# COVER SHEET

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S. E. C. Registration Number

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

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

Month

| 3 | 1 |
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Day

SEC FORM

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

FORM TYPE

2nd Tuesday of June

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

Month

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

Day

Annual Meeting

Secondary License Type, If Applicable

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

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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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 **March 31, 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** — Address of issuer's principal office
   **1550** — Postal Code

8. **(632) 632-3000**
   Issuer's telephone number, including area code

9. **N/A**
   Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| | Number of Shares of Stock and debt Outstanding as of March 31, 2016 | |
|---|---|---|
| **Common Shares** | 2,378,656,755 | |
| **SUB-TOTAL (Common Shares)** | | 2,378,656,755 |
| **Series 1 Preferred** | 279,406,667 | |
| **Series "2-A" Preferred Shares** | 0 | |
| **Series "2-B" Preferred Shares** | 90,428,200 | |
| **Series "2-C" Preferred Shares** | 255,559,400 | |
| **Series "2-D" Preferred Shares** | 89,333,400 | |
| **Series "2-E" Preferred Shares** | 134,000,100 | |
| **Series "2-F" Preferred Shares** | 223,333,500 | |
| **Series "2-G" Preferred Shares** | 66,666,600 | |
| **Series "2-H" Preferred Shares** | 164,000,000 | |
| **Series "2-I" Preferred Shares** | 169,333,400 | |
| **(SUB-TOTAL (Preferred Shares)** | | 1,472,061,267 |
| **TOTAL Outstanding Shares** | | **3,850,718,022** |
| Total Liabilities | P851,149 million | |

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**[1]
**(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 March 31, 2016 (with comparative figures as of December 31, 2015 and for the period ended March 31, 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**

[1] *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**<br>Chief Finance Officer and Treasurer |
| Date | May 16, 2016 |
| Signature and Title | **BELLA G. NAVARRA**<br>Comptrollership Manager/<br>Principal Accounting Officer |
| Date | May 16, 2016 |

ANNEX "A"

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

## ASSETS

| | 2016 Unaudited | 2015 Audited |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents (Notes 8 and 9) | ₱ **201,094** | ₱ 180,758 |
| Trade and other receivables - net (Notes 4, 8 and 9) | **97,858** | 100,727 |
| Inventories | **68,125** | 64,148 |
| Current portion of biological assets - net | **3,381** | 3,319 |
| Prepaid expenses and other current assets (Notes 8 and 9) | **72,187** | 73,659 |
| Total Current Assets | **442,645** | 422,611 |
| Noncurrent Assets | | |
| Investments and advances - net | **28,821** | 26,929 |
| Available-for-sale financial assets (Notes 8 and 9) | **41,827** | 41,546 |
| Property, plant and equipment - net (Note 5) | **502,285** | 497,352 |
| Investment property - net | **4,949** | 4,746 |
| Biological assets - net of current portion | **2,230** | 2,177 |
| Goodwill - net | **59,377** | 58,603 |
| Other intangible assets - net | **140,623** | 139,969 |
| Deferred tax assets | **16,124** | 16,441 |
| Other noncurrent assets - net (Notes 4, 8 and 9) | **35,488** | 35,648 |
| Total Noncurrent Assets | **831,724** | 823,411 |
| | ₱ **1,274,369** | ₱ 1,246,022 |

## LIABILITIES AND EQUITY

| | 2016 Unaudited | 2015 Audited |
|---|---|---|
| Current Liabilities | | |
| Loans payable (Notes 4, 8 and 9) | ₱ **142,119** | ₱ 146,859 |
| Accounts payable and accrued expenses (Notes 4, 8 and 9) | **106,826** | 102,836 |
| Finance lease liabilities - current portion (Notes 8 and 9) | **16,197** | 16,567 |
| Income and other taxes payable | **17,861** | 13,907 |
| Dividends payable | **4,585** | 1,996 |
| Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9) | **9,182** | 37,554 |
| Total Current Liabilities | **296,770** | 319,719 |
| Noncurrent Liabilities | | |
| Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9) | **348,884** | 330,823 |
| Deