2013	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P191,613	P191,613	P191,613	P -	P -	P -
Trade and other receivables - net	168,141	168,141	168,141	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account)	1,110	1,110	1,110	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	681	681	681	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	117	117	117	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	42,406	42,431	411	41,895	125	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	25,297	25,297	-	25,297	-	-
Restricted cash (included under "Other noncurrent assets" account)	1,800	1,800	1,800	-	-	-
Financial Liabilities						
Loans payable	143,226	143,787	143,787	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	116,919	116,919	116,919	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	455	455	455	-	-	-
Long-term debt (including current maturities)	307,497	372,608	56,270	38,984	193,287	84,067
Finance lease liabilities (including current portion)	195,048	267,467	20,140	22,036	70,036	155,255
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	5,086	5,119	-	4,849	13	257

Credit Risk

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

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

Trade and Other Receivables

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

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

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

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

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

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

	June 30, 2014	December 31, 2013
Cash and cash equivalents	P199,828	P191,613
Trade and other receivables - net	134,366	168,141
Option deposit	1,091	1,110
Derivative assets	297	681
Financial assets at FVPL	127	117
AFS financial assets	42,229	42,406
Noncurrent receivables and deposits - net	16,034	25,297
Restricted cash	1,371	1,800
	P395,343	P431,165

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

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

Financial and Other Risks Relating to Livestock

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

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing plants and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

Other Market Price Risk

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

Capital Management

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

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

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

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

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

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

8. Financial Assets and Financial Liabilities

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

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

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

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

recognizing the 'Day 1' profit amount.

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

The Group has no investments accounted for under this category as of June 30 and March 31, 2014 and December 31, 2013.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

The Group's investments in equity and debt securities are classified under this category.

Financial Liabilities

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

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

part of “Interest expense and other financing charges” account in the consolidated statements of income.

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

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

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

Debt Issue Costs

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

Derecognition of Financial Assets and Financial Liabilities

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses, at the reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is

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

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

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

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

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

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

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

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

Classification of Financial Instruments between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P199,828	P199,828	P191,613	P191,613
Trade and other receivables - net	134,366	134,366	168,141	168,141
Option deposit (included under "Prepaid expenses and other current assets" account)	1,091	1,091	1,110	1,110

(forward)

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivative assets (included under "Prepaid expenses and other current assets" account)	P297	P297	P681	P681
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	127	127	117	117
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	42,229	42,229	42,406	42,406
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	16,034	16,034	25,297	25,297
Restricted cash (included under "Other noncurrent assets" account)	1,371	1,371	1,800	1,800
Financial Liabilities				
Loans payable	149,294	149,294	143,226	143,226
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	118,778	118,778	116,919	116,919
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	779	779	455	455
Long-term debt (including current maturities)	293,849	318,824	307,497	326,940
Finance lease liabilities (including current portion)	188,718	188,718	195,048	195,048
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	1,591	1,591	5,086	5,086

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

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

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

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 1.3% to 4.2% and 0.4% to 3.8% as of June 30, 2014 and December 31, 2013, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 2.4% and 0.2% to 2.9% as of June 30, 2014 and December 31, 2013, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

The Group has no outstanding derivatives accounted for as fair value hedges as of June 30 and March 31, 2014 and December 31, 2013.

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

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

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

The Group has no outstanding derivatives accounted for as a cash flow hedge as of June 30 and March 31, 2014 and December 31, 2013.

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

The Group has no hedge of a net investment in a foreign operation as of June 30 and March 31, 2014 and December 31, 2013.

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards

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

of US\$1,720, US\$1,688 and US\$1,445 as of June 30 and March 31, 2014 and December 31, 2013, respectively, and with various maturities in 2014. The net positive (negative) fair value of these currency forwards amounted to (P228), P82 and P640 as of June 30 and March 31, 2014 and December 31, 2013, respectively.

