



**SAN MIGUEL CORPORATION**

November 14, 2016

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

Attention: **Mr. Jose Valeriano B. Zuño III**  
**OIC-Head, Disclosure Department**

Gentlemen:

We submit herewith the attached quarterly report (SEC Form 17-Q) of the Company for the period ended September 30, 2016.

Very truly yours,

  
**MARY ROSE S. TAN**  
Assistant Corporate Secretary



111142016001901

**SECURITIES AND EXCHANGE COMMISSION**

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

**Barcode Page**

The following document has been received:

**Receiving Officer/Encoder** : Salvador S. Baculanta Jr.  
**Receiving Branch** : SEC Head Office  
**Receipt Date and Time** : November 14, 2016 04:35:24 PM  
**Received From** : Head Office

Company Representative

Doc Source

Company Information

SEC Registration No. PW00000277  
Company Name SAN MIGUEL CORP.  
Industry Classification  
Company Type Stock Corporation

**Document Information**

Document ID 111142016001901  
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)  
Document Code 17-Q  
Period Covered September 30, 2016  
No. of Days Late 0  
Department CFD  
Remarks

# 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 |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|--|---|---|---|---|--|--|--|

|   |   |   |   |   |  |   |   |   |   |   |   |  |  |  |  |  |  |
|---|---|---|---|---|--|---|---|---|---|---|---|--|--|--|--|--|--|
| M | E | T | R | O |  | M | A | N | I | L | A |  |  |  |  |  |  |
|---|---|---|---|---|--|---|---|---|---|---|---|--|--|--|--|--|--|

|   |   |   |   |   |   |   |   |   |   |   |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|--|--|--|--|--|--|--|
| P | H | I | L | I | P | P | I | N | E | S |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|--|--|--|--|--|--|--|

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

**Atty. Mary Rose S. Tan**

Contact Person

**(632) 632-3000**

Company Telephone Number

**SEC FORM (3<sup>rd</sup> quarter 2016)**

**2<sup>nd</sup> Tuesday of June**

|   |   |
|---|---|
| 1 | 2 |
|---|---|

Month

|   |   |
|---|---|
| 3 | 1 |
|---|---|

Day

|  |  |   |   |   |   |  |  |
|--|--|---|---|---|---|--|--|
|  |  | 1 | 7 | - | Q |  |  |
|--|--|---|---|---|---|--|--|

FORM TYPE

|  |  |
|--|--|
|  |  |
|--|--|

Month

|  |  |
|--|--|
|  |  |
|--|--|

Day

Annual Meeting

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  |  |  |
|--|--|--|--|--|--|

Secondary License Type, If Applicable

|  |  |  |
|--|--|--|
|  |  |  |
|--|--|--|

Dept. Requiring this Doc.

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  |  |  |
|--|--|--|--|--|--|

Amended Articles Number/Section

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  |  |  |
|--|--|--|--|--|--|

Total No. of Stockholders

Total Amount of Borrowings

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  |  |  |
|--|--|--|--|--|--|

Domestic

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  |  |  |
|--|--|--|--|--|--|

Foreign

-----  
To be accomplished by SEC Personnel concerned

|  |  |  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|--|
|  |  |  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|--|

File Number

\_\_\_\_\_  
LCU

|  |  |  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|--|
|  |  |  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|--|

Document I. D.

\_\_\_\_\_  
Cashier

-----  
**STAMPS**

-----  
Remarks = pls. Use black ink for scanning purposes

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

1. For the quarterly period ended **September 30, 2016**
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, Metro Manila** **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<br>and debt Outstanding<br>as of September 30, 2016 |                      |
|---------------------------------------|-------------------------------------------------------------------------------|----------------------|
| <b>Common Shares</b>                  | 2,380,192,236                                                                 |                      |
| <b>SUB-TOTAL (Common Shares)</b>      |                                                                               | 2,380,192,236        |
| <b>Series 1 Preferred</b>             | 279,406,667                                                                   |                      |
| <b>Series "2-A" Preferred Shares</b>  | 0                                                                             |                      |
| <b>Series "2-B" Preferred Shares</b>  | 90,428,200                                                                    |                      |
| <b>Series "2-C" Preferred Shares</b>  | 255,559,400                                                                   |                      |
| <b>Series "2-D" Preferred Shares</b>  | 89,333,400                                                                    |                      |
| <b>Series "2-E" Preferred Shares</b>  | 134,000,100                                                                   |                      |
| <b>Series "2-F" Preferred Shares</b>  | 223,333,500                                                                   |                      |
| <b>Series "2-G" Preferred Shares</b>  | 66,666,600                                                                    |                      |
| <b>Series "2-H" Preferred Shares</b>  | 164,000,000                                                                   |                      |
| <b>Series "2-I" Preferred Shares</b>  | 169,333,400                                                                   |                      |
| <b>(SUB-TOTAL (Preferred Shares))</b> |                                                                               | 1,472,061,267        |
| <b>TOTAL Outstanding Shares</b>       |                                                                               | <b>3,852,253,503</b> |
| <b>Total Liabilities</b>              | <b>P840,828 million</b>                                                       |                      |

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes [☒] No [☐]

If yes, disclose name of the Stock Exchange and class of securities listed therein:

**Philippine Stock Exchange**

- (a) Common Shares
- (b) Series "1" Preferred Shares
- (c) Series "2" Preferred Shares - Subseries 2-A<sup>1</sup>
- (d) Series "2" Preferred Shares - 2-B
- (e) Series "2" Preferred Shares - 2-C
- (f) Series "2" Preferred Shares - 2-D
- (g) Series "2" Preferred Shares - 2-E
- (h) Series "2" Preferred Shares - 2-F
- (i) Series "2" Preferred Shares - 2-G
- (j) Series "2" Preferred Shares - 2-H
- (k) Series "2" Preferred Shares - 2-I

12. Indicate by check mark whether the registrant:

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

Yes [☒] No [☐]

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

Yes [☒] No [☐]

## **PART I--FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2016 (with comparative figures as of December 31, 2015 and for the period ended September 30, 2015) and Selected Notes to the 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**

<sup>1</sup> Subject to trading suspension following their redemption on September 21, 2015.

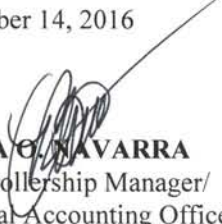
## SIGNATURES

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 November 14, 2016

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

Date November 14, 2016

SAN MIGUEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2016 AND DECEMBER 31, 2015  
(In Millions)

ANNEX "A"

ASSETS

LIABILITIES AND EQUITY

|                                                            | 2016<br>Unaudited  | 2015<br>Audited    |                                                                                     | 2016<br>Unaudited  | 2015<br>Audited    |
|------------------------------------------------------------|--------------------|--------------------|-------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Current Assets</b>                                      |                    |                    | <b>Current Liabilities</b>                                                          |                    |                    |
| Cash and cash equivalents (Notes 9 and 10)                 | P 176,252          | P 180,758          | Loans payable (Notes 5, 9 and 10)                                                   | P 130,962          | P 146,859          |
| Trade and other receivables - net (Notes 5, 9 and 10)      | 121,612            | 100,727            | Accounts payable and accrued expenses (Notes 5, 9 and 10)                           | 107,167            | 102,836            |
| Inventories                                                | 78,503             | 64,148             | Finance lease liabilities - current portion (Notes 9 and 10)                        | 16,322             | 16,567             |
| Current portion of biological assets - net                 | 3,650              | 3,319              | Income and other taxes payable                                                      | 12,845             | 13,907             |
| Prepaid expenses and other current assets (Notes 9 and 10) | 76,756             | 73,659             | Dividends payable                                                                   | 3,573              | 1,996              |
|                                                            |                    |                    | Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)  | 16,443             | 37,554             |
| Total Current Assets                                       | <u>456,773</u>     | <u>422,611</u>     | Total Current Liabilities                                                           | <u>287,312</u>     | <u>319,719</u>     |
| <b>Noncurrent Assets</b>                                   |                    |                    | <b>Noncurrent Liabilities</b>                                                       |                    |                    |
| Investments and advances - net                             | 32,053             | 26,929             | Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10) | 356,493            | 330,823            |
| Available-for-sale financial assets (Notes 9 and 10)       | 41,995             | 41,546             | Deferred tax liabilities                                                            | 17,291             | 15,329             |
| Property, plant and equipment - net (Note 6)               | 498,600            | 497,352            | Finance lease liabilities - net of current portion (Notes 9 and 10)                 | 155,268            | 162,713            |
| Investment property - net                                  | 6,819              | 4,746              | Other noncurrent liabilities (Notes 5, 9 and 10)                                    | 24,464             | 32,561             |
| Biological assets - net of current portion                 | 2,242              | 2,177              | Total Noncurrent Liabilities                                                        | <u>553,516</u>     | <u>541,426</u>     |
| Goodwill - net                                             | 60,050             | 58,603             | <b>Equity</b>                                                                       |                    |                    |
| Other intangible assets - net                              | 122,645            | 139,969            | Equity Attributable to Equity Holders of the Parent Company                         |                    |                    |
| Deferred tax assets                                        | 18,469             | 16,441             | Capital stock - common                                                              | 16,425             | 16,417             |
| Other noncurrent assets - net (Notes 5, 9 and 10)          | 35,129             | 35,648             | Capital stock - preferred                                                           | 10,187             | 10,187             |
| Total Noncurrent Assets                                    | <u>818,002</u>     | <u>823,411</u>     | Additional paid-in capital                                                          | 177,654            | 177,871            |
|                                                            | <u>P 1,274,775</u> | <u>P 1,246,022</u> | Equity reserve                                                                      | (6,123)            | (798)              |
|                                                            |                    |                    | Reserve for retirement plan                                                         | (3,540)            | (3,546)            |
|                                                            |                    |                    | Cumulative translation adjustments                                                  | 2,978              | 725                |
|                                                            |                    |                    | Retained earnings:                                                                  |                    |                    |
|                                                            |                    |                    | Appropriated                                                                        | 50,722             | 48,927             |
|                                                            |                    |                    | Unappropriated                                                                      | 144,473            | 127,855            |
|                                                            |                    |                    | Treasury stock                                                                      | (109,501)          | (139,501)          |
|                                                            |                    |                    |                                                                                     | <u>283,275</u>     | <u>238,137</u>     |
|                                                            |                    |                    | Non-controlling Interests                                                           | 150,672            | 146,740            |
|                                                            |                    |                    | Total Equity                                                                        | <u>433,947</u>     | <u>384,877</u>     |
|                                                            |                    |                    |                                                                                     | <u>P 1,274,775</u> | <u>P 1,246,022</u> |

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

CERTIFIED CORRECT:

BELLARMINA  
VP, Corporate Finance - Comptrollership

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**  
*(In Millions, Except Per Share Data)*

|                                                                                                                         |           |                            | For the Quarters Ended |                            |
|-------------------------------------------------------------------------------------------------------------------------|-----------|----------------------------|------------------------|----------------------------|
|                                                                                                                         | 2016      | 2015                       | 2016                   | 2015                       |
|                                                                                                                         | Unaudited | Unaudited<br>(As Restated) | Unaudited              | Unaudited<br>(As Restated) |
| SALES (Note 2)                                                                                                          | P 498,312 | P 503,302                  | P 169,144              | P 169,226                  |
| COST OF SALES                                                                                                           | 367,110   | 401,550                    | 125,938                | 136,987                    |
| GROSS PROFIT                                                                                                            | 131,202   | 101,752                    | 43,206                 | 32,239                     |
| SELLING AND ADMINISTRATIVE EXPENSES                                                                                     | (57,965)  | (42,733)                   | (18,722)               | (14,314)                   |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES                                                                            | (25,324)  | (24,110)                   | (8,309)                | (8,333)                    |
| INTEREST INCOME                                                                                                         | 2,769     | 3,265                      | 880                    | 1,044                      |
| EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES                                                        | 210       | (83)                       | 128                    | (348)                      |
| GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT                                                                  | 104       | 75                         | 69                     | 44                         |
| OTHER CHARGES - Net (Note 4)                                                                                            | (6,010)   | (8,033)                    | (5,735)                | (5,840)                    |
| INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS                                                                     | 44,986    | 30,133                     | 11,517                 | 4,492                      |
| INCOME TAX EXPENSE                                                                                                      | 13,851    | 9,960                      | 3,845                  | 1,938                      |
| INCOME FROM CONTINUING OPERATIONS                                                                                       | 31,135    | 20,173                     | 7,672                  | 2,554                      |
| INCOME (LOSS) AFTER INCOME TAX<br>FROM DISCONTINUED OPERATIONS (Note 3)                                                 | 11,818    | (1,091)                    | -                      | (482)                      |
| NET INCOME                                                                                                              | P 42,953  | P 19,082                   | P 7,672                | P 2,072                    |
| Attributable to:                                                                                                        |           |                            |                        |                            |
| Equity holders of the Parent Company                                                                                    | P 25,921  | P 6,304                    | P 1,387                | P (2,431)                  |
| Non-controlling interests                                                                                               | 17,032    | 12,778                     | 6,285                  | 4,503                      |
|                                                                                                                         | P 42,953  | P 19,082                   | P 7,672                | P 2,072                    |
| Earnings Per Common Share From Continuing Operations, Attributable to Equity<br>Holders of the Parent Company (Note 7): |           |                            |                        |                            |
| Basic                                                                                                                   | P 3.85    | P 1.01                     | P (0.18)               | P (1.55)                   |
| Diluted                                                                                                                 | P 3.84    | P 1.00                     | P (0.18)               | P (1.54)                   |

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

CERTIFIED CORRECT:

BELLA C. BAVARRA  
VP, Corporate Finance - Comptrollership

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**  
(In Millions)

|                                                                               | 2016                   | 2015                   | For the Quarters Ended |                         |
|-------------------------------------------------------------------------------|------------------------|------------------------|------------------------|-------------------------|
|                                                                               | Unaudited              | Unaudited              | 2016                   | 2015                    |
|                                                                               |                        |                        | Unaudited              | Unaudited               |
| <b>NET INCOME</b>                                                             | <b>P 42,953</b>        | <b>P 19,082</b>        | <b>P 7,672</b>         | <b>P 2,072</b>          |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                      |                        |                        |                        |                         |
| <b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>                  |                        |                        |                        |                         |
| EQUITY RESERVE FOR RETIREMENT PLAN                                            | (8)                    | 10                     | (19)                   | 8                       |
| INCOME TAX BENEFIT (EXPENSE)                                                  | -                      | (3)                    | 1                      | (2)                     |
| SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES<br>AND JOINT VENTURES - Net | 41                     | 209                    | 27                     | 18                      |
|                                                                               | <u>33</u>              | <u>216</u>             | <u>9</u>               | <u>24</u>               |
| <b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>                       |                        |                        |                        |                         |
| GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF<br>FOREIGN OPERATIONS   | 3,480                  | (5,640)                | 889                    | (3,406)                 |
| NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS                        | 433                    | 7                      | 93                     | (27)                    |
| INCOME TAX EXPENSE                                                            | (8)                    | (14)                   | (1)                    | (1)                     |
|                                                                               | <u>3,905</u>           | <u>(5,647)</u>         | <u>981</u>             | <u>(3,434)</u>          |
| <b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>                         | <u>3,938</u>           | <u>(5,431)</u>         | <u>990</u>             | <u>(3,410)</u>          |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax</b>                         | <u><b>P 46,891</b></u> | <u><b>P 13,651</b></u> | <u><b>P 8,662</b></u>  | <u><b>P (1,338)</b></u> |
| <b>Attributable to:</b>                                                       |                        |                        |                        |                         |
| Equity holders of the Parent Company                                          | P 28,180               | P 2,903                | P 2,018                | P (4,645)               |
| Non-controlling interests                                                     | 18,711                 | 10,748                 | 6,644                  | 3,307                   |
|                                                                               | <u><b>P 46,891</b></u> | <u><b>P 13,651</b></u> | <u><b>P 8,662</b></u>  | <u><b>P (1,338)</b></u> |