Currency Options

The Group entered into short-term currency options with an aggregate notional amount as of June 30 and March 31, 2014 of US\$1,378 and US\$1,350, respectively. The net negative fair value of these currency options as of June 30 and March 31, 2014 amounted to P375 and P157, respectively. The Group has no outstanding currency option agreements as of December 31, 2013.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2014. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 170, 1,205 and 960 metric tons as of June 30 and March 31, 2014 and December 31, 2013, respectively. The net positive (negative) fair value of these swaps amounted to P1, P2 and (P6) as of June 30 and March 31, 2014 and December 31, 2013, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2014. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 8.2, 12.8 and 2.0 million barrels as of June 30 and March 31, 2014 and December 31, 2013, respectively. The positive fair value of these swaps amounted to P683, P638 and P6 as of June 30 and March 31, 2014 and December 31, 2013, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities of 36,469, 108,658 and 174,248 metric tons as of June 30 and March 31, 2014 and December 31, 2013, respectively. These options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The net negative fair value of these options amounted to P30, P31 and P186 as of June 30 and March 31, 2014 and December 31, 2013, respectively.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 1.6, 0.8 and 1.0 million barrels as of June 30 and March 31, 2014 and December 31, 2013, respectively. These call and put options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The net positive (negative) fair value of these options amounted to (P95), P5 and (P41) as of June 30 and March 31, 2014 and December 31, 2013, respectively.

Embedded Derivatives

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the

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

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$135, US\$106 and US\$183 as of June 30 and March 31, 2014 and December 31, 2013, respectively. These non-financial contracts consist mainly of foreign currency denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net positive (negative) fair value of these embedded currency forwards amounted to P23, (P72) and (P163) as of June 30 and March 31, 2014 and December 31, 2013, respectively.

Embedded Currency Options

The total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$1, US\$2 and US\$3 as of June 30 and March 31, 2014 and December 31, 2013, respectively. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. The net negative fair value of these embedded currency options amounted to P1 as of June 30 and March 31, 2014 and December 31, 2013.

For the periods ended June 30, 2014 and 2013 and March 31, 2014 and 2013, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P429), P1,075, P1,573 and P936, respectively.

Fair Value Hierarchy

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

The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which

sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

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

	June 30, 2014			December 31, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P297	P297	P -	P681	P681
Financial assets at FVPL	127	-	127	117	-	117
AFS financial assets	1,296	40,933	42,229	1,712	40,694	42,406
Financial Liabilities						
Derivative liabilities	-	779	779	-	455	455

The Group has no financial instruments valued based on Level 3 as of June 30, 2014 and December 31, 2013. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

9. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 25 (c) and Note 44 (a) of the 2013 Audited Consolidated Financial Statements that remain outstanding as of June 30, 2014. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended June 30, 2014.
- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of June 30, 2014. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.
- i. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.



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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended June 30, 2014 (with comparative figures as of December 31, 2013 and for the period ended June 30, 2013). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2014, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2014 TRANSACTIONS

A. INVESTMENTS

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

B. FINANCING

San Miguel Brewery Inc. (SMB)

- On April 2, 2014, SMB issued fixed rate bonds amounting to P15,000 million with the following tenors and interest rates:
 - a) Series G Bonds with the aggregate principal amount of P12,462 million having a term of 7 years or maturing on April 2, 2021, with a fixed interest rate of 5.50% per annum; and
 - b) Series H Bonds with an aggregate principal amount of P2,538 million having a term of 10 years or maturing on April 2, 2024, with a fixed interest rate of 6.00% per annum.

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

- On April 4, 2014, SMB completed the payment of the P22,400 million Series B fixed rate bonds ("Series B Bonds"), maturing on the same date. The Series B Bonds formed part of the P38,800 million fixed rate bonds issued by SMB in 2009.

The net proceeds of SMB's P15,000 million fixed rate bond offering were used to partially finance the Series B Bonds maturity. The balance of P7,400 million was funded by internally generated funds of SMB.

SMC Global Power Holdings Corp. (SMC Global)

- On May 7, 2014, SMC Global issued and listed in the Singapore Stock Exchange (SGX) a Reg S, Unrated Perpetual Non-Call 5.5 years US\$300 million Undated Subordinated Capital Securities (the "Securities").

The issuance proceeds will be used to finance investments in power-related assets and other general corporate purposes.

San Miguel Corporation (SMC)

- On April 29, 2014, 1,077,573 common shares of stock of the Parent Company 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 the exchange price of P80.44 per share and fixed exchange rate of P43.34 to US dollar. The 1,077,573 common shares of stock of SMC were transacted and crossed at the PSE on May 22, 2014 via a special block sale.

On May 5, 2014, the Parent Company redeemed the remaining balance of the exchangeable bonds amounting to US\$212.8 million (P9,448 million).

At the regular meeting of the Board of Directors (BOD) of the Parent Company held on May 12, 2014, the BOD confirmed and ratified the redemption of the remaining balance amounting to US\$212.8 million of SMC's US\$600 million exchangeable bonds issued on April 20, 2011.

Petron Corporation (Petron)

- On May 27, June 4 and June 20, 2014, Petron has drawn US\$70 million, US\$118 million and US\$70 million, respectively, or a total of US\$258 million (P11,318 million), out of the US\$300 million, five - year term loan facility.

The loan proceeds were used to pay the maturing debt of P5,248 million in June 2014 and to prepay a total of P6,076 million loan to take advantage of the lower interest rate.

The margin over LIBOR of the new loan is lower at 1.95% over the 2.4% of the prepaid loans amounting to P6,076 million.

The Group has availed of the following loans to finance the major projects being undertaken:

Fuel and Oil:

- On March 17 and June 27, 2014, Petron Malaysia Refining & Marketing Bhd. (PMRMB) availed of Malaysian Ringgit (MYR)100 million (P1,374 million) and MYR100 million (P1,359 million) loan, respectively. Also on March 31, 2014, Petron Fuel International Sdn. Bhd. (PFISB) availed of MYR50 million (P687 million) loan.

Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia.

Infrastructure:

- On January 17, 2014, Private Infra Dev Corporation (PIDC) has drawn an additional P3,000 million from the P11,500 million ten-year term loan facility used for financing the Tarlac-Pangasinan-La Union Toll Expressway (TPLEX Project).
- On March 5, 2014, Trans Aire Development Holdings Corp. (TADHC) has drawn an additional of P832 million from the P3,300 million ten-year term loan facility used for financing the Boracay Airport Project.
- On January 10 and April 1, 2014, Star Infrastructure Development Corporation (SIDC) has drawn P431 million and P445 million, respectively, from the P3,500 million ten-year term loan facility to finance the construction and development of Stage II, Phase II of the Southern Tagalog Arterial Road (STAR Project).

II. FINANCIAL PERFORMANCE

2014 vs. 2013

San Miguel Corporation's 2014 consolidated sales revenue for the first semester amounted to P404,708 million, 13% higher than last year. As in the first quarter, most businesses contributed to the increase, with Petron and the Energy Group registering double digit revenue increases versus last year.

The corresponding consolidated operating income amounted to P32,873 million, 14% higher than last year. SMC Global did better in the 2nd quarter compared to the 1st quarter with higher volumes. Petron also continued to deliver higher volumes for both its Philippine and Malaysian operations.

The increase in equity in net earnings of associates and joint ventures was mainly due to the increase in share in the net income in our minority interests in Philippine Airlines, Inc. (PAL) and in Atlantic Aurum Investments BV.

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

The overall performance of the Group resulted in the significant increase in income before tax and income tax expense during the period.

With lower interest expense and foreign exchange gains, the resulting net income before non-controlling interests amounted to P18,408 million, significantly better than last year. The corresponding net income attributable to equity holders of the Parent Company is P12,021 million.

2013 vs. 2012

San Miguel Corporation's consolidated sales revenue for the first semester of 2013 amounted to P358,011 million, 9% higher than 2012. The increase is mainly due to the revenue contribution

of Petron Malaysia which was consolidated in the SMC Group beginning April 2012 and San Miguel Pure Foods Company, Inc. (SMPFC) revenue increase.

The corresponding 2013 consolidated operating income amounted to P28,936 million, 19% higher than 2012. Growth came mainly from improved results of SMC Global with lower generation costs and SMPFC's improved sales performance coupled with improved efficiencies and availability of low cost raw material alternatives. SMC Global and SMPFC increased their operating income by 25% and 31%, respectively. These cushioned the effects of the increase in excise tax affecting beer and liquor, and decline in regional crude and product prices that affected Petron during the second quarter.

Net financing charges increased to P14,282 million from P13,285 million mainly due to higher debt balance in 2013.