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

CERTIFIED CORRECT:

BELLAR D. NAVARRA  
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIODS ENDED SEPTEMBER 30, 2016 AND 2015  
(In Millions)

|                                                                                   | Equity Attributable to Equity Holders of the Parent Company |           |                 |                             |                |                                    |                    |                   |                |                |           |         |   |       |   |        |   | Non-controlling | Total |          |   |          |   |          |   |         |   |          |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------|-----------|-----------------|-----------------------------|----------------|------------------------------------|--------------------|-------------------|----------------|----------------|-----------|---------|---|-------|---|--------|---|-----------------|-------|----------|---|----------|---|----------|---|---------|---|----------|
|                                                                                   | Capital Stock                                               |           | Additional      | Reserve for Retirement Plan | Equity Reserve | Cumulative Translation Adjustments |                    | Retained Earnings |                | Treasury Stock |           | Total   |   |       |   |        |   |                 |       |          |   |          |   |          |   |         |   |          |
|                                                                                   | Common                                                      | Preferred | Paid-in Capital |                             |                | Translation Reserve                | Fair Value Reserve | Appropriated      | Unappropriated | Common         | Preferred |         |   |       |   |        |   |                 |       |          |   |          |   |          |   |         |   |          |
|                                                                                   | P                                                           |           | P               |                             | P              |                                    | P                  |                   | P              |                | P         |         | P |       | P |        | P |                 | P     |          |   |          |   |          |   |         |   |          |
| As of January 1, 2016 (Audited)                                                   | P                                                           | 16,417    | P               | 10,187                      | P              | 177,871                            | P                  | (3,546)           | P              | (798)          | P         | 947     | P | (222) | P | 48,927 | P | 127,855         | P     | (67,093) | P | (72,408) | P | 238,137  | P | 146,740 | P | 384,877  |
| Gain on exchange differences on translation of foreign operations                 |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | 1,798   |   | -     |   | -      |   | -               |       | -        |   | -        |   | 1,798    |   | 1,682   |   | 3,480    |
| Share in other comprehensive income of associates and joint ventures - net        |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | 32      |   | -     |   | -      |   | -               |       | -        |   | -        |   | 32       |   | 9       |   | 41       |
| Equity reserve for retirement plan                                                |                                                             | -         |                 | -                           |                | -                                  |                    | 6                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | 6        |   | (14)    |   | (8)      |
| Net gain on available-for-sale financial assets                                   |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | 423   |   | -      |   | -               |       | -        |   | -        |   | 423      |   | 2       |   | 425      |
| Other comprehensive income                                                        |                                                             | -         |                 | -                           |                | -                                  |                    | 6                 |                | -              |           | 1,830   |   | 423   |   | -      |   | -               |       | -        |   | -        |   | 2,259    |   | 1,679   |   | 3,938    |
| Net income                                                                        |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | 25,921          |       | -        |   | -        |   | 25,921   |   | 17,032  |   | 42,953   |
| Total comprehensive income                                                        |                                                             | -         |                 | -                           |                | -                                  |                    | 6                 |                | -              |           | 1,830   |   | 423   |   | -      |   | 25,921          |       | -        |   | -        |   | 28,180   |   | 18,711  |   | 46,891   |
| Issuance of common shares                                                         |                                                             | 8         |                 | -                           |                | 61                                 |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | 69       |   | -       |   | 69       |
| Reissuance of treasury shares                                                     |                                                             | -         |                 | -                           |                | (278)                              |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | 30,000   |   | 29,722   |   | -       |   | 29,722   |
| Net reduction to non-controlling interests and others                             |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | (5,325)        |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | (5,325)  |   | (1,551) |   | (6,876)  |
| Appropriations - net                                                              |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | 1,795  |   | (1,795)         |       | -        |   | -        |   | -        |   | -       |   | -        |
| Cash dividends and distributions (Note 8):                                        |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | -        |   | -       |   | -        |
| Common                                                                            |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | (2,498)  |   | (6,011) |   | (8,509)  |
| Preferred                                                                         |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | (5,010)  |   | (1,282) |   | (6,292)  |
| Undated subordinated capital securities                                           |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | -        |   | (5,935) |   | (5,935)  |
| As of September 30, 2016 (Unaudited)                                              | P                                                           | 16,425    | P               | 10,187                      | P              | 177,654                            | P                  | (3,540)           | P              | (6,123)        | P         | 2,777   | P | 201   | P | 50,722 | P | 144,473         | P     | (67,093) | P | (42,408) | P | 283,275  | P | 150,672 | P | 433,947  |
| As of January 1, 2015 (Audited)                                                   | P                                                           | 16,415    | P               | 10,187                      | P              | 178,101                            | P                  | (1,216)           | P              | 761            | P         | 4,058   | P | (184) | P | 52,088 | P | 120,571         | P     | (67,093) | P | (72,788) | P | 240,900  | P | 149,020 | P | 389,920  |
| Loss on exchange differences on translation of foreign operations                 |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | (3,619) |   | -     |   | -      |   | -               |       | -        |   | -        |   | (3,619)  |   | (2,021) |   | (5,640)  |
| Share in other comprehensive income (loss) of associates and joint ventures - net |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | 221   |   | -      |   | -               |       | -        |   | -        |   | 221      |   | (12)    |   | 209      |
| Equity reserve for retirement plan                                                |                                                             | -         |                 | -                           |                | -                                  |                    | 4                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | 4        |   | 3       |   | 7        |
| Net loss on available-for-sale financial assets                                   |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | (7)   |   | -      |   | -               |       | -        |   | -        |   | (7)      |   | -       |   | (7)      |
| Other comprehensive income (loss)                                                 |                                                             | -         |                 | -                           |                | -                                  |                    | 4                 |                | -              |           | (3,619) |   | 214   |   | -      |   | -               |       | -        |   | -        |   | (3,401)  |   | (2,030) |   | (5,431)  |
| Net income                                                                        |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | 6,304           |       | -        |   | -        |   | 6,304    |   | 12,778  |   | 19,082   |
| Total comprehensive income (loss)                                                 |                                                             | -         |                 | -                           |                | -                                  |                    | 4                 |                | -              |           | (3,619) |   | 214   |   | -      |   | 6,304           |       | -        |   | -        |   | 2,903    |   | 10,748  |   | 13,651   |
| Issuance of common shares                                                         |                                                             | 1         |                 | -                           |                | 24                                 |                    | -                 |                | -              |           | (3,619) |   | 214   |   | -      |   | 6,304           |       | -        |   | -        |   | 2,903    |   | 10,748  |   | 13,651   |
| Reissuance of treasury shares                                                     |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | 54,456   |   | 54,456   |   | -       |   | 54,456   |
| Redemption of Series "1" preferred shares                                         |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | (54,076) |   | (54,076) |   | -       |   | (54,076) |
| Net reduction to non-controlling interests and others                             |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | (1,346)        |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | (1,346)  |   | (3,383) |   | (4,729)  |
| Appropriations - net                                                              |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | 4,211  |   | (4,211)         |       | -        |   | -        |   | -        |   | -       |   | -        |
| Cash dividends and distributions (Note 8):                                        |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | -        |   | -       |   | -        |
| Common                                                                            |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | (2,497)  |   | (5,585) |   | (8,082)  |
| Preferred                                                                         |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | (2,497)         |       | -        |   | -        |   | (3,643)  |   | (1,370) |   | (5,013)  |
| Undated subordinated capital securities                                           |                                                             | -         |                 | -                           |                | -                                  |                    | -                 |                | -              |           | -       |   | -     |   | -      |   | -               |       | -        |   | -        |   | -        |   | (4,322) |   | (4,322)  |
| As of September 30, 2015 (Unaudited)                                              | P                                                           | 16,416    | P               | 10,187                      | P              | 178,125                            | P                  | (1,212)           | P              | (585)          | P         | 439     | P | 30    | P | 56,299 | P | 116,524         | P     | (67,093) | P | (72,408) | P | 236,722  | P | 145,108 | P | 381,830  |

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

CERTIFIED CORRECT:

BELLEROS, NAVARRA  
VP, Corporate Finance - Comptrollership

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**  
*(In Millions)*

|                                                                                                             | 2016      | 2015                       |
|-------------------------------------------------------------------------------------------------------------|-----------|----------------------------|
|                                                                                                             | Unaudited | Unaudited<br>(As Restated) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                 |           |                            |
| Income before income tax from continuing operations                                                         | P 44,986  | P 30,133                   |
| Income (loss) before income tax from discontinued operations (Note 3)                                       | 12,765    | (938)                      |
| Income before income tax                                                                                    | 57,751    | 29,195                     |
| Adjustments for:                                                                                            |           |                            |
| Depreciation, amortization and others - net                                                                 | 32,778    | 28,890                     |
| Interest expense and other financing charges                                                                | 25,330    | 24,111                     |
| Interest income                                                                                             | (2,783)   | (3,286)                    |
| Equity in net losses (earnings) of associates and joint ventures                                            | (210)     | 349                        |
| Gain from disposal of discontinued operations (Note 3)                                                      | (13,572)  | -                          |
| Gain on sale of investments and property and equipment                                                      | (104)     | (75)                       |
| Operating income before working capital changes                                                             | 99,190    | 79,184                     |
| Changes in noncash current assets, certain current liabilities and others                                   | (20,263)  | (16,417)                   |
| Cash generated from operations                                                                              | 78,927    | 62,767                     |
| Interest and other financing charges paid                                                                   | (17,643)  | (16,896)                   |
| Income taxes paid                                                                                           | (14,839)  | (10,547)                   |
| Net cash flows provided by operating activities                                                             | 46,445    | 35,324                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                                 |           |                            |
| Acquisition of subsidiaries                                                                                 | (1,905)   | (7,721)                    |
| Cash and cash equivalents acquired from business combination, net of cash paid                              | -         | 14,415                     |
| Additions to investments and advances                                                                       | (7,492)   | (1,902)                    |
| Additions to property, plant and equipment                                                                  | (28,275)  | (43,983)                   |
| Decrease (increase) in other noncurrent assets and others                                                   | (10,846)  | 3,341                      |
| Proceeds from sale of investments and property and equipment                                                | 479       | 731                        |
| Proceeds from disposal of discontinued operations,<br>net of cash and cash equivalents disposed of (Note 3) | 24,154    | -                          |
| Interest received                                                                                           | 2,653     | 3,203                      |
| Dividend received from an associate                                                                         | 7         | 7                          |
| Net cash flows used in investing activities                                                                 | (21,225)  | (31,909)                   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                                 |           |                            |
| Proceeds from:                                                                                              |           |                            |
| Short-term borrowings                                                                                       | 455,226   | 556,691                    |
| Long-term borrowings                                                                                        | 49,789    | 65,862                     |
| Payments of:                                                                                                |           |                            |
| Short-term borrowings                                                                                       | (471,557) | (588,232)                  |
| Long-term borrowings                                                                                        | (52,534)  | (56,862)                   |
| Payments of finance lease liabilities                                                                       | (17,811)  | (16,614)                   |
| Cash dividends paid                                                                                         | (5,640)   | (7,623)                    |
| Cash dividends and distributions paid to non-controlling shareholders                                       | (13,521)  | (11,387)                   |
| Proceeds from issuance of capital stock                                                                     | 69        | 25                         |
| Proceeds from reissuance of treasury shares                                                                 | 29,722    | 54,456                     |
| Redemption of Series "2A" preferred shares                                                                  | -         | (54,076)                   |
| Redemption of preferred shares of subsidiaries                                                              | -         | (40,642)                   |
| Decrease in non-controlling interests                                                                       | (5,514)   | (461)                      |
| Net proceeds from issuance of preferred shares of a subsidiary                                              | -         | 28,746                     |
| Net cash flows used in financing activities                                                                 | (31,771)  | (70,117)                   |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                                         | 2,045     | 2,744                      |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                                            | (4,506)   | (63,958)                   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                                       | 180,758   | 258,606                    |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>                                                       | P 176,252 | P 194,648                  |

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  
 SEPTEMBER 30, 2016  
 (In Millions)

|                                      | Total          | Current | Past Due    |              |              |
|--------------------------------------|----------------|---------|-------------|--------------|--------------|
|                                      |                |         | 1 - 30 Days | 31 - 60 Days | Over 60 Days |
| Trade                                | 52,127         | 38,519  | 4,804       | 1,533        | 7,271        |
| Non-trade                            | 64,260         | 48,787  | 816         | 713          | 13,944       |
| Others                               | 16,331         | 15,534  | 51          | 22           | 724          |
| Total                                | 132,718        | 102,840 | 5,671       | 2,268        | 21,939       |
| Less allowance for impairment losses | 11,106         |         |             |              |              |
| Net                                  | <b>121,612</b> |         |             |              |              |

## **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 September 30, 2016 and comparative financial statements for the same period in 2015 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 financial information are rounded off 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 and Amended Standards

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

#### *Amendments to Standards Adopted in 2016*

The Group has adopted the following PFRS starting January 1, 2016 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income, consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and consolidated statements of comprehensive income.
- Accounting for Acquisitions of Interests in Joint Operations (*Amendments to PFRS 11, Joint Arrangements*). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the

judgment applied in making this determination. The amendments to PFRS 11 are applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

- Clarification of Acceptable Methods of Depreciation and Amortization (*Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets*). The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments to PAS 16 and PAS 38 are applied prospectively in accordance with PAS 8.
- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:
  - Changes in Method for Disposal (*Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*). PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed. The amendments to PFRS 5 are applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.
  - Disclosure of information “elsewhere in the interim financial report” (*Amendment to PAS 34*). PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed “elsewhere in the interim financial report” – i.e., incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g., management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross reference are not made available to users of the interim financial statements on the same terms and at the same time. The amendment to PAS 34 is applied retrospectively, in accordance with PAS 8.

Except as otherwise indicated, the adoption of these foregoing amended standards did not have a material effect on the interim consolidated financial statements.

### *New and Amended Standards Not Yet Adopted*

A number of new and amended standards are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- PFRS 9 (2014), *Financial Instruments*, 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 of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
- PFRS 15, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting

instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15, *Revenue from Contracts with Customers*. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities. If the required disclosure is provided in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities. On February 17, 2016, the FRSC has adopted the amendments to PAS 7, which apply prospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods.
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12)*. The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

On February 17, 2016, the FRSC has adopted the Amendments to PAS 12, which will become effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The amendments to PAS 12 are applied prospectively in accordance with PAS 8. On initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without

allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact.

- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method. Therefore, in measuring the liability, market and non-vesting conditions are taken into account in measuring its fair value; and the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions. The new requirements do not change the cumulative amount of expense that is ultimately recognized, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.

The amendments also introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (a) the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (b) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the company withholds in excess of the employee's tax obligation associated with the share-based payment.

The amendments also clarify that the Group is to apply the following approach when a share-based payment is modified from cash-settled to equity-settled: (a) at the modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date; and (b) the difference between the carrying amount of the liability derecognized as at the modification date and the amount recognized in equity as at that date is recognized in profit or loss immediately. The amendments are required to be applied for annual periods beginning on or after January 1, 2018 with early application permitted.

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

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However on January 13, 2016, the FRSC decided to postpone the effective date until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It

provides guidance on the recognition of revenue among real estate developers for sale of units, such as apartments or houses, ‘off plan’; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11 or PAS 18 and the timing of revenue recognition. The 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, and infrastructure.

The beverage segment produces and markets alcoholic and non-alcoholic beverages.

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

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 business was previously presented as one of the reportable segments of the Group. As a result of the completion of the sale of Vega Telecom, Inc. (Vega) and subsidiaries on May 30, 2016, the line by line consolidation of Vega and its subsidiaries were excluded in the consolidated statements of income for the periods ended September 30, 2016 and 2015 and presented under “Income (loss) after income tax from discontinued operations” account. Accordingly, the comparable 2015 financial information about reportable segments was restated to show the discontinued operation separately from continuing operations.