The strengthening of the US dollar against the Peso in June redounded to foreign exchange losses in 2013, a sharp contrast from 2012's foreign exchange gains. Excluding net foreign exchange losses, SMC posted a net income attributable to equity holders of the Parent Company of P7,804 million in the first half of the year. Net loss attributable to equity holders of the Parent Company amounted to P2,400 million.

The foreign exchange loss was also covered by the gain on sale of 64.3 million Meralco shares sold at P270 per share in July. Total proceeds amounted to P17,370 million with estimated gain to SMC of P9,619 million, net of the previously recognized equity in reported net income of Meralco.

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

1. BEVERAGES

2014 vs. 2013

a. San Miguel Brewery Inc.

With the improvement in domestic beer volume during the summer months, San Miguel Brewery Inc.'s consolidated sales volume reached 102 million cases. Corresponding consolidated revenues amounted to P37,732 million, 3% better than last year.

However, domestic operations still bear the effects of the higher excise tax, which caused slightly weakened margins. Thus, consolidated operating income is P10,256 million.

b. Ginebra San Miguel, Inc. (GSMI)

Ginebra San Miguel continued to improve its performance with an operating income of P70 million for the first semester of 2014. Gross contribution margin continued to outpace last year, with lower raw materials and packaging costs as well as improved efficiency at the distillery. Fixed expenses were also kept at a lower level than last year.

This was achieved on hard liquor volume of 9.8 million cases, 7% higher than last year. With the price increase implemented in January 2014, sales revenue grew 14%, bringing it up to a total of P6,895 million.

2013 vs. 2012

a. San Miguel Brewery Inc.

San Miguel Brewery Inc.'s first semester 2013 consolidated revenues amounted to P36,811 million, at par with 2012. This was on a sales volume of 101 million cases, 9% lower than of the same period in 2012. Lower volume resulted from the price increase implemented in February 2013 to offset the increased excise taxes. The decline in volume was narrowed down to 7% in the second quarter from 12% in the first quarter.

Consolidated first semester operating income amounted to P10,683 million, slightly lower than 2012.

b. Ginebra San Miguel Inc.

For the first semester of 2013, GSMI posted a volume of 9.1 million cases, 22% lower than 2012's level. The Hard Liquor Industry took a temporary dip in the first semester owing to the increase in retail prices resulting from higher excise tax. June 2013 sales revenue, hence, fell short from 2012 by 12% and ended at P6,051 million. As a result, operating loss for the first semester of 2013 reached P811 million.

2. FOOD

2014 vs. 2013

San Miguel Pure Foods' consolidated revenue for the first semester of 2014 is P49,176 million, 4% higher than last year. Agro and milling businesses which accounted for about 80% of the food group's revenue grew by 7% and contributed P38,677 million. This resulted from the improvement in volume and prices of feeds, poultry and meats, as well as flour. Branded value added cluster, on the other hand, posted revenue of P10,162 million, slightly higher than last year. This is mainly attributable to increased revenue of Magnolia's butter, margarine, cheese and milk. Purefoods' value added meat products as well as Magnolia's ice cream volume performance remained challenged by high trade inventory.

With better fixed costs management, consolidated operating income reached P2,697 million, a 12% improvement.

2013 vs. 2012

For the first semester of 2013, SMPFC reached consolidated revenues of P47,081 million, 4% higher than 2012 level. Both the commodity and value added businesses contributed to the increase. Poultry and fresh meat businesses benefitted from better selling prices and volume growth resulting from stable-priced channels, the feeds business enjoyed higher selling prices, while the core brands with appropriate advertising and promotional support delivered strong sales. This resulted to a consolidated operating income of P2,399 million,

31% better than 2012. Improved hog growing efficiencies for Basic Meat business, and improved cassava availability for Feeds also contributed to the much better performance.

3. PACKAGING

2014 vs. 2013

The San Miguel Yamamura Packaging Group's (SMYPG) consolidated revenue for the first semester of 2014 reached P11,514 million, at par with last year. As in the first quarter, the increases in PET and Paper businesses were able to compensate for the lower Glass and Metal businesses' revenue. PET plant's utilization continued to improve with higher demand for carbonated soft drinks for the summer season. The Paper business also continued to benefit from higher demand from Nestle and banana clients.