#### 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 follows:

|                     | <b>Beverage</b> |             | <b>Food</b>    |             | <b>Packaging</b> |             | <b>Energy</b>  |             | <b>Fuel and Oil</b> |             | <b>Infrastructure</b> |             | <b>Others</b>  |             | <b>Eliminations</b> |             | <b>Consolidated</b> |             |
|---------------------|-----------------|-------------|----------------|-------------|------------------|-------------|----------------|-------------|---------------------|-------------|-----------------------|-------------|----------------|-------------|---------------------|-------------|---------------------|-------------|
|                     | <b>2016</b>     | <b>2015</b> | <b>2016</b>    | <b>2015</b> | <b>2016</b>      | <b>2015</b> | <b>2016</b>    | <b>2015</b> | <b>2016</b>         | <b>2015</b> | <b>2016</b>           | <b>2015</b> | <b>2016</b>    | <b>2015</b> | <b>2016</b>         | <b>2015</b> | <b>2016</b>         | <b>2015</b> |
| <b>Sales</b>        |                 |             |                |             |                  |             |                |             |                     |             |                       |             |                |             |                     |             |                     |             |
| External sales      | <b>P82,398</b>  | P69,731     | <b>P80,527</b> | P76,599     | <b>P15,127</b>   | P14,727     | <b>P53,157</b> | P52,363     | <b>P242,823</b>     | P275,211    | <b>P14,672</b>        | P9,004      | <b>P9,608</b>  | P5,667      | <b>P –</b>          | P –         | <b>P498,312</b>     | P503,302    |
| Inter-segment sales | <b>102</b>      | 546         | <b>55</b>      | 2           | <b>4,622</b>     | 3,459       | <b>7,543</b>   | 6,634       | <b>4,947</b>        | 3,084       | <b>–</b>              | –           | <b>7,878</b>   | 11,232      | <b>(25,147)</b>     | (24,957)    | <b>–</b>            | –           |
| Total sales         | <b>P82,500</b>  | P70,277     | <b>P80,582</b> | P76,601     | <b>19,749</b>    | 18,186      | <b>P60,700</b> | P58,997     | <b>P247,770</b>     | P278,295    | <b>P14,672</b>        | P9,004      | <b>P17,486</b> | P16,899     | <b>(P25,147)</b>    | (P24,957)   | <b>P498,312</b>     | P503,302    |
| <b>Results</b>      |                 |             |                |             |                  |             |                |             |                     |             |                       |             |                |             |                     |             |                     |             |
| Segment results     | <b>P19,368</b>  | P16,142     | <b>P5,613</b>  | P4,499      | <b>P1,919</b>    | P1,709      | <b>P22,838</b> | P19,343     | <b>P16,841</b>      | P13,662     | <b>P7,441</b>         | P5,146      | <b>(P503)</b>  | (P2,066)    | <b>(P280)</b>       | P584        | <b>P73,237</b>      | P59,019     |

### 3. Discontinued Operations

On May 30, 2016, the Parent Company entered into agreements with Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe), respectively, for the sale of 100% ownership interest of the Parent Company in Vega for total amount of P30,004 million. Vega holds the telecommunications assets of the Parent Company through its subsidiaries. In addition, advances by the Parent Company to Vega was also assigned to PLDT and Globe, in the total amount of P22,077 million. The Parent Company received P26,040 million or 50% of the proceeds from the sale of shares and assignment of advances upon signing of the agreement. The payments of the remaining balance will be made to the Parent Company at 25% of the proceeds each on December 1, 2016 and May 16, 2017.

The Parent Company booked a gain from the transaction amounting to P6,948 million, net of capital gains tax.

As required by PFRS 5, the financial performance of Vega and its subsidiaries for the period from January 1 to May 30, 2016 and for the period ended September 30, 2015, were presented as a separate item under "Income (loss) after income tax from discontinued operations" account in the consolidated statements of income. Accordingly, the comparable 2015 consolidated statement of income was restated.

The result of discontinued operations is presented below:

|                                                 | 2016           | 2015     |
|-------------------------------------------------|----------------|----------|
| Net sales                                       | <b>P818</b>    | P1,264   |
| Cost of sales                                   | <b>389</b>     | 626      |
| Gross profit                                    | <b>429</b>     | 638      |
| Selling and administrative expenses             | <b>(1,380)</b> | (1,480)  |
| Interest expense and other financing charges    | <b>(6)</b>     | (1)      |
| Interest income                                 | <b>14</b>      | 21       |
| Equity in net losses of associates              | <b>-</b>       | (266)    |
| Other income - net                              | <b>136</b>     | 150      |
| Loss before income tax                          | <b>(807)</b>   | (938)    |
| Income tax expense                              | <b>175</b>     | 153      |
| Loss from discontinued operations               | <b>(982)</b>   | (1,091)  |
| Gain on sale of investment - net of tax of P772 | <b>12,800</b>  | -        |
| Net income (loss) from discontinued operations  | <b>P11,818</b> | (P1,091) |
| Attributable to:                                |                |          |
| Equity holders of the Parent Company            | <b>P11,756</b> | (P1,173) |
| Non-controlling interests                       | <b>62</b>      | 82       |
|                                                 | <b>P11,818</b> | (P1,091) |

Basic and diluted earnings per common share from discontinued operations, attributable to equity holders of the Parent Company, are presented in Note 7.

Cash flows provided by (used in) discontinued operations are presented below:

|                                                              | 2016           | 2015     |
|--------------------------------------------------------------|----------------|----------|
| Net cash flows used in operating activities                  | <b>(P419)</b>  | (P1,874) |
| Net cash flows provided by (used in) investing activities    | <b>20,492</b>  | (1,407)  |
| Net cash flows used in financing activities                  | <b>(1,220)</b> | -        |
| Net cash flows provided by (used in) discontinued operations | <b>P18,853</b> | (P3,281) |

The effect of disposal on the financial position follows:

|                                           | 2016           |
|-------------------------------------------|----------------|
| <b>Assets</b>                             |                |
| Cash and cash equivalents                 | P1,877         |
| Trade and other receivables - net         | 1,516          |
| Inventories                               | 258            |
| Prepaid expenses and other current assets | 3,185          |
| Investments and advances - net            | 8              |
| Available-for-sale financial assets       | 2              |
| Property, plant and equipment - net       | 13,141         |
| Goodwill - net                            | 734            |
| Other intangible assets - net             | 23,843         |
| Deferred tax assets                       | 103            |
| Other noncurrent assets - net             | 235            |
| <b>Liabilities</b>                        |                |
| Accounts payable and accrued expenses     | (509)          |
| Income and other taxes payable            | (242)          |
| Deferred tax liabilities                  | (257)          |
| Other noncurrent liabilities              | (4,557)        |
| <b>Non-controlling interests</b>          | (852)          |
| <b>Reserve for retirement plan</b>        | 14             |
| <b>Net assets disposed of</b>             | <b>P38,499</b> |
| Cash consideration received               | P26,040        |
| Transaction cost                          | (9)            |
| Cash and cash equivalents disposed of     | (1,877)        |
| <b>Net cash flows</b>                     | <b>P24,154</b> |

#### 4. Other Income (Charges)

Other income (charges) consists of:

|                                  | September 30    |                 |
|----------------------------------|-----------------|-----------------|
|                                  | 2016            | 2015            |
| Loss on foreign exchange - net   | (P6,446)        | (P10,396)       |
| Construction costs               | (6,115)         | (6,894)         |
| Gain (loss) on derivatives - net | (79)            | 2,207           |
| Construction revenue             | 6,115           | 6,894           |
| Others                           | 515             | 156             |
|                                  | <b>(P6,010)</b> | <b>(P8,033)</b> |

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

Construction costs pass through the profit or loss before it is capitalized as toll road and airport concession rights.

## 5. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as of September 30, 2016 and December 31, 2015:

|                                 |                           | Revenue<br>from<br>Related<br>Parties | Purchases<br>from<br>Related<br>Parties | Amounts<br>Owed by<br>Related<br>Parties | Amounts<br>Owed to<br>Related<br>Parties | Terms                                                                  | Conditions               |
|---------------------------------|---------------------------|---------------------------------------|-----------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------------------------------------|--------------------------|
| Ultimate Parent<br>Company      | <b>September 30, 2016</b> | <b>P531</b>                           | <b>P -</b>                              | <b>P6,510</b>                            | <b>P551</b>                              |                                                                        |                          |
|                                 | December 31, 2015         | 1                                     | 1                                       | 5,816                                    | 551                                      | On demand or less than 4 to 6 years; interest and non-interest bearing | Unsecured; no impairment |
| Retirement<br>Plans             | <b>September 30, 2016</b> | <b>333</b>                            | <b>-</b>                                | <b>11,800</b>                            | <b>59</b>                                |                                                                        |                          |
|                                 | December 31, 2015         | 485                                   | -                                       | 13,194                                   | -                                        | On demand; interest bearing                                            | Unsecured; no impairment |
| Associates                      | <b>September 30, 2016</b> | <b>1,392</b>                          | <b>152</b>                              | <b>462</b>                               | <b>29</b>                                |                                                                        |                          |
|                                 | December 31, 2015         | 1,940                                 | 119                                     | 452                                      | 28                                       | On demand; interest and non-interest bearing                           | Unsecured; no impairment |
|                                 | <b>September 30, 2016</b> | <b>-</b>                              | <b>-</b>                                | <b>-</b>                                 | <b>19,188</b>                            |                                                                        |                          |
|                                 | December 31, 2015         | -                                     | -                                       | -                                        | 20,529                                   | Less than 1 to 10 years; interest bearing                              | Unsecured and secured    |
| Joint Ventures                  | <b>September 30, 2016</b> | <b>61</b>                             | <b>-</b>                                | <b>693</b>                               | <b>81</b>                                |                                                                        |                          |
|                                 | December 31, 2015         | 3                                     | 416                                     | 665                                      | 162                                      | On demand; non-interest bearing                                        | Unsecured; no impairment |
| Shareholders<br>in subsidiaries | <b>September 30, 2016</b> | <b>226</b>                            | <b>98</b>                               | <b>100</b>                               | <b>2,520</b>                             |                                                                        |                          |
|                                 | December 31, 2015         | 222                                   | 77                                      | 108                                      | 2,763                                    | On demand; non-interest bearing                                        | Unsecured; no impairment |
| Others                          | <b>September 30, 2016</b> | <b>129</b>                            | <b>1</b>                                | <b>115</b>                               | <b>6,555</b>                             |                                                                        |                          |
|                                 | December 31, 2015         | 142                                   | -                                       | 80                                       | 6,232                                    | On demand; non-interest bearing                                        | Unsecured; no impairment |
| <b>Total</b>                    | <b>September 30, 2016</b> | <b>P2,672</b>                         | <b>P251</b>                             | <b>P19,680</b>                           | <b>P28,983</b>                           |                                                                        |                          |
| Total                           | December 31, 2015         | P2,793                                | P613                                    | P20,315                                  | P30,265                                  |                                                                        |                          |

- Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.
- Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable.
- The amounts owed to associates include interest bearing loans to Bank of Commerce (BOC) presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

## 6. Property, Plant and Equipment

Property, plant and equipment consist of:

### September 30, 2016 and December 31, 2015

|                                                             | Land<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service<br>Stations<br>and Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects<br>in Progress | Total          |
|-------------------------------------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------------|-----------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|----------------|
| <b>Cost</b>                                                 |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                |
| January 1, 2015 (Audited)                                   | P28,605                          | P49,743                       | P226,789        | P50,532                            | P16,142                                       | P126,939                                | P2,219                    | P135,978                        | P636,947       |
| Additions                                                   | 869                              | 3,743                         | -               | 1,177                              | 1,191                                         | 9,041                                   | 115                       | 43,837                          | 59,973         |
| Disposals/reclassifications/<br>acquisition of subsidiaries | 3,036                            | (1,770)                       | -               | (362)                              | (74)                                          | 5,132                                   | (147)                     | 2,938                           | 8,753          |
| Currency translation<br>adjustments                         | (1,158)                          | (1,263)                       | -               | (1,562)                            | (1,029)                                       | (317)                                   | -                         | (346)                           | (5,675)        |
| December 31, 2015 (Audited)                                 | 31,352                           | 50,453                        | 226,789         | 49,785                             | 16,230                                        | 140,795                                 | 2,187                     | 182,407                         | 699,998        |
| Additions                                                   | 117                              | 196                           | -               | 163                                | 69                                            | 1,249                                   | 8                         | 26,474                          | 28,276         |
| Disposals/reclassifications                                 | 39                               | 425                           | -               | 94,463                             | (411)                                         | (16,169)                                | 74                        | (108,955)                       | (30,534)       |
| Currency translation<br>adjustments                         | 549                              | 810                           | -               | 685                                | 444                                           | 895                                     | 7                         | 122                             | 3,512          |
| <b>September 30, 2016 (Unaudited)</b>                       | <b>32,057</b>                    | <b>51,884</b>                 | <b>226,789</b>  | <b>145,096</b>                     | <b>16,332</b>                                 | <b>126,770</b>                          | <b>2,276</b>              | <b>100,048</b>                  | <b>701,252</b> |
| <b>Accumulated Depreciation<br/>and Amortization</b>        |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                |
| January 1, 2015 (Audited)                                   | 3,383                            | 19,939                        | 26,931          | 32,218                             | 10,471                                        | 77,185                                  | 1,270                     | -                               | 171,397        |
| Depreciation and amortization                               | 205                              | 1,754                         | 6,031           | 1,730                              | 1,287                                         | 6,925                                   | 163                       | -                               | 18,095         |
| Disposals/reclassifications/<br>acquisition of subsidiaries | 61                               | (777)                         | -               | (109)                              | (53)                                          | 4,656                                   | (284)                     | -                               | 3,494          |
| Currency translation<br>adjustments                         | (75)                             | (722)                         | -               | (751)                              | (565)                                         | (841)                                   | -                         | -                               | (2,954)        |
| December 31, 2015 (Audited)                                 | 3,574                            | 20,194                        | 32,962          | 33,088                             | 11,140                                        | 87,925                                  | 1,149                     | -                               | 190,032        |
| Depreciation and amortization                               | 189                              | 1,375                         | 4,523           | 3,510                              | 660                                           | 5,601                                   | 132                       | -                               | 15,990         |
| Disposals/reclassifications/<br>acquisition of subsidiaries | (93)                             | (480)                         | -               | (19)                               | (88)                                          | (15,731)                                | (123)                     | -                               | (16,534)       |
| Currency translation<br>adjustments                         | 37                               | 415                           | -               | 598                                | 239                                           | 499                                     | 4                         | -                               | 1,792          |
| <b>September 30, 2016 (Unaudited)</b>                       | <b>3,707</b>                     | <b>21,504</b>                 | <b>37,485</b>   | <b>37,177</b>                      | <b>11,951</b>                                 | <b>78,294</b>                           | <b>1,162</b>              | <b>-</b>                        | <b>191,280</b> |

(Forward)

|                                       | Land<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service<br>Stations<br>and Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects<br>in Progress | Total           |
|---------------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------------|-----------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|-----------------|
| <b>Accumulated Impairment Losses</b>  |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                 |
| January 1, 2015 (Audited)             | P266                             | P2,270                        | P -             | P -                                | P -                                           | P7,690                                  | P1                        | P -                             | P10,227         |
| Impairment                            | -                                | 202                           | -               | -                                  | -                                             | 2,129                                   | -                         | -                               | 2,331           |
| Disposals and reclassifications       | -                                | -                             | -               | -                                  | -                                             | (9)                                     | -                         | -                               | (9)             |
| Currency translation adjustments      | -                                | (22)                          | -               | -                                  | -                                             | 87                                      | -                         | -                               | 65              |
| December 31, 2015 (Audited)           | 266                              | 2,450                         | -               | -                                  | -                                             | 9,897                                   | 1                         | -                               | 12,614          |
| Disposals and reclassifications       | -                                | (6)                           | -               | -                                  | -                                             | (1,327)                                 | -                         | -                               | (1,333)         |
| Currency translation adjustments      | -                                | 3                             | -               | -                                  | -                                             | 88                                      | -                         | -                               | 91              |
| <b>September 30, 2016 (Unaudited)</b> | <b>266</b>                       | <b>2,447</b>                  | <b>-</b>        | <b>-</b>                           | <b>-</b>                                      | <b>8,658</b>                            | <b>1</b>                  | <b>-</b>                        | <b>11,372</b>   |
| <b>Carrying Amount</b>                |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                 |
| December 31, 2015 (Audited)           | P27,512                          | P27,809                       | P193,827        | P16,697                            | P5,090                                        | P42,973                                 | P1,037                    | P182,407                        | P497,352        |
| <b>September 30, 2016 (Unaudited)</b> | <b>P28,084</b>                   | <b>P27,933</b>                | <b>P189,304</b> | <b>P107,919</b>                    | <b>P4,381</b>                                 | <b>P39,818</b>                          | <b>P1,113</b>             | <b>P100,048</b>                 | <b>P498,600</b> |

### September 30, 2015

|                                                             | Land<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service<br>Stations<br>and Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects<br>in Progress | Total    |
|-------------------------------------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------------|-----------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|----------|
| <b>Cost</b>                                                 |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |          |
| January 1, 2015 (Audited)                                   | P28,605                          | P49,743                       | P226,789        | P50,532                            | P16,142                                       | P126,939                                | P2,219                    | P135,978                        | P636,947 |
| Additions                                                   | 682                              | 505                           | -               | 612                                | 1,583                                         | 4,073                                   | 57                        | 37,002                          | 44,514   |
| Disposals/reclassifications/<br>acquisition of subsidiaries | 3,579                            | (1,378)                       | -               | (4)                                | (125)                                         | 2,700                                   | 191                       | 2,189                           | 7,152    |
| Currency translation adjustments                            | (1,434)                          | (1,577)                       | -               | (1,953)                            | (1,274)                                       | (232)                                   | -                         | (444)                           | (6,914)  |
| September 30, 2015 (Unaudited)                              | 31,432                           | 47,293                        | 226,789         | 49,187                             | 16,326                                        | 133,480                                 | 2,467                     | 174,725                         | 681,699  |

(Forward)

|                                                             | Land<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service<br>Stations<br>and Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects<br>in Progress | Total    |
|-------------------------------------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------------|-----------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|----------|
| <b>Accumulated Depreciation<br/>and Amortization</b>        |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |          |
| January 1, 2015 (Audited)                                   | P3,383                           | P19,939                       | P26,931         | P32,218                            | P10,471                                       | P77,185                                 | P1,270                    | P -                             | P171,397 |
| Depreciation and amortization                               | 152                              | 1,299                         | 4,523           | 1,357                              | 1,090                                         | 4,768                                   | 121                       | -                               | 13,310   |
| Disposals/reclassifications/<br>acquisition of subsidiaries | 65                               | (498)                         | -               | (4)                                | (51)                                          | 2,619                                   | (148)                     | -                               | 1,983    |
| Currency translation<br>adjustments                         | (85)                             | (925)                         | -               | (1,163)                            | (717)                                         | (705)                                   | -                         | -                               | (3,595)  |
| September 30, 2015 (Unaudited)                              | 3,515                            | 19,815                        | 31,454          | 32,408                             | 10,793                                        | 83,867                                  | 1,243                     | -                               | 183,095  |
| <b>Accumulated Impairment<br/>Losses</b>                    |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |          |
| January 1, 2015 (Audited)                                   | 266                              | 2,270                         | -               | -                                  | -                                             | 7,690                                   | 1                         | -                               | 10,227   |
| Currency translation<br>adjustments                         | -                                | 10                            | -               | -                                  | -                                             | 138                                     | -                         | -                               | 148      |
| September 30, 2015 (Unaudited)                              | 266                              | 2,280                         | -               | -                                  | -                                             | 7,828                                   | 1                         | -                               | 10,375   |
| Carrying Amount                                             |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |          |
| September 30, 2015 (Unaudited)                              | P27,651                          | P25,198                       | P195,335        | P16,779                            | P5,533                                        | P41,785                                 | P1,223                    | P174,725                        | P488,229 |

Depreciation and amortization charged to operations amounted to P15,990 and P13,310 for the periods ended September 30, 2016 and 2015, respectively.

## 7. 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 Long-term Incentive Plan for Stock Options of the Parent Company, which are assumed to be exercised at the date of grant.

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

Basic and diluted EPS is computed as follows:

|                                                                                                         | <i>Note</i> | <b>September 30</b> |             |
|---------------------------------------------------------------------------------------------------------|-------------|---------------------|-------------|
|                                                                                                         |             | <b>2016</b>         | <b>2015</b> |
| Net income from continuing operations attributable to equity holders of the Parent Company              |             | <b>P14,165</b>      | P7,477      |
| Less dividends on preferred shares for the period                                                       |             | <b>5,009</b>        | 5,074       |
| Net income from continuing operations attributable to equity holders of the Parent Company (a)          |             | <b>9,156</b>        | 2,403       |
| Net income (loss) from discontinued operations attributable to equity holders of the Parent Company (b) | 3           | <b>11,756</b>       | (1,173)     |
| Net income attributable to common shareholders of the Parent Company                                    |             | <b>P20,912</b>      | P1,230      |
| Weighted average number of common shares outstanding (in millions) - basic (c)                          |             | <b>2,379</b>        | 2,378       |
| Effect of dilution - common                                                                             |             | <b>7</b>            | 13          |
| Weighted average number of common shares outstanding (in millions) - diluted (d)                        |             | <b>2,386</b>        | 2,391       |
| Earnings per common share attributable to equity holders of the Parent Company                          |             |                     |             |
| Basic EPS from continuing operations (a/c)                                                              |             | <b>P3.85</b>        | P1.01       |
| Basic EPS from discontinued operations (b/c)                                                            |             | <b>4.94</b>         | (0.49)      |
|                                                                                                         |             | <b>P8.79</b>        | P0.52       |
| Diluted EPS from continuing operations (a/d)                                                            |             | <b>P3.84</b>        | P1.00       |
| Diluted EPS from discontinued operations (b/d)                                                          |             | <b>4.93</b>         | (0.49)      |
|                                                                                                         |             | <b>P8.77</b>        | P0.51       |

## 8. Dividends

The Board of Directors (BOD) of the Parent Company approved the declaration and payment of the following cash dividends to common and preferred stockholders as follows:

### September 30, 2016

| <b>Class of Shares</b> | <b>Date of Declaration</b> | <b>Date of Record</b> | <b>Date of Payment</b> | <b>Dividend per Share</b> |
|------------------------|----------------------------|-----------------------|------------------------|---------------------------|
| <b>Common</b>          | March 17, 2016             | April 8, 2016         | May 4, 2016            | <b>P 0.35</b>             |
|                        | June 14, 2016              | July 1, 2016          | July 27, 2016          | <b>0.35</b>               |
|                        | September 15, 2016         | October 7, 2016       | November 4, 2016       | <b>0.35</b>               |
| <b>Preferred</b>       |                            |                       |                        |                           |
| SMC2B                  | January 15, 2016           | March 21, 2016        | April 5, 2016          | <b>1.4296875</b>          |
|                        | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.4296875</b>          |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.4296875</b>          |
| SMC2C                  | January 15, 2016           | March 21, 2016        | April 5, 2016          | <b>1.50</b>               |
|                        | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.50</b>               |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.50</b>               |
| SMC2D                  | January 15, 2016           | March 21, 2016        | April 5, 2016          | <b>1.11433125</b>         |
|                        | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.11433125</b>         |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.11433125</b>         |
| SMC2E                  | January 15, 2016           | March 21, 2016        | April 5, 2016          | <b>1.18603125</b>         |
|                        | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.18603125</b>         |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.18603125</b>         |
| SMC2F                  | January 15, 2016           | March 21, 2016        | April 5, 2016          | <b>1.27635</b>            |
|                        | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.27635</b>            |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.27635</b>            |
| SMC2G                  | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.23361875</b>         |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.23361875</b>         |
| SMC2H                  | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.1854125</b>          |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.1854125</b>          |
| SMC2I                  | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.18790625</b>         |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.18790625</b>         |
| SMCP1                  | January 15, 2016           | March 21, 2016        | April 5, 2016          | <b>1.0565625</b>          |
|                        | May 12, 2016               | June 21, 2016         | July 6, 2016           | <b>1.0565625</b>          |
|                        | August 10, 2016            | September 21, 2016    | October 6, 2016        | <b>1.0565625</b>          |

### September 30, 2015

| <b>Class of Shares</b> | <b>Date of Declaration</b> | <b>Date of Record</b> | <b>Date of Payment</b> | <b>Dividend per Share</b> |
|------------------------|----------------------------|-----------------------|------------------------|---------------------------|
| <b>Common</b>          | April 22, 2015             | May 8, 2015           | May 20, 2015           | <b>P 0.35</b>             |
|                        | July 14, 2015              | July 31, 2015         | August 14, 2015        | <b>0.35</b>               |
|                        | September 17, 2015         | October 9, 2015       | November 4, 2015       | <b>0.35</b>               |
| <b>Preferred</b>       |                            |                       |                        |                           |
| SMC2A                  | May 14, 2015               | May 29, 2015          | June 11, 2015          | <b>1.40625</b>            |
|                        | August 20, 2015            | September 11, 2015    | September 21, 2015     | <b>1.40625</b>            |
| SMC2B                  | May 14, 2015               | May 29, 2015          | June 11, 2015          | <b>1.4296875</b>          |
|                        | August 20, 2015            | September 11, 2015    | September 21, 2015     | <b>1.4296875</b>          |
| SMC2C                  | May 14, 2015               | May 29, 2015          | June 11, 2015          | <b>1.50</b>               |
|                        | August 20, 2015            | September 11, 2015    | September 21, 2015     | <b>1.50</b>               |
| SMCP1                  | June 9, 2015               | June 26, 2015         | July 8, 2015           | <b>1.0546</b>             |
|                        | August 20, 2015            | September 11, 2015    | September 21, 2015     | <b>1.0546</b>             |

Cash dividends declared on December 11, 2014 to all common shareholders as of January 7, 2015 at P0.35 per share were paid on February 2, 2015.

Cash dividends declared on November 10, 2014 to all Series “2” - Subseries “2-A”, Subseries “2-B” and Subseries “2-C” preferred shareholders as of February 27, 2015 at P1.40625, P1.4296875 and P1.5 per share, respectively, were paid on March 25, 2015.

On November 10, 2016, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as of December 21, 2016 on the following shares to be paid on January 5, 2017, as follows:

| <b>Class of Shares</b> | <b>Dividend Per Share</b> |
|------------------------|---------------------------|
| SMCP1                  | P 1.0565625               |
| SMC2B                  | 1.4296875                 |
| SMC2C                  | 1.50                      |
| SMC2D                  | 1.11433125                |
| SMC2E                  | 1.18603125                |
| SMC2F                  | 1.27635                   |
| SMC2G                  | 1.23361875                |
| SMC2H                  | 1.1854125                 |
| SMC2I                  | 1.18790625                |

---

## 9. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

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

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

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

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

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

The accounting policies in relation to derivatives are set out in Note 10 to the selected notes to the consolidated financial statements.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

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

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

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

#### Interest Rate Risk

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

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

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

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

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

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 P1,881 and P1,933 for the period ended September 30, 2016 and for the year ended December 31, 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

## Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| <b>September 30, 2016</b>                                      | <b>&lt;1 Year</b>                                                   | <b>1-2 Years</b>                                                    | <b>&gt;2-3 Years</b>                                                | <b>&gt;3-4 Years</b>                                                | <b>&gt;4-5 Years</b>                                | <b>&gt;5 Years</b>                                  | <b>Total</b>    |
|----------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|-----------------|
| <b>Fixed Rate</b>                                              |                                                                     |                                                                     |                                                                     |                                                                     |                                                     |                                                     |                 |
| Philippine peso-denominated                                    | <b>P9,543</b>                                                       | <b>P29,214</b>                                                      | <b>P24,620</b>                                                      | <b>P14,806</b>                                                      | <b>P31,147</b>                                      | <b>P54,883</b>                                      | <b>P164,213</b> |
| Interest rate                                                  | 5.65% - 8.74899%                                                    | 5.5% - 8.74899%                                                     | 5.5% - 10.50%                                                       | 4.9925% - 8.74899%                                                  | 4.3458% - 8.74899%                                  | 4.7575% - 7.73404%                                  |                 |
| Foreign currency-denominated<br>(expressed in Philippine peso) | <b>71</b>                                                           | -                                                                   | -                                                                   | -                                                                   | -                                                   | <b>25,044</b>                                       | <b>25,115</b>   |
| Interest rate                                                  | 12.45% - 13.27%                                                     | -                                                                   | -                                                                   | -                                                                   | -                                                   | 4.875%                                              |                 |
| <b>Floating Rate</b>                                           |                                                                     |                                                                     |                                                                     |                                                                     |                                                     |                                                     |                 |
| Philippine peso-denominated                                    | <b>1,176</b>                                                        | <b>1,328</b>                                                        | <b>1,222</b>                                                        | <b>544</b>                                                          | <b>540</b>                                          | <b>1,511</b>                                        | <b>6,321</b>    |
| Interest rate                                                  | PDST-R + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R + margin or<br>5.75%, whichever<br>is higher                 | PDST-R + margin or<br>5.75%, whichever<br>is higher | PDST-R + margin                                     |                 |
| Foreign currency-denominated<br>(expressed in Philippine peso) | <b>6,169</b>                                                        | <b>123,234</b>                                                      | <b>16,504</b>                                                       | <b>24,195</b>                                                       | <b>1,802</b>                                        | <b>9,872</b>                                        | <b>181,776</b>  |
| Interest rate                                                  | LIBOR + margin,<br>COF + margin                                     | LIBOR + margin,<br>COF + margin                                     | LIBOR + margin,<br>COF + margin                                     | LIBOR + margin                                                      | LIBOR + margin                                      | LIBOR + margin                                      |                 |
|                                                                | <b>P16,959</b>                                                      | <b>P153,776</b>                                                     | <b>P42,346</b>                                                      | <b>P39,545</b>                                                      | <b>P33,489</b>                                      | <b>P91,310</b>                                      | <b>P377,425</b> |
| <b>December 31, 2015</b>                                       | <b>&lt;1 Year</b>                                                   | <b>1-2 Years</b>                                                    | <b>&gt;2-3 Years</b>                                                | <b>&gt;3-4 Years</b>                                                | <b>&gt;4-5 Years</b>                                | <b>&gt;5 Years</b>                                  | <b>Total</b>    |
| <b>Fixed Rate</b>                                              |                                                                     |                                                                     |                                                                     |                                                                     |                                                     |                                                     |                 |
| Philippine peso-denominated                                    | <b>P6,060</b>                                                       | <b>P29,399</b>                                                      | <b>P9,643</b>                                                       | <b>P23,426</b>                                                      | <b>P13,730</b>                                      | <b>P58,854</b>                                      | <b>P141,112</b> |
| Interest rate                                                  | 5.65% - 8.74899%                                                    | 5.65% - 8.74899%                                                    | 5.65% - 8.74899%                                                    | 5.50% - 10.50%                                                      | 4.9925% - 8.74899%                                  | 5.50% - 8.74899%                                    |                 |
| Foreign currency-denominated<br>(expressed in Philippine peso) | <b>14,021</b>                                                       | -                                                                   | -                                                                   | -                                                                   | -                                                   | <b>24,301</b>                                       | <b>38,322</b>   |
| Interest rate                                                  | 7% - 13.27%                                                         | -                                                                   | -                                                                   | -                                                                   | -                                                   | 4.875%                                              |                 |
| <b>Floating Rate</b>                                           |                                                                     |                                                                     |                                                                     |                                                                     |                                                     |                                                     |                 |
| Philippine peso-denominated                                    | <b>1,096</b>                                                        | <b>1,215</b>                                                        | <b>1,303</b>                                                        | <b>1,059</b>                                                        | <b>545</b>                                          | <b>1,915</b>                                        | <b>7,133</b>    |
| Interest rate                                                  | PDST-R + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R + margin or<br>5.75%, whichever<br>is higher | PDST-R + margin or<br>5.75%, whichever is<br>higher |                 |
| Foreign currency-denominated<br>(expressed in Philippine peso) | <b>16,672</b>                                                       | <b>11,181</b>                                                       | <b>126,410</b>                                                      | <b>11,046</b>                                                       | <b>20,901</b>                                       | -                                                   | <b>186,210</b>  |
| Interest rate                                                  | LIBOR + margin,<br>COF + margin                                     | LIBOR + margin,<br>COF + margin                                     | LIBOR + margin,<br>COF + margin                                     | LIBOR + margin,<br>COF + margin                                     | LIBOR + margin,                                     |                                                     |                 |
|                                                                | <b>P37,849</b>                                                      | <b>P41,795</b>                                                      | <b>P137,356</b>                                                     | <b>P35,531</b>                                                      | <b>P35,176</b>                                      | <b>P85,070</b>                                      | <b>P372,777</b> |