With these, the first semester operating income ended at P1,014 million, 8% better than last year.

2013 vs. 2012

The San Miguel Yamamura Packaging Group's consolidated revenues for the first semester of 2013 reached P11,478 million, 3% lower than 2012. SMYPG continued to experience lower glass volumes as demand coming from SMB and GSMI declined. The decline was however partly offset by increased demand for plastic crates and PET bottles. With improved performance of Plastic and PET business, coupled with good cost management, SMYPG's operating income for June 2013 amounted to P1,150 million, 3% higher than 2012.

4. ENERGY

2014 vs. 2013

SMC Global Power's off-take volume for the first semester of 2014 reached 8.8 million megawatt hours (MWH), 5% above last year. Most of the power plants surpassed targeted off-take volumes as well as last years' level. San Roque's first semester volume was up by 27% with better dam water reservoir level. Ilijan's higher Wholesale Electricity Spot Market (WESM) volumes in the second quarter narrowed down the decline reported in the first quarter. Coupled with higher bilateral and WESM prices versus last year, consolidated revenue grew 16% to about P43,760 million.

With lower generation costs, the Energy Business' June year-to-date consolidated operating income amounted to P14,932 million, 36% higher than last year. The co-generation solid fuel fired power plant in Limay contributed 4% to the total operating income.

2013 vs. 2012

SMC Global's off take volume for the first semester of 2013 reached 8.4 million megawatt hours, slightly higher than 2012. The increase was mainly due to higher WESM volumes. With lower average bilateral price agreements as well as lower WESM average prices, consolidated revenues were down by 5% at P37,604 million. The business managed to

deliver June 2013 consolidated operating income of P11,012 million, 25% higher than 2012 with lower generation cost for both Sual and Ilijan.

5. FUEL AND OIL

2014 vs. 2013

Petron Corporation's June year-to-date consolidated revenue reached P258,230 million, ahead from last year by 18%. This is on volumes of 43.1 million barrels, 8% ahead of last year's level. As a result of Petron Philippines' continuing service station expansion program, increased economic activity and improved industrial sales with growth driven by the power generation sectors, the first semester volume reached 25.1 million barrels, 10% better than last year with corresponding revenues increasing by 20% to P157,389 million. Petron Malaysia's volume contribution, on the other hand, grew by 6% at 18.0 million barrels on account of better network, industrial and liquefied petroleum gas (LPG) sales. This resulted to revenues of P100,841 million for the first semester of 2014.

With increased volumes and higher selling prices due to more stable regional crude prices, operating income for the first semester amounted to P5,866 million, 36% better than last year.

2013 vs. 2012

Petron's first semester consolidated volume posted 22% increase from 2012 with Petron Malaysia's volume contribution of 17 million barrels – a full six months - sales versus only three months of 2012. As a result, consolidated revenue for the first half of 2013 grew by 13% and reached P218,781 million. Petron Malaysia's revenue contribution amounted to P88,015 million while Petron Philippines generated revenue of P130,766 million, 10% lower than 2012 on volume of 22.7 million barrels. This resulted from the decline in prices and export sales partly offset by stronger volume performance of key domestic markets.

Consolidated operating income reached P4,303 million, lower than 2012. Petron's margins were adversely affected by the decline in regional crude and product prices. Dubai crude which averaged US\$108/bbl in the first quarter fell to US\$101/bbl in the second quarter, causing Petron to sell high cost inventories at lower prices. Petron Malaysia cushioned the decline posting operating income of P1,352 million. Also, Philippine operations started to recover this July with the increases in the selling prices of gasoline.

III. FINANCIAL POSITION

2014 vs. 2013

The Group's consolidated total assets as of June 30, 2014 amounted to P1,174,068 million, P3,981 million higher than 2013.

Trade and other receivables decreased by P33,775 million mainly due to collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit, net of the increase in trade receivables of Petron due to significant increase in sales during the period, as a result of its on-going retail station expansion program, industrial sales from the fishing and power-generation sectors, solicitation of key aviation accounts and LPG sales.

Inventories increased by P11,347 million mainly due to higher volume of: a) crude and finished product importations of Petron Philippines and Petron Malaysia to support the projected increase in sales and b) importation of soybean meal by the Feeds business in June 2014, usage of which will commence in the third quarter, and the purposive build-up of the inventory for other major raw materials by SMPFC to last until the next harvest season.