### Foreign Currency Risk

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

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

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

|                                                       | <b>September 30, 2016</b> |                   | <b>December 31, 2015</b> |                   |
|-------------------------------------------------------|---------------------------|-------------------|--------------------------|-------------------|
|                                                       | <b>US</b>                 | <b>Peso</b>       | <b>US</b>                | <b>Peso</b>       |
|                                                       | <b>Dollar</b>             | <b>Equivalent</b> | <b>Dollar</b>            | <b>Equivalent</b> |
| <b>Assets</b>                                         |                           |                   |                          |                   |
| Cash and cash equivalents                             | <b>US\$1,707</b>          | <b>P82,869</b>    | US\$1,766                | P83,084           |
| Trade and other receivables                           | <b>716</b>                | <b>34,631</b>     | 866                      | 40,098            |
| Prepaid expenses and other current assets             | -                         | -                 | 56                       | 2,578             |
| Noncurrent receivables                                | <b>25</b>                 | <b>1,228</b>      | 43                       | 2,007             |
|                                                       | <b>2,448</b>              | <b>118,728</b>    | 2,731                    | 127,767           |
| <b>Liabilities</b>                                    |                           |                   |                          |                   |
| Loans payable                                         | <b>206</b>                | <b>9,956</b>      | 356                      | 16,774            |
| Accounts payable and accrued expenses                 | <b>917</b>                | <b>44,487</b>     | 851                      | 40,064            |
| Long-term debt (including current maturities)         | <b>4,264</b>              | <b>206,891</b>    | 4,770                    | 224,532           |
| Finance lease liabilities (including current portion) | <b>1,926</b>              | <b>93,397</b>     | 2,058                    | 96,843            |
| Other noncurrent liabilities                          | <b>6</b>                  | <b>301</b>        | 1                        | 33                |
|                                                       | <b>7,319</b>              | <b>355,032</b>    | 8,036                    | 378,246           |
| Net foreign currency-denominated monetary liabilities | <b>(US\$4,871)</b>        | <b>(P236,304)</b> | (US\$5,305)              | (P250,479)        |

The Group reported loss on foreign exchange - net amounting to P6,446 and P10,396 for the period ended September 30, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the US dollar against the Philippine peso as shown in the following table:

|                           | <b>US Dollar to Philippine Peso</b> |
|---------------------------|-------------------------------------|
| <b>September 30, 2016</b> | <b>48.50</b>                        |
| December 31, 2015         | 47.06                               |
| September 30, 2015        | 46.74                               |
| December 31, 2014         | 44.72                               |

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.

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):

|                                                          | <b>P1 Decrease in the<br/>US Dollar Exchange Rate</b> |                             | <b>P1 Increase in the<br/>US Dollar Exchange Rate</b> |                             |
|----------------------------------------------------------|-------------------------------------------------------|-----------------------------|-------------------------------------------------------|-----------------------------|
|                                                          | <b>Effect on</b>                                      |                             | <b>Effect on</b>                                      |                             |
| <b>September 30, 2016</b>                                | <b>Income before<br/>Income Tax</b>                   | <b>Effect on<br/>Equity</b> | <b>Income before<br/>Income Tax</b>                   | <b>Effect on<br/>Equity</b> |
| Cash and cash equivalents                                | (P1,421)                                              | (P1,281)                    | P1,421                                                | P1,281                      |
| Trade and other receivables                              | (526)                                                 | (560)                       | 526                                                   | 560                         |
| Noncurrent receivables                                   | (19)                                                  | (19)                        | 19                                                    | 19                          |
|                                                          | <b>(1,966)</b>                                        | <b>(1,860)</b>              | <b>1,966</b>                                          | <b>1,860</b>                |
| Loans payable                                            | 120                                                   | 170                         | (120)                                                 | (170)                       |
| Accounts payable and<br>accrued expenses                 | 576                                                   | 745                         | (576)                                                 | (745)                       |
| Long-term debt (including<br>current maturities)         | 4,210                                                 | 3,007                       | (4,210)                                               | (3,007)                     |
| Finance lease liabilities<br>(including current portion) | 1,926                                                 | 1,348                       | (1,926)                                               | (1,348)                     |
| Other noncurrent<br>liabilities                          | 6                                                     | 4                           | (6)                                                   | (4)                         |
|                                                          | <b>6,838</b>                                          | <b>5,274</b>                | <b>(6,838)</b>                                        | <b>(5,274)</b>              |
|                                                          | <b>P4,872</b>                                         | <b>P3,414</b>               | <b>(P4,872)</b>                                       | <b>(P3,414)</b>             |

| December 31, 2015                                        | P1 Decrease in the<br>US Dollar Exchange Rate |                     | P1 Increase in the<br>US Dollar Exchange Rate |                     |
|----------------------------------------------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|
|                                                          | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity |
| Cash and cash equivalents                                | (P1,457)                                      | (P1,329)            | P1,457                                        | P1,329              |
| Trade and other receivables                              | (689)                                         | (662)               | 689                                           | 662                 |
| Prepaid expenses and other<br>current assets             | (47)                                          | (42)                | 47                                            | 42                  |
| Noncurrent receivables                                   | (34)                                          | (36)                | 34                                            | 36                  |
|                                                          | (2,227)                                       | (2,069)             | 2,227                                         | 2,069               |
| Loans payable                                            | 240                                           | 284                 | (240)                                         | (284)               |
| Accounts payable and<br>accrued expenses                 | 529                                           | 692                 | (529)                                         | (692)               |
| Long-term debt (including<br>current maturities)         | 4,360                                         | 3,462               | (4,360)                                       | (3,462)             |
| Finance lease liabilities<br>(including current portion) | 2,058                                         | 1,441               | (2,058)                                       | (1,441)             |
| Other noncurrent<br>liabilities                          | 1                                             | 1                   | (1)                                           | (1)                 |
|                                                          | 7,188                                         | 5,880               | (7,188)                                       | (5,880)             |
|                                                          | P4,961                                        | P3,811              | (P4,961)                                      | (P3,811)            |

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 to meet payment obligations when they fall under normal and stress circumstances.

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management.

| <b>September 30, 2016</b>                                                                                            | <b>Carrying Amount</b> | <b>Contractual Cash Flow</b> | <b>1 Year or Less</b> | <b>&gt; 1 Year - 2 Years</b> | <b>&gt; 2 Years - 5 Years</b> | <b>Over 5 Years</b> |
|----------------------------------------------------------------------------------------------------------------------|------------------------|------------------------------|-----------------------|------------------------------|-------------------------------|---------------------|
| <b>Financial Assets</b>                                                                                              |                        |                              |                       |                              |                               |                     |
| Cash and cash equivalents                                                                                            | <b>P176,252</b>        | <b>P176,252</b>              | <b>P176,252</b>       | <b>P -</b>                   | <b>P -</b>                    | <b>P -</b>          |
| Trade and other receivables - net                                                                                    | <b>121,612</b>         | <b>121,612</b>               | <b>121,612</b>        | <b>-</b>                     | <b>-</b>                      | <b>-</b>            |
| Derivative assets (included under "Prepaid expenses and other current assets" account)                               | <b>1,051</b>           | <b>1,051</b>                 | <b>1,051</b>          | <b>-</b>                     | <b>-</b>                      | <b>-</b>            |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)                        | <b>154</b>             | <b>154</b>                   | <b>154</b>            | <b>-</b>                     | <b>-</b>                      | <b>-</b>            |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | <b>42,047</b>          | <b>42,082</b>                | <b>76</b>             | <b>41,703</b>                | <b>208</b>                    | <b>95</b>           |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)                         | <b>7,143</b>           | <b>7,143</b>                 | <b>-</b>              | <b>62</b>                    | <b>219</b>                    | <b>6,862</b>        |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)  | <b>5,784</b>           | <b>5,784</b>                 | <b>2,684</b>          | <b>3,100</b>                 | <b>-</b>                      | <b>-</b>            |
| <b>Financial Liabilities</b>                                                                                         |                        |                              |                       |                              |                               |                     |
| Loans payable                                                                                                        | <b>130,962</b>         | <b>131,557</b>               | <b>131,557</b>        | <b>-</b>                     | <b>-</b>                      | <b>-</b>            |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)     | <b>103,674</b>         | <b>103,674</b>               | <b>103,674</b>        | <b>-</b>                     | <b>-</b>                      | <b>-</b>            |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account)                              | <b>2,892</b>           | <b>2,892</b>                 | <b>2,892</b>          | <b>-</b>                     | <b>-</b>                      | <b>-</b>            |
| Long-term debt (including current maturities)                                                                        | <b>372,936</b>         | <b>446,097</b>               | <b>34,534</b>         | <b>168,409</b>               | <b>140,892</b>                | <b>102,262</b>      |
| Finance lease liabilities (including current portion)                                                                | <b>171,590</b>         | <b>217,357</b>               | <b>24,350</b>         | <b>24,616</b>                | <b>82,062</b>                 | <b>86,329</b>       |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)                              | <b>10,800</b>          | <b>10,806</b>                | <b>-</b>              | <b>10,201</b>                | <b>7</b>                      | <b>598</b>          |

| December 31, 2015                                                                                                    | 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                                                                                            | P180,758        | P180,758              | P180,758       | P -                | P -                 | P -          |
| Trade and other receivables - net                                                                                    | 100,727         | 100,727               | 100,727        | -                  | -                   | -            |
| Derivative assets (included under "Prepaid expenses and other current assets" account)                               | 391             | 391                   | 391            | -                  | -                   | -            |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)                        | 147             | 147                   | 147            | -                  | -                   | -            |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | 41,616          | 41,647                | 85             | 41,172             | 213                 | 177          |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)                         | 9,389           | 9,473                 | -              | 2,587              | 1,089               | 5,797        |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)  | 5,661           | 5,661                 | 4,230          | 1,431              | -                   | -            |
| Financial Liabilities                                                                                                |                 |                       |                |                    |                     |              |
| Loans payable                                                                                                        | 146,859         | 147,633               | 147,633        | -                  | -                   | -            |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)     | 99,794          | 99,794                | 99,794         | -                  | -                   | -            |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account)                              | 2,581           | 2,581                 | 2,581          | -                  | -                   | -            |
| Long-term debt (including current maturities)                                                                        | 368,377         | 439,427               | 54,480         | 56,767             | 232,745             | 95,435       |
| Finance lease liabilities (including current portion)                                                                | 179,280         | 231,882               | 23,776         | 24,040             | 77,806              | 106,260      |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)                              | 18,371          | 18,376                | -              | 17,831             | 4                   | 541          |

### Credit Risk

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

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

### Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the

default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

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

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

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

#### Investments

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

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

|                                                                                                                      | September 30, 2016 | December 31, 2015 |
|----------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| Cash and cash equivalents (excluding cash on hand)                                                                   | <b>P174,639</b>    | P178,581          |
| Trade and other receivables - net                                                                                    | <b>121,612</b>     | 100,727           |
| Derivative assets                                                                                                    | <b>1,051</b>       | 391               |
| Financial assets at FVPL                                                                                             | <b>154</b>         | 147               |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | <b>42,047</b>      | 41,616            |
| Noncurrent receivables and deposits - net                                                                            | <b>7,143</b>       | 9,389             |
| Restricted cash                                                                                                      | <b>5,784</b>       | 5,661             |
|                                                                                                                      | <b>P352,430</b>    | P336,512          |

The credit risk for cash and cash equivalents, 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 and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

#### Other Market Price Risk

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

#### Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

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

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

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

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

---

## 10. 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.

*'Day 1' Difference.* 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' difference) in the consolidated statements of income 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 the consolidated statements of income 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' difference amount.

### Financial Assets

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

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of income. 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 the consolidated statements of income 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 the consolidated statements of income 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.

*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 the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

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

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

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

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

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

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

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

#### 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 the consolidated statements of income.

#### Impairment of Financial Assets

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

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

*Assets Carried at Amortized Cost.* For 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 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 the consolidated statements of income. 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 the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of changes in equity, is transferred to the consolidated statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

#### Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax

benefits.

A financial instrument is classified as liability 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.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

#### 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 the consolidated statements of income.

#### Offsetting Financial Instruments

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

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

|                                                                                                                      | September 30, 2016 |            | December 31, 2015 |            |
|----------------------------------------------------------------------------------------------------------------------|--------------------|------------|-------------------|------------|
|                                                                                                                      | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial Assets</b>                                                                                              |                    |            |                   |            |
| Cash and cash equivalents                                                                                            | P176,252           | P176,252   | P180,758          | P180,758   |
| Trade and other receivables - net                                                                                    | 121,612            | 121,612    | 100,727           | 100,727    |
| Derivative assets (included under "Prepaid expenses and other current assets" account)                               | 1,051              | 1,051      | 391               | 391        |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)                        | 154                | 154        | 147               | 147        |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | 42,047             | 42,047     | 41,616            | 41,616     |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)                         | 7,143              | 6,964      | 9,389             | 9,078      |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)  | 5,784              | 5,784      | 5,661             | 5,661      |
| <b>Financial Liabilities</b>                                                                                         |                    |            |                   |            |
| Loans payable                                                                                                        | 130,962            | 130,962    | 146,859           | 146,859    |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)     | 103,674            | 103,674    | 99,794            | 99,794     |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account)                              | 2,892              | 2,892      | 2,581             | 2,581      |
| Long-term debt (including current maturities)                                                                        | 372,936            | 402,171    | 368,377           | 392,690    |
| Finance lease liabilities (including current portion)                                                                | 171,590            | 171,590    | 179,280           | 179,280    |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)                              | 10,800             | 10,800     | 18,371            | 18,371     |

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, Noncurrent Receivables and Deposits and Restricted Cash.* The carrying amount of cash and cash equivalents and trade and other receivables 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 3.8% and 2.4% to 4.6% as of September 30, 2016 and December 31, 2015, respectively. The discount rates used for foreign currency-denominated loans range from 0.5% to 6.8% and 0.4% to 9.1% as of September 30, 2016 and December 31, 2015, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

#### Derivative Financial Instruments and Hedging

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.

#### *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 the consolidated statements of income. 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 the

consolidated statements of income.

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

The Group discontinues fair value hedge accounting if:

- (a) the hedging instrument expires, is sold, is terminated or is exercised;
- (b) the hedge no longer meets the criteria for hedge accounting; or
- (c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as of September and June 30, 2016 and December 31, 2015.

*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 the consolidated statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the consolidated statements of changes in equity are transferred 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 the consolidated statements of changes in equity are transferred to the consolidated statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the consolidated statements of income.

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 the consolidated statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the consolidated statements of changes in equity is recognized in the consolidated statements of income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as of September and June 30, 2016 and December 31, 2015.

*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 the consolidated statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of income.

The Group has no hedge of a net investment in a foreign operation as of September and June 30, 2016 and December 31, 2015.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of income.

#### 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 the consolidated statements of income. Details are as follows:

##### *Freestanding Derivatives*

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

##### *Interest Rate Swap*

As of September and June 30, 2016 and December 31, 2015, the Group has outstanding interest rate swap with notional amount of US\$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P1,407, P1,325 and P632 as of September and June 30, 2016 and December 31, 2015, respectively.

##### *Currency Forwards*

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,094, US\$1,085 and US\$1,013 as of September and June 30, 2016 and December 31, 2015, respectively, and with various maturities in 2016. The net positive (negative) fair value of these currency forwards amounted to P821, P395 and (P202) as of September and June 30, 2016 and December 31, 2015, respectively.

##### *Currency Options*

The Group has outstanding currency options with an aggregate notional amount of US\$1,271, US\$1,764 and US\$565 as of September and June 30, 2016 and December 31, 2015, and with various maturities in 2016. The net negative fair value of these currency options amounted to P663, P402 and P1,232 as of September and June 30, 2016 and December 31, 2015, respectively.

##### *Commodity Swaps*

As of December 31, 2015, the Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2016. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 1,150 metric tons as of December 31, 2015. The net negative fair value of these swaps amounted to P2 as of December 31, 2015. The Group has no outstanding swap agreements covering its aluminum requirements as of September and June 30, 2016.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2016. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 12.1, 11.8 and 10.9 million barrels as of September and June 30, 2016 and December 31, 2015, respectively. The positive (negative) fair value of these swaps amounted to (P327), P120 and (P39) as of September and June 30, 2016 and December 31, 2015, respectively.

#### *Commodity Options*

As of September and June 30, 2016 and December 31, 2015, the Group has no outstanding bought and sold options covering the wheat and soybean meal requirements.

As of September and June 30, 2016 and December 31, 2015, the Group has no outstanding three-way options designated as hedge of forecasted purchases of crude oil.

#### *Embedded Derivatives*

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

#### *Embedded Currency Forwards*

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$152, US\$150 and US\$173 as of September and June 30, 2016 and December 31, 2015, respectively. These non-financial contracts consist mainly of foreign currency- denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P265, P66 and P83 as of September and June 30, 2016 and December 31, 2015, respectively.

#### *Embedded Currency Options*

As of September and June 30, 2016 and December 31, 2015, the Group has no outstanding currency options embedded in non-financial contracts.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P79), P2,207, (P1,079) and (P785) for the periods ended September 30, 2016 and 2015 and June 30, 2016 and 2015, respectively.

#### Fair Value Measurements

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

#### Fair Value Hierarchy

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

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

|                              | September 30, 2016 |         |        | December 31, 2015 |         |        |
|------------------------------|--------------------|---------|--------|-------------------|---------|--------|
|                              | Level 1            | Level 2 | Total  | Level 1           | Level 2 | Total  |
| <b>Financial Assets</b>      |                    |         |        |                   |         |        |
| Derivative assets            | P -                | P1,051  | P1,051 | P -               | P391    | P391   |
| Financial assets at FVPL     | -                  | 154     | 154    | -                 | 147     | 147    |
| AFS financial assets         | 832                | 41,215  | 42,047 | 407               | 41,209  | 41,616 |
| <b>Financial Liabilities</b> |                    |         |        |                   |         |        |
| Derivative liabilities       | -                  | 2,892   | 2,892  | -                 | 2,581   | 2,581  |

The Group has no financial instruments valued based on Level 3 as of September 30, 2016 and December 31, 2015. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

## **11. Events After the Reporting Date**

### *a. Issuance of P20,000 Fixed Rate Peso-denominated Retail Bonds by Petron Corporation (Petron)*

On October 27, 2016, Petron issued and listed in the Philippine Dealing & Exchange Corp. (PDEX) fixed rate peso-denominated bonds (the “Bonds”) with an aggregate principal amount of P20,000, the first tranche of Petron’s shelf registration of P40,000 of Fixed Rate Bonds.

The P20,000 fixed rate bonds consist of Series A Bonds - P13,000 maturing in five years with an interest rate of 4.0032% per annum - and Series B Bonds - P7,000 maturing in seven years with an interest rate of 4.5219% per annum.

Interest on the Bonds shall be payable quarterly in arrears commencing on January 27, 2017, and thereafter, on April 27, July 27, October 27 and January 27 of each year.

The net proceeds was used primarily to refinance existing indebtedness and fund working capital requirements.

*b. Shelf-Registration and Offering of Fixed-Rate Peso-Denominated Bonds by the Parent Company*

On November 10, 2016, the BOD of the Parent Company authorized the shelf registration of fixed rate peso-denominated bonds amounting to up to P60,000 to be issued within a period of three years (the “Bonds”); initial issuance of the Bonds amounting to P20,000, with or without an oversubscription option (the “Initial Tranche Bonds”); filing of the appropriate Registration Statement and Prospectus with the SEC; and filing and listing application with the PDEx of the Initial Tranche Bonds.

*c. Judgement of the Supreme Court on the 25.45 million Treasury Shares of the Parent Company*

On October 5, 2016, the Supreme Court of the Philippines in G.R. Nos. 177857-58 and 178193 issued a Judgment denying the “Manifestation and Omnibus Motion” filed by the Presidential Commission on Good Government to amend the Resolution Promulgated on September 4, 2012 to Include the “Treasury Shares” Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government. The denial of the motion is without prejudice to the right of the Republic of the Philippines to file the appropriate action or proceeding to determine the legal right of the Parent Company to the 25.45 million treasury shares of the Parent Company.

---

## **12. 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 45 (a) of the 2015 Audited Consolidated Financial Statements,

that remain outstanding as of September 30, 2016. 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 September 30, 2016.
- 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 September 30, 2016. 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 September 30, 2016 (with comparative figures as of December 31, 2015 and for the period ended September 30, 2015). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2016, 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. 2016 SIGNIFICANT TRANSACTIONS****THIRD QUARTER****LONG-TERM DEBT**

- *Refinancing of the US\$300 Million Short-term Loan by SMC Global Power Holdings Corp. (SMC Global)*

On January 26, 2016, SMC Global redeemed its US\$300 million, 7%, five-year bond, issued on January 14, 2011 under the Regulations of the U.S. Securities Act of 1933, as amended. The bond issue was listed in the Singapore Exchange Securities Trading Limited.

On January 14, 2016, SMC Global availed of a US\$300 million bridge financing, six-month term loan, with a local bank for the redemption of the US\$300 million bond.

On July 11, 2016, SMC Global issued and listed in the Philippine Dealing & Exchange Corp. fixed rate Philippine Peso-denominated bonds (the "Bonds") with an aggregate principal amount of P15,000 million. The Bonds were issued 100% of face value in minimum denominations of P50,000.00 each, and in integral multiples of P10,000.00 thereafter. The bonds comprised of the Series A Bonds, the Series B Bonds, and the Series C Bonds.

The terms and interest rate of the bonds are as follows:

|                | Term                      | Interest Rate Per Annum |
|----------------|---------------------------|-------------------------|
| Series A Bonds | five (5) years, due 2021  | 4.3458%                 |
| Series B Bonds | seven (7) years, due 2023 | 4.7575%                 |
| Series C Bonds | ten (10) years, due 2026  | 5.1792%                 |

Interest on the Bonds shall be payable quarterly in arrears starting on October 11, 2016, for the first Interest Payment Date, and January 11, April 11, July 11 and October 11 of each year thereafter.

The net proceeds of the Offer was used primarily by SMC Global to refinance the short-term US\$300 million bridge financing loan availed for the redemption of the US\$300 million bond.

## PREVIOUS QUARTERS

### DIVESTMENT

- *Sale of Telecommunications Business to Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe)*

On May 30, 2016, the Parent Company entered into agreements with PLDT and Globe, respectively, for the sale of 100% ownership interest of the Parent Company in Vega Telecom, Inc. (Vega) for total amount of P30,004 million. Vega holds the telecommunications assets of the Parent Company through its subsidiaries. In addition, advances by the Parent Company to Vega was also assigned to PLDT and Globe, in the total amount of P22,077 million. The Parent Company received P26,040 million or 50% of the proceeds from the sale of shares and assignment of advances upon signing of the agreement. The payments of the remaining balance will be made to the Parent Company at 25% of the proceeds each on December 1, 2016 and May 30, 2017.

The Parent Company booked a gain from the transaction amounting to P6,948 million, net of capital gains tax.

On May 30, 2016, the Parent Company, PLDT, and Globe filed a notice with the Philippine Competition Commission (the “PCC”) to inform them of the execution of the agreement among the parties (the “Notice”). The Notice was filed pursuant to memorandum circulars issued by the PCC that transactions of which the PCC is notified during the period prior to the adoption of the implementing rules and regulations of the Philippine Competition Act shall be deemed approved. On June 7, 2016, the PCC required the Parent Company, PLDT and Globe to provide additional information regarding the transaction and advised them that the notice which they filed are insufficient and thus have to be re-filed with the PCC. Consequently, the PCC advised the Parent Company, PLDT and Globe that the transaction is not deemed approved by the PCC.

Both PLDT and Globe filed their respective petitions for certiorari and prohibition with the Court of Appeals to enjoin the PCC from proceeding with the evaluation of the transaction and not considering the transaction to be deemed approved. An application for a temporary restraining order against the PCC made by Globe was denied by the 6<sup>th</sup> Division of the appellate court. The two petitions have since been consolidated.

On August 26, 2016, the 12<sup>th</sup> Division of the Court of Appeals issued a writ of preliminary injunction barring the PCC and its agents from conducting the review. After the PCC filed its Comment to the petitions on October 4, 2016, the Court of Appeals, in its Order dated October 19, 2016, directed all parties to submit their respective memoranda within a non-extendible 15-day period from notice. Thereafter, the petitions shall be deemed submitted for resolution.

The Parent Company is not a party to the pending cases between the PCC and PLDT and Globe.

## INVESTMENTS

- *Additional Investment in Universal LRT Corporation (BVI) Limited (ULC BVI) and Acquisition of 100% Equity Interest in ULCOM Company, Inc. (ULCOM) by San Miguel Holdings Corp. (SMHC)*

On June 16, 2016, the Parent Company through its wholly-owned subsidiary, SMHC, executed an Amended and Restated Share Sale and Purchase Agreement with Universal LRT Corporation Limited (ULC HK) and Mr. Salvador B. Zamora II and various parties, for the purchase of: (i) an additional 49% equity interest in ULC BVI; and (ii) 100% equity interest in ULCOM. The total consideration for the acquisition of ULC BVI and ULCOM is US\$100 million, which amount consists of payment for the shares as well as the outstanding shareholder advances made by each of ULC HK and Mr. Zamora to ULC BVI and ULCOM, respectively. The amount of the shareholder advances is approximately US\$3.8 million. ULC BVI holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the Metro Rail Transit Line 7 Project (MRT 7 Project) by virtue of the Concession Agreement dated, June 18, 2008 with the Republic of the Philippines, through the Department of Transportation and Communications. ULCOM is the designated Facility Operator and Maintenance Provider of the MRT 7 Project.

The additional investment in ULC BVI and the acquisition of ULCOM was completed on July 1, 2016. With the completion of such acquisition, SMHC now owns 100% interest in ULC BVI and ULCOM.

- *Additional Investment in Petrochemical Asia (HK) Limited (PAHL) by Petron Corporation (Petron)*

On March 18, 2016, Petron subscribed to an additional 43,125,482 ordinary shares of stock of PAHL for P1,291 million, thereby increasing the ownership interest of Petron in PAHL from 47.25% to 50.26%.

On July 25, 2016, Petron acquired all the remaining 273,000,000 ordinary shares and 102,142,858 “B” ordinary shares of stock of PAHL from Petron Corporation Employees’ Retirement Plan for a total consideration of P1,921 million, making PAHL a wholly-owned subsidiary of Petron.

## EQUITY

- *Issuance of 400,000,000 Series “2” Preferred Shares – Subseries G, H and I by the Parent Company*

On February 24, 2016, the Board of Directors of Philippine Stock Exchange, Inc. approved the listing application of the Parent Company of up to 975,571,800 shares of Series “2” Preferred Shares under shelf registration (the “Shelf Registered Shares”) and the offering of up to 400,000,000 shares of Series “2” Preferred Shares (the “First Tranche”) with a par value of P5.00 per share and an offer price of P75.00 per share. The Philippine Securities and Exchange Commission approved the shelf registration of the Shelf Registered Shares and issued a permit to sell covering the same on March 8, 2016.

The Parent Company offered the “First Tranche” of (i) up to 280,000,000 shares of Series “2” Preferred Shares consisting of Subseries “2-G”, “2-H” and “2-I” and (ii) up to 120,000,000 shares of Series “2” Preferred Shares to cover the oversubscription option. The First Tranche was re-issued and offered from the Series “2” Preferred Shares Subseries held in treasury. The offer period was from March 14 to March 18, 2016. The First Tranche was issued on March 30, 2016

which was also the listing date of the Shelf Registered Shares.

The remaining 575,571,800 Shelf Registered Shares will be issued within a period of three years. The offer shares shall be issued from the remaining Series “2” Preferred Shares Subseries “2-A” held in treasury and unissued shares of Series “2” Preferred Shares.

Dividend rates are 6.5793%, 6.3222% and 6.3355% per annum for Subseries “2-G”, “2-H” and “2-I”, respectively.

Following the completion of the Parent Company’s follow-on offering of 280,000,000 Series “2” Preferred Shares, with an oversubscription option of 120,000,000 Series “2” Preferred Shares, the Parent Company shall reissue the following Series “2” Preferred Shares held in treasury: (i) 244,432,686 Series “2” Preferred Shares; and (ii) 155,567,314 Subseries “2-A” Preferred Shares (collectively, the “Offer Shares”). The Series “2” Preferred Shares were Series “1” Preferred Shares held in treasury that were reclassified to Series “2” Preferred Shares on June 9, 2015.

After reissuance of the Offer Shares on March 30, 2016, the Parent Company has a remaining 565,445,086 Subseries “2-A” Preferred Shares held in treasury. There are no more Series “2” Preferred Shares held in treasury.

## **LONG-TERM DEBT**

### **▪ *Payment of Long-term Debt***

On April 7, 2016, the Parent Company fully paid its US\$170 million loan, obtained to fund the infrastructure investments and for general corporate purposes. The payment was funded by the proceeds from the issuance of Series “2 - G, H and I” Preferred Shares of SMC.

### **▪ *Refinancing of Long-term Debt***

#### **- Atlantic Aurum Investments Philippines Corporation (AAIPC)**

On March 14, 2016, AAIPC availed in full the P16,700 million loan facility with various banks. The loan has a term of nine years and bears a fixed interest rate of 6.7394% per annum.

The net proceeds of the loan were used by AAIPC to acquire the Stage 3 Connector Tollways Holding Corporation shares owned by Atlantic Aurum Investments B.V. (AAIBV).

On March 15, 2016, AAIBV used the proceeds from the sale of the shares to prepay its existing US\$340 million loan with Standard Chartered Bank. The loan is payable lump sum on September 19, 2016 and bears an interest rate of 5.375% margin rate and LIBOR rate applicable to the loan payable at the end of each interest period.

### **▪ *Availment of Long-term Debt to Finance Capital Projects***

#### **- SMC Consolidated Power Corporation (SCPC)**

In 2016, SCPC has drawn a total of US\$357 million from the US\$400 million, seven-year term loan with a syndicate of banks. The loan bears interest rate of LIBOR plus a margin, payable in arrears on the last day of the agreed interest period. Repayment of the loan principal shall commence on October 31, 2017, and every three months thereafter.

Proceeds of the loan were earmarked for the financing of the construction of the 2x150MW Limay Power Plant (Phase 1), in Bataan.

- Vertex Tollways Devt. Inc. (Vertex)

On January 29 and February 1, 2016, Vertex has drawn a total of P1,100 million, to complete the P7,500 million loan facility for the financing of ongoing construction of the Ninoy Aquino International Airport (NAIA) Expressway Project.