Prepaid expenses and other current assets increased by P4,354 million mainly due to the increase in the balances of Petron in the following: a) the excess of input value-added tax (VAT) over VAT payable as a result of the higher importations of crude and finished products during the period, b) prepaid specific tax of finished products and c) prepaid insurance for refinery, depot and plants including crude and finished products.

Investments and advances increased by P6,530 million in 2014 mainly due to the additional investments made in a) Fortunate Star Limited, to fund the new aircrafts of PAL and b) Liberty Telecoms Holdings, Inc., which were used for working capital.

Investment properties increased by P1,706 million mainly due to the acquisition of a property in Malabon by Brewery Properties Inc. for future expansion of Polo Brewery and additional construction costs of the Makati Diamond Residences Project.

Other intangible assets increased by P4,108 million mainly due to the recognition of the additional project costs as toll road concession rights in TPLEX Project, STAR Project and the Boracay Airport Project.

Deferred tax assets increased by P822 million mainly due to the recognition by SMC of deferred tax on its Net Operating Loss Carry Over (NOLCO), net of the effect of the deferred tax on the unrealized foreign exchange gain.

Other noncurrent assets decreased by P9,710 million mainly due to partial collection by Petron of its noncurrent receivables from Petron Corporation Employees Retirement Plan.

Income and other taxes payable decreased by P1,222 million mainly due to the payment of income taxes payable for the last quarter of 2013 and first quarter of 2014.

Dividends payable decreased by P1,346 million mainly due to the payment of the dividends to the preferred stockholders of SMC which were outstanding in 2013.

The decrease in long-term debt of P13,648 million was mainly due to the payments made for the following: SMB bonds, SMC exchangeable bonds and San Miguel Yamamura Asia Corporation loan; and translation adjustments, net of availments used for the various capital projects of Petron and the Infrastructure business.

Deferred tax liabilities increased by P941 million mainly due to the recognition of deferred tax liabilities on the temporary difference in the recognition of expenses for financial statement purposes versus tax computation purposes relating to the finance leases of SMC Global.

Other noncurrent liabilities decreased by P3,439 million mainly due to reclassification to current liabilities of the retention payable to the contractors of the RMP-2 Project of Petron since the project is already near to completion.

Non-controlling interests (NCI) increased by P11,747 million primarily due to the issuance of undated subordinated capital securities by SMC Global and the share of the NCI in the net income of mainly SMB, Petron and SMPFC, net of dividends declared by Petron, SMB and SMPFC.

2013 vs. 2012

The Group's consolidated total assets as of June 30, 2013 amounted to P1,129,624 million, P87,350 million higher than 2012, mainly due to the increase in noncurrent assets particularly property, plant and equipment and the consolidation of the assets of Philnico Holdings Limited including Pacific Nickel Philippines, Inc., Philnico Industrial Corporation and Philnico Processing Corp. (collectively, the Philnico Group).

Cash and cash equivalents increased by P8,412 million in 2013 primarily due to net proceeds from short-term and long-term borrowings and issuance of undated subordinated capital securities by Petron; net of a) the major capital expenditures of Petron Philippines [namely, the RMP-2 Project and Refinery Solid Fuel Fired Power Plant] and of Petron Malaysia, b) investment in Northern Cement Corporation by SMYPC, and c) payment of financing charges, dividends, taxes and finance lease liabilities.

The increase in trade and other receivables of P15,907 million in 2013 is due to the a) increase in South Premier Power Corp.'s and San Miguel Energy Corporation's receivable from Meralco on sale of electricity, b) advances of the Parent Company to Atlantic Aurum Investments BV and c) increase in Petron's receivables.

Inventories decreased by P3,916 million due to lower volume and price of crude oil inventory as well as the decline in price of finished product importations of Petron.

Prepaid expenses and other current assets increased by P2,703 million due to the higher input VAT of Petron on foreign purchases of crude oil and finished products.

Assets held for sale increased by P484 million due to the reclassification of the fixed assets of Davao Beverage Packaging Plant as assets held for sale, net of the completion of the sale of Petron Mega Plaza.