## **II. FINANCIAL PERFORMANCE**

### **2016 vs. 2015**

As a result of completion of the sale of Vega and subsidiaries on May 30, 2016, the line by line consolidation of Vega and subsidiaries were excluded in the consolidated statements of income for the periods ended September 30, 2016 and 2015 and presented under “Income (loss) after income tax from discontinued operations.” Accordingly, the comparable 2015 consolidated statement of income was restated.

San Miguel Corporation’s consolidated sales revenues for September 2016 amounted to P498,312 million. This is slightly lower than 2015 with the decline in oil prices resulting to lower sales of Petron. Core Beverage, Food and Packaging Businesses continued to post higher sales with 11% revenue growth. The Energy and Infrastructure Businesses also sustained their higher revenues.

The corresponding consolidated operating income reached about P73,237 million, 24% higher than last year. Most businesses continued to perform better and sustained double-digit income growth.

The higher interest expense was mainly due to the absence of capitalized interest in 2016, tempered by lower borrowing level and bank charges of Petron.

The decrease in interest income was mainly due to lower average balance of money market placements of the Parent Company, SMC Global and Petron in 2016 compared to the same period last year, net of the higher interest income of San Miguel Brewery Inc. (SMB) due to higher average balance of money market placements in 2016 and the Infrastructure Group due to nine month-period balance contribution of AAIBV Group compared to seven months last year.

The increase in equity in net earnings in 2016 primarily represents the share of SMC Global in the lower loss of Angat Hydropower Corporation (Angat Hydro), and the share of San Miguel Yamamura Packaging Corporation (SMYPC) in the higher net income of Northern Cement Corporation in 2016. The increase was partly reduced by the recognition of the Group's share in the net income of: AAIBV Group from January 1 to March 5, 2015, and Manila North Harbour Port Inc. from January 1 to September 30, 2015, prior to consolidation.

The decrease in other charges was primarily due to the lower foreign exchange loss as a result of the lower depreciation of the Philippine Peso (PhP) against the United States Dollar (US\$) in 2016 compared to 2015. PhP weakened by P1.44 against US\$ in September 2016 compared to P2.02 in September 2015.

The higher income tax expense was primarily due to: a) increase in taxable net income of Petron, SMB, SMC Global and San Miguel Foods, Inc.; b) recognition of income tax on the dividend income from foreign subsidiaries of Petron; and c) nine month-period balance contribution of AAIBV Group compared to seven months last year.

Income after income tax from discontinued operations in 2016 pertains to the gain on sale of the Telecommunications Business which represents recovery of previous costs, losses, interest expense, and provisions.

Loss after income tax from discontinued operations in 2015 pertains to the consolidated net loss of Vega and its subsidiaries for the nine months ended September 30, 2015.

Consolidated net income amounted to P42,953 million.

The share of non-controlling interests (NCI) on the Group's net income increased in 2016 mainly due to the additional issuance by SMC Global of undated subordinated capital securities in August 2015, the higher net income of SMB and Petron in 2016 and the higher net income of Citra Metro Manila Tollways Corporation and South Luzon Tollways Corporation (SLTC), due to nine month-period balance contribution in 2016 compared to seven months last year.

### **2015 vs. 2014**

San Miguel Corporation's consolidated sales revenues for the first nine months of 2015 amounted to P503,302 million, 15% lower than 2014. This mainly reflects lower revenues from Petron due to the effect of lower oil prices and lower volumes from SMC Global with the scheduled maintenance of some facilities. This was slightly moderated by the contribution of the Infrastructure Business with the consolidation of Metro Manila Skyway (Skyway) and South Luzon Expressway (SLEX) starting March 2015 as well as the 7% increase in the combined sales of Beverage, Food and Packaging Businesses.

In contrast, the consolidated operating income grew 24% to P59,019 million, mainly attributed to Petron's higher margin, with the more stable pricing environment particularly in September 2015, higher contribution from the Infrastructure Business and the continued good performance from the Beverage, Food and Packaging Businesses.

Excluding the effect of foreign exchange, net income stood at P27,012 million, 7% higher than 2014. However, with the foreign exchange losses mostly unrealized and resulting from the conversion of foreign currency denominated-debt to P46.74 to a Dollar as of September 30, 2015, the consolidated net income amounted to P19,082 million.

The consolidation of AAIBV Group starting March 2015 mainly accounts for the increase in interest expense and other financing charges.

The increase in interest income was mainly due to the interest income earned on the proceeds from the disposal of investments in Trustmark Holdings Corporation and Zuma Holdings and Management Corporation and the net proceeds from the reissuance of treasury shares by the Parent Company.

In 2015, the equity in net losses primarily represents the share of SMC Global in the net loss of Angat Hydro, a joint venture company starting November 18, 2014, net of the Group's share on AAIBV's net earnings for the period from January 1 up to March 4, 2015. AAIBV Group was consolidated starting March 5, 2015. Equity in net earnings in 2014 mainly represents the Group's share in AAIBV's net earnings for the nine-month period.

The depreciation of the Peso against the US\$ by P2.02 on September 30, 2015 as compared to P0.48 on September 30, 2014, resulted to higher losses on foreign exchange in 2015.

The higher income tax expense in 2015 primarily resulted from the higher taxable income of Petron and SMB, the expiration of the income tax holiday of SMEC, SPPC and SPDC effective July 2014 and the consolidation of the AAIBV Group.

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

**1. BEVERAGE**

**2016 vs. 2015**

**a. San Miguel Brewery Inc.**

SMB sustained its growth momentum in the third quarter to register an 18% increase in consolidated revenues at P69,298 million by end-September. Operating income likewise showed big improvement with a 19% growth to reach P18,714 million.

The favorable financial results were driven by strong domestic sales volume, with a 15% growth at 145.5 million cases. The intensified conduct of demand generating programs alongside improved consumer income continued to increase consumption of SMB brands.

The International Operations registered 21 million cases in sales volume. This translated to P8,890 million in revenues, 6% higher than last year, and operating income of P451 million, a significant increase from the same period last year. This improvement was led by Indonesia, with higher volumes and improved margins, as well as growth of exports.

**b. Ginebra San Miguel Inc. (GSMI)**

GSMI continued its strong performance with a 15% growth in sales revenue, on the back of 13% volume growth. Core brands Ginebra San Miguel and Vino Kulafu continued to lead the increase in overall volume to 17.9 million cases in September 2016. Corresponding sales revenue amounted to P13,202 million.

Operating income jumped 65% to P654 million.

**2015 vs. 2014**

**a. San Miguel Brewery Inc.**

SMB, for the first nine months of 2015, posted consolidated sales revenues of P58,790 million, 4% higher versus 2014. This is mainly attributed to Domestic Operations' sustained volume. Domestic revenues increased by 11% to P50,165 million. International Operations, on the other hand, have been affected by challenges in North China, Hong Kong and Indonesia. This, in turn, resulted in a 3% decline in consolidated volumes or down to 148.2 million cases.

Operating income grew 3% to P15,746 million, on the back of sustained revenue growth and execution of cost management programs.

**b. Ginebra San Miguel Inc.**

GSMI continued to recover its profitability with September 2015 net income reaching P9 million, a significant turnaround from 2014. This was achieved on the back of 5% volume growth bringing September 2015 volumes to 15.8 million cases, a result of a 7%

increase in volumes of the flagship brand, Ginebra San Miguel. Consolidated revenue reached P11,487 million, 8% ahead of 2014.

Improved distillery efficiencies also helped lowered alcohol costs and further improved gross contribution margin resulting to an operating income in September 2015 of P396 million, significantly higher than 2014.

## **2. FOOD**

### **2016 vs. 2015**

San Miguel Pure Foods Company Inc. (SMPFC) and its subsidiaries posted a revenue growth of 5%, bringing consolidated revenue in September 2016 to P80,582 million.

Agro-Industrial Cluster achieved a 7% revenue growth as sales volume of Poultry and Feeds Businesses improved, coupled with better market prices of chicken.

Branded Value-added Cluster maintained its good performance as it attained a 7% revenue growth, coming from the strong brand leadership of Magnolia and Pure Foods.

The consolidated operating income of Food Group reached P5,613 million, which was ahead of last year's results by 25%.

### **2015 vs. 2014**

SMPFC posted revenue growth of 3%, bringing revenues in September 2015 to P76,601 million. Feeds and Flour Businesses sustained the revenues of Agro and Milling Clusters, even with lower selling prices in Poultry and Meat Businesses in the first half of 2015. On the other hand, new product launches as well as, the continued strong demand for core brands, such as Pure Foods, Magnolia, Star and Dari Crème, contributed to the revenue growth of Branded Value-Added Cluster revenues.

The consolidated operating income in September 2015 rose 4% to P4,499 million. This was achieved as margins for Feeds Business and core brands have improved, moderating the weak performance of Poultry and Meats Businesses.

## **3. PACKAGING**

### **2016 vs. 2015**

The sales revenue of San Miguel Yamamura Packaging Group (SMYPG) for year-to-date September 2016 amounted to P19,749 million, 9% higher than 2015. Lower requirements of beverage clients tempered growth in glass revenues during the third quarter and posted an 8% year-to-date increase in sales from the 14% growth reported in the first semester. On the other hand, Metal Business delivered strong performance in the third quarter from its domestic and international operations with the increase in sales to beverage clients and sustained export sales.

With better fixed cost management, the corresponding operating income increased by 12% to P1,919 million in September 2016.

#### **2015 vs. 2014**

SMYPG grew revenues by 5% to P18,186 million for the first nine months of 2015. The Glass Business continued its strong performance, posting a 27% increase in revenues, driven by strong demand from beverage and pharmaceutical companies. Australia Operations also made a solid performance with improved sales from Cospak Limited and contribution from the newly acquired cork company, Vinocor Worldwide Direct Pty. Ltd.

Corresponding operating income increased by 8% to P1,709 million.

#### **4. ENERGY**

##### **2016 vs. 2015**

SMC Global's off take volume for year-to-date September 2016 was 13,615 gigawatt hours (GWH), 10% higher than 2015 mainly due to higher bilateral volumes from Sual and Ilijan plants.

Corresponding consolidated net revenue increased by 3% to P60,700 million as a result of higher volumes, partly offset by lower average realization prices for both spot sales and bilateral customers.

The operating income of the Energy Business in September 2016 amounted to P22,838 million, 18% higher than last year. Major income contributors are still Sual and Ilijan plants, with Ilijan plant showing a much improved income performance versus last year.

##### **2015 vs. 2014**

SMC Global's off take volume for the first nine months of 2015 was 12.3 GWH, 5% lower than 2014. This was mainly due to lower bilateral volumes, still reflective of the scheduled maintenance outage and occasional gas supply restrictions experienced at the Malampaya Gas Facilities and the scheduled annual maintenance of Ilijan and Sual Power Plants. The decrease was moderated by higher generation of San Roque and higher contribution from the Limay Co-generation Power Plant.

This resulted in consolidated revenues of P58,997 million, an amount lower than 2014. Likewise, operating income at P19,343 million registered a decline versus 2014.

#### **5. FUEL AND OIL**

##### **2016 vs. 2015**

Petron sustained momentum, posting a 47% increase in consolidated net income that reached P7,427 million in September 2016, mainly driven by sustained growth in volume sales.

Consolidated sales volume increased by 6% to 78.2 million barrels in the first three quarters of the year. Philippine Operations sold 49.6 million barrels, higher by 7% compared to last year, while Malaysia also contributed 28.5 million barrels, a 5% improvement from a year ago. Both markets saw substantial growth across all major business segments namely Reseller, Industrial, LPG, and Lubricants.

The effect of lower crude oil and finished product prices offset the increase in sales volume. In September 2016, the consolidated revenue of Petron decreased by 11% to P247,770 million. Corresponding operating income grew 23% to P16,841 million.

### **2015 vs. 2014**

Petron posted P5,068 million in consolidated net income for the first nine months of 2015, a 58% increase from the same period in 2014. This growth is attributed to higher volumes and a more stable pricing environment.

The Philippine Operations led the volume growth with September 2015 sales reaching 46.6 million barrels, higher by 22% from 2014. Gains from the service station expansion program of Petron continued, as shown by the 12% increase in retail volumes. LPG sales also grew 21% as Petron Gasul brand remained the most preferred in the market.

On the other hand, volumes of Petron Malaysia also increased by 3%, ending at 27 million barrels. The combined volumes for the first three quarters of 2015 reached 73.6 million barrels, higher by 14% from 2014.

Petron consolidated revenues, however, dipped by 27% and ended at P278,295 million due to lower oil prices. Operating income grew by as much as 91% and reached P13,662 million.

## **6. INFRASTRUCTURE**

### **2016 vs. 2015**

For consolidated Infrastructure, the first nine-month period of the year ended with P14,672 million in revenues and P7,441 million in operating income, registering 14% and 7% growths, respectively. This is attributed to higher traffic volume. The opening of Carmen Exit in July 2016 and Binalonan Exit in September 2016 for Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) also contributed to the increased traffic volume and revenues.

### **2015 vs. 2014**

The Infrastructure Business which is mainly represented by the toll way operations of Skyway and SLTC, were consolidated in the San Miguel group starting March 2015, contributing P9,004 million in revenues and about P5,146 million in operating income.

On a full nine-months results, the Infrastructure Business reached about P10,954 million in revenues and contributed operating income of P6,411 million, both 17% higher than 2014. Revenue growth is attributed to the increase in traffic volumes of Skyway, SLEX, and Southern Tagalog Arterial Road (STAR) and full operations of sections 1 and 2 for TPLEX.

September 2014 revenue and operating loss of the Infrastructure business amounted to P631 million and P355 million, respectively, which comprise mainly of the tollway operations of TPLEX and STAR.

## **III. FINANCIAL POSITION**

### **2016 vs. 2015**

The Group's consolidated total assets as of September 30, 2016 amounted to P1,274,775 million, P28,753 million higher than 2015. The increase is primarily due to the recognition of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Trade and other receivables increased by P20,885 million primarily due to the receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Inventories increased by P14,355 million mainly due to higher price of crude and finished products of Petron, build-up of inventories in preparation for peak season sales of SMPFC and higher inventory of full goods and purchase of new bottles and shells to support increase in production volume of the domestic operations of SMB.

Biological assets increased by P396 million mainly due to higher cost to produce growing poultry livestock and increased cost of imported cattle.

Investments and advances increased by P5,124 million in 2016 mainly due to additional investments made by SMC Global in Angat Hydro and Mariveles Power Generation Corporation.

Investment property increased by P2,073 million mainly due to the acquisition by E-fare of land in Mariveles, Bataan for the construction of an industrial park.

Other intangible assets decreased by P17,324 million primarily due to the deconsolidation of licenses attributed to the subsidiaries of Vega, net of the recognition of additional concession rights for the various infrastructure projects, such as the Skyway Stage 3, NAIA Expressway, Boracay Airport, Manila North Harbor Development Program and TPLEX in 2016.

Deferred tax assets increased by P2,028 million mainly due to the recognition by the Parent Company of deferred tax asset on net operating loss carry over (NOLCO), provision for doubtful accounts and unrealized foreign exchange loss.

The decrease in loans payable of P15,897 million in 2016 was mainly due to net payments made by Petron.

The decrease in income and other taxes payable of P1,062 million was mainly due to lower income tax payable of SMPFC in 2016 as income tax expense in the fourth quarter of 2015 was higher than the third quarter of 2016, being the peak period for the Food Group and the deconsolidation of Vega's balance.

Dividends payable increased by P1,577 million mainly due to the dividend declared by the Parent Company to its preferred stockholders owning Series 1 and Series 2 – B, C, D, E, F, G, H and I, on August 10, 2016, which was subsequently paid on October 6, 2016. The Parent Company has no outstanding dividends payable to its preferred stockholders as of December 31, 2015.

The increase in long-term debt was mainly due to the availments used to finance the various projects of the Energy business and the Infrastructure business. This was partly offset by the payments made by the Parent Company, Infrastructure Group, Petron, SMC PowerGen Inc. and SMYPC of their maturing long-term debt.