Available-for-sale (AFS) financial assets decreased by P339 million mainly due to the reclassification of Petron's investment to current asset.

Property, plant and equipment increased by P31,242 million due to major capital projects of Petron Philippines namely, the RMP-2 Project and Refinery Solid Fuel Fired Power Plant and the newly built service stations of Petron Philippines and the rebranding of retail stations of Petron Malaysia.

Investment properties increased by P188 million due to the increase in the investment properties of SMPI particularly the Makati Diamond Residences Project.

Biological assets increased by P276 million mainly due to the purchase of day-old-chicks and piglets and improved growing efficiencies.

Other intangible assets increased by P11,215 million in 2013 mainly due to Clariden Holdings, Inc.'s recognition of mining rights upon consolidation of Philnico Group.

Deferred tax assets increased by P4,027 million mainly due to the recognition of deferred tax on a) unrealized foreign exchange losses of the Parent Company, SMC Global and SMB, and b) NOLCO of the Parent Company and GSMI.

Other noncurrent assets increased by P13,627 million mainly due to the payment of upfront fee to the government for the NAIA Expressway Project.

Loans payable increased by P7,204 million in 2013 mainly due to the net availments made during the period for the Group's working capital requirements.

Dividends payable increased by P270 million due to the declaration of dividends by PT Delta Djakarta Tbk.

Long-term debt increased by P42,146 million in 2013 mainly due to a) the net availments made by the Parent Company, b) availment from an existing loan facility of Petron, and c) translation adjustments, net of the loan payments made by Citra Metro Manila Tollways Corporation (CMMTC).

Deferred tax liabilities decreased by P646 million in 2013 mainly due to the effect of recognition of deferred income tax on lower undistributed net earnings of foreign subsidiaries during the period.

Other noncurrent liabilities increased by P10,570 million in 2013 mainly due to the consolidation of Philnico Group.

Revaluation increment decreased by P136 million in 2013 mainly due to the tender offer of SMB shares.

Non-controlling interests increased by P32,210 million in 2013 mainly due to the issuance of undated subordinated capital securities by Petron and the share of NCI in the net income of mainly Petron, SMB, SMPFC and CMMTC, net of dividends declared.

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	June 30	
	2014	2013
Income during the period	P18,408	P2,953
Addition to non-controlling interests and others	13,128	30,115
Issuance of capital stock	90	737
Effect of translation adjustments	(306)	1,682
Cash dividends	(10,707)	(9,628)
	P20,613	P25,859

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	June 30	
	2014	2013
Net cash flows provided by operating activities	P9,983	P10,811
Net cash flows provided by (used in) investing activities	12,842	(53,730)
Net cash flows provided by (used in) financing activities	(14,144)	50,737

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

Major components of net cash flows provided by (used in) investing activities included the following:

<i>(In millions)</i>	June 30	
	2014	2013
Proceeds from sale of investments and property and equipment	P31,600	P1,609
Decrease (increase) in other noncurrent assets and others	245	(14,239)
Additions to investments and advances	(5,135)	(7,055)
Additions to property, plant and equipment	(15,399)	(37,328)

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

<i>(In millions)</i>	June 30	
	2014	2013
Proceeds from issuance of undated subordinated capital securities of a subsidiary	P 13,140	P 30,546
Proceeds from short-term loans - net	5,898	5,235
Payment of dividends	(12,053)	(9,363)
Proceeds from (payments of) long-term debt - net	(11,061)	34,254
Payment of finance lease liabilities	(10,069)	(9,414)

The effect of exchange rate changes on cash and cash equivalents amounted to (P466 million) and P594 million on June 30, 2014 and 2013, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” for the discussion of certain Key Performance Indicators.

	June 2014	December 2013
<u>Liquidity:</u>		
Current Ratio	1.58	1.46
<u>Solvency:</u>		
Debt to Equity Ratio	2.04	2.20
Asset to Equity Ratio	3.04	3.20
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	8.89%	15.53%
Interest Rate Coverage Ratio	2.99	2.48
	Period Ended June 30	
	2014	2013
<u>Operating Efficiency:</u>		
Volume Growth	5%	13%
Revenue Growth	13%	9%
Operating Margin	8.12%	8.08%

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

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

KPI	Formula
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right)^{-1}$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*