Deferred tax liabilities increased by P1,962 million mainly due to the application of MCIT and higher deferred tax liability on inventories of Petron and the recognition by SPPC and SPDC of deferred income tax expense on the temporary difference between the actual monthly payments to PSALM over the finance lease liability-related expenses for 2016.

The decrease in finance lease liabilities was mainly due to payments, net of interest and foreign exchange rate changes.

Other noncurrent liabilities decreased by P8,097 million mainly due to the deconsolidation of Vega's balance, as a result of the sale of the investment.

Equity reserve decreased by P5,325 million primarily due to the increase in ownership interest in ULC BVI and the acquisition of the remaining non-controlling interest in Petrochemical Asia (HK) Limited by Petron.

Cumulative translation adjustments increased by P2,253 million mainly due to the translation adjustment on the net assets of foreign subsidiaries, particularly of Petron, San Miguel International Limited and SMB, and the fair value adjustment on the investment in common shares of stock of Top Frontier Investment Holdings, Inc.

The decrease in treasury stock pertains to the issuance of Series "2" in Subseries G, H and I preferred shares of the Parent Company at P75.00 per share on March 30, 2016.

### **2015 vs. 2014**

The Group's consolidated total assets as of September 30, 2015 amounted to P1,237,590 million, P20,101 million higher than 2014. The increase is primarily due to the consolidation of AAIBV's balance of toll road concession rights to operate and maintain the SLEX and the Skyway and the recognition of goodwill upon the consolidation of AAIBV starting March 5, 2015, net of the decrease in cash and cash equivalents.

Cash and cash equivalents decreased by P63,958 million mainly due to the: a) redemption of the 2010 Preferred Shares of Petron and Series A and B Preferred Shares of Petron Global Limited (PGL); b) net payment by Petron of short-term loans; c) payment by SMC Global of finance lease liabilities; and d) payment by the Group of interests and other financing charges and dividends and distributions. The effect of the foregoing transactions was partially offset by the consolidation of the cash and cash equivalents balance of AAIBV Group and the proceeds from issuance of undated subordinated capital securities and loan drawdown by SMC Global.

Trade and other receivables decreased by P28,132 million mainly due to the receipt by Petron of the refund of Value-Added Tax (VAT) claims and the collection of: a) non-trade receivables of SMHC, b) advances to crude supplier of Petron, and c) trade receivables of SMPFC.

Inventories decreased by P10,345 million mainly due to lower volume and price of crude and finished products of Petron, net of the seasonal build-up of raw materials by SMPFC.

Prepaid expenses and other current assets increased by P20,011 million mainly due to the increase in: a) unutilized VAT credit certificates of Petron Philippines and excess input VAT of Petron Malaysia with the implementation of Goods and Services Tax starting April 1, 2015; and b) excess input VAT of SMC Global due to payments made for the purchase of materials and equipment and payment of labor for the construction of the new power plants; and the consolidation of AAIBV Group's balance, particularly its advances to contractors and suppliers, prepaid taxes, restricted cash and prepaid insurance and other expenses.

The decrease in assets held for sale was primarily due to the sale of the investment in shares of stock of Indophil Resources NL by Coastal View Exploration Corporation.

Investments and advances decreased by P13,216 million in 2015 mainly due to the reclassification from investments in associates to investments in subsidiaries of the carrying amount of the investment in AAIBV Group and Liberty Telecoms Holdings, Inc. (LTHI).

Property, plant and equipment increased by P32,906 million mainly due to the on-going plant construction of Davao Power Plant, Limay Power Plant (Phase 1 and 2), additional capital expenditures on the Refinery Master Plan Phase 2 (RMP-2) Project and Petron Malaysia's network expansion and regular maintenance.

Investment property increased by P329 million mainly due to the acquisition by San Miguel Properties, Inc. of land for future development in Makati City, net of the reclassification to property, plant and equipment of the Makati Diamond Residences' model unit and land where the building is located.

Biological assets increased by P163 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by P17,206 million mainly due to the recognition of goodwill upon the consolidation of AAIBV Group.

Other intangible assets increased by P70,365 million mainly due to the consolidation of AAIBV's toll road concession rights to operate and maintain the SLEX and the Stages 1 to 3 of the Skyway; the recognition of licenses upon the consolidation of LTHI and the recognition of additional toll road concession rights for the various infrastructure projects namely: NAIA Expressway, TPLEX and Boracay Airport.

Deferred tax assets increased by P2,049 million mainly due to the recognition by the Parent Company of deferred tax asset on NOLCO, marked-to-market loss on derivatives and unrealized forex loss.

Other noncurrent assets decreased by P6,838 million mainly due to the elimination of the noncurrent receivable of the Parent Company from AAIBV upon its consolidation starting March 2015.

Loans payable decreased by P33,418 million in 2015 mainly due to the payments made by Petron and SMPFC of their short-term loans.

Accounts payable and accrued expenses decreased by P19,129 million mainly due to payment made by Petron to various contractors and suppliers, primarily related to the RMP-2 Project and lower liabilities for crude oil and petroleum product importations due to decline both in volume and price of crude and finished products. The decrease was moderated by the increase in payable to suppliers and contractors pertaining to the on-going power plant construction in Davao and Bataan (Phase 1 and 2), and consolidation of AAIBV Group's balance.

Dividends payable decreased by P1,592 million mainly due to the payment by the Parent Company in 2015 of the dividends payable to its preferred stockholders which were outstanding in 2014.

The increase in long-term debt of P66,396 million was mainly due to the consolidation of the balance of AAIBV, and the loan availments made by: a) SMC Global to finance the ongoing construction of the power plant in Limay - Phase 2, b) Vertex to fund the NAIA Expressway Project, c) Citra Central Expressway Corp. to fund the Skyway Stage 3 Project, and d) Private Infra Dev Corporation (PIDC) to fund the TPLEX Project.

Deferred tax liabilities increased by P6,879 million primarily due to the consolidation of AAIBV.

The decrease in finance lease liabilities was mainly due to payments, net of interests and the effect of foreign exchange rate changes.

Other noncurrent liabilities increased by P13,549 million mainly due to deposit for future stock subscription received by Vega and consolidation of the noncurrent liability of the AAIBV Group.

Equity reserve decreased by P1,346 million primarily due to the acquisition by Rapid Thoroughfares Inc. (Rapid) from DMCI Holdings, Inc. and D.M. Consunji, Inc. (collectively, "DMCI") of its 25.11% non-controlling interest in PIDC.

Cumulative translation adjustments decreased by P3,406 million mainly due to the translation adjustments on the net assets of the foreign subsidiaries of Petron and SMHC.

The increase in appropriated retained earnings was mainly due to the additional appropriation made by SMPFC mainly to finance future capital expenditures.

The decrease in NCI of P3,912 million was mainly due to the redemption of the Series A and B Preferred Shares of PGL and the 2010 Preferred Shares of Petron and the acquisition by Rapid from DMCI of its 25.11% NCI in PIDC. The effect of these transactions was tempered by the recognition of NCI upon the issuance of undated subordinated capital securities of SMC Global and the consolidation of AAIBV Group.

#### Equity

The increase in equity is due to:

| <i>(In millions)</i>                              | <b>September 30</b> |             |
|---------------------------------------------------|---------------------|-------------|
|                                                   | <b>2016</b>         | <b>2015</b> |
| Income during the period                          | <b>P42,953</b>      | P19,082     |
| Reissuance of treasury shares                     | <b>29,722</b>       | 54,456      |
| Other comprehensive income (loss)                 | <b>3,938</b>        | (5,431)     |
| Issuance of capital stock                         | <b>69</b>           | 25          |
| Cash dividends and distributions                  | <b>(20,736)</b>     | (17,417)    |
| Reduction to non-controlling interests and others | <b>(6,876)</b>      | (4,729)     |
| Redemption of Subseries "2-A" preferred shares    | <b>-</b>            | (54,076)    |
|                                                   | <b>P49,070</b>      | (P8,090)    |

#### IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| <i>(In millions)</i>                            | <b>September 30</b> |             |
|-------------------------------------------------|---------------------|-------------|
|                                                 | <b>2016</b>         | <b>2015</b> |
| Net cash flows provided by operating activities | <b>P46,445</b>      | P35,324     |
| Net cash flows used in investing activities     | <b>(21,225)</b>     | (31,909)    |
| Net cash flows used in financing activities     | <b>(31,771)</b>     | (70,117)    |

Net cash flows provided by operating activities for the period basically consists of income for the period less changes in noncash current assets, certain current liabilities and others.

Major components of net cash flows used in investing activities included the following:

| <i>(In millions)</i>                                                                            | <b>September 30</b> |             |
|-------------------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                                 | <b>2016</b>         | <b>2015</b> |
| Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of | <b>P24,154</b>      | P -         |
| Interest received                                                                               | <b>2,653</b>        | 3,203       |
| Proceeds from sale of investments and property and equipment                                    | <b>479</b>          | 731         |
| Additions to property, plant and equipment                                                      | <b>(28,275)</b>     | (43,983)    |
| Decrease (increase) in other noncurrent assets and others                                       | <b>(10,846)</b>     | 3,341       |
| Additions to investments and advances                                                           | <b>(7,492)</b>      | (1,902)     |
| Acquisition of subsidiaries                                                                     | <b>(1,905)</b>      | (7,721)     |
| Cash and cash equivalents acquired from business combination, net of cash paid                  | -                   | 14,415      |

Major components of net cash flows used in financing activities included the following:

| <i>(In millions)</i>                                                                                       | <b>September 30</b> |             |
|------------------------------------------------------------------------------------------------------------|---------------------|-------------|
|                                                                                                            | <b>2016</b>         | <b>2015</b> |
| Proceeds from reissuance of treasury shares                                                                | <b>P29,722</b>      | P54,456     |
| Payment of cash dividends and distributions                                                                | <b>(19,161)</b>     | (19,010)    |
| Payment of finance lease liabilities                                                                       | <b>(17,811)</b>     | (16,614)    |
| Payment of short-term loans - net                                                                          | <b>(16,331)</b>     | (31,541)    |
| Decrease in non-controlling interests                                                                      | <b>(5,514)</b>      | (461)       |
| Proceeds from (payments of) long-term debt - net                                                           | <b>(2,745)</b>      | 9,000       |
| Redemption of preferred shares                                                                             | -                   | (94,718)    |
| Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries | -                   | 28,746      |

The effect of exchange rate changes on cash and cash equivalents amounted to P2,045 million and P2,744 million on September 30, 2016 and 2015, 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 comparative period of previous year. Please refer to Item II “Financial Performance” for the discussion of certain Key Performance Indicators.

|                                                                               | September 2016                   | December 2015 |
|-------------------------------------------------------------------------------|----------------------------------|---------------|
| <u>Liquidity:</u>                                                             |                                  |               |
| Current Ratio                                                                 | <b>1.59</b>                      | 1.32          |
| <u>Solvency:</u>                                                              |                                  |               |
| Debt to Equity Ratio                                                          | <b>1.94</b>                      | 2.24          |
| Asset to Equity Ratio                                                         | <b>2.94</b>                      | 3.24          |
| <u>Profitability:</u>                                                         |                                  |               |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | <b>12.30%</b>                    | 5.20%         |
| Interest Rate Coverage Ratio                                                  | <b>3.81</b>                      | 3.39          |
|                                                                               | <b>Period Ended September 30</b> |               |
|                                                                               | <b>2016</b>                      | <b>2015</b>   |
| <u>Operating Efficiency:</u>                                                  |                                  |               |
| Volume Growth                                                                 | <b>8%</b>                        | 10%           |
| Revenue Growth                                                                | <b>(1%)</b>                      | (15%)         |
| Operating Margin                                                              | <b>15%</b>                       | 12%           |

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

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

\* Annualized for quarterly reporting

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**FINANCIAL SOUNDNESS INDICATORS**

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of September 30, 2016 and December 31, 2015 for liquidity, solvency and profitability ratios and for the periods ending September 30, 2016 and 2015 for operating efficiency ratios.

|                                                                               | September 2016                   | December 2015 |
|-------------------------------------------------------------------------------|----------------------------------|---------------|
| <u>Liquidity:</u>                                                             |                                  |               |
| Current Ratio                                                                 | <b>1.59</b>                      | 1.32          |
| <u>Solvency:</u>                                                              |                                  |               |
| Debt to Equity Ratio                                                          | <b>1.94</b>                      | 2.24          |
| Asset to Equity Ratio                                                         | <b>2.94</b>                      | 3.24          |
| <u>Profitability:</u>                                                         |                                  |               |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | <b>12.30%</b>                    | 5.20%         |
| Interest Rate Coverage Ratio                                                  | <b>3.81</b>                      | 3.39          |
|                                                                               | <b>Period Ended September 30</b> |               |
|                                                                               | <b>2016</b>                      | <b>2015</b>   |
| <u>Operating Efficiency:</u>                                                  |                                  |               |
| Volume Growth                                                                 | <b>8%</b>                        | 10%           |
| Revenue Growth                                                                | <b>(1%)</b>                      | (15%)         |
| Operating Margin                                                              | <b>15%</b>                       | 12%           |

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

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

\* Annualized for quarterly reporting

## PART II - OTHER INFORMATION

## ANNEX "C"

San Miguel Corporation

Proceeds from Issuance of Series "2", in Subseries "G, H and I" Preferred Shares

September 30, 2016

(Amounts in Millions)

### i) Gross and Net Proceeds as Disclosed in the Final Prospectus

|                                                                 |   |                      |
|-----------------------------------------------------------------|---|----------------------|
| Gross Proceeds                                                  | P | 30,000               |
| Estimated Fees, Commissions and Expenses Relating to the Issue: |   |                      |
| Gross underwriting fees                                         | P | 226                  |
| Documentary stamp taxes to be paid by the Company               |   | 150                  |
| SEC filing and legal research fee                               |   | 8                    |
| PSE listing and processing fee                                  |   | 34                   |
| Legal and other professional fees                               |   | 7                    |
| Other expenses                                                  |   | 5                    |
|                                                                 |   | <u>430</u>           |
| Net Proceeds                                                    | P | <u><u>29,570</u></u> |

### ii) Actual Gross and Net Proceeds

|                                             |   |                      |
|---------------------------------------------|---|----------------------|
| Gross Proceeds                              | P | 30,000               |
| Gross underwriting fees                     | P | 226                  |
| PSE listing and processing fee              |   | 30                   |
| Documentary stamp taxes paid by the Company |   | 10                   |
| SEC filing fee                              |   | 8                    |
| Legal and other professional fees           |   | 4                    |
|                                             |   | <u>278</u>           |
| Net Proceeds/Balance of the Proceeds        | P | <u><u>29,722</u></u> |

### iii) Each Expenditure Item Where the Proceeds were Used

|                                                                                                                                                                      |   |                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|----------------------|
| Full payment of US\$170 million term facility with Maybank International                                                                                             | P | 7,856                |
| Additional investment in San Miguel Holdings Corp. for investment in the MRT 7 Project                                                                               |   | 5,271                |
| Additional investment in Vega Telecoms, Inc.                                                                                                                         |   | 1,492                |
| Additional investment in San Miguel Holdings Corp. for investment in Mabini Properties, Inc.                                                                         |   | 591                  |
| Additional investment in San Miguel Holdings Corp. for investment in Trans Aire Development Holdings Corp., the concession holder of the Boracay Airport Project     |   | 713                  |
| Additional investment in San Miguel Holdings Corp.                                                                                                                   |   | 1,112                |
| Additional investment in San Miguel Holdings Corp. for investment in Luzon Clean Water Development Corporation, the concession holder for Bulacan Bulk Water project |   | 3,101                |
| Additional investment in San Miguel Holdings Corp. for investment in Rapid Thoroughfares, Inc./TPLEX Project                                                         |   | 698                  |
| Total Expenses                                                                                                                                                       | P | <u><u>20,834</u></u> |

### iv) Balance of the Proceeds as of End of Reporting Period

|   |                     |
|---|---------------------|
| P | <u><u>8,888</u></u> |
|---|---------------------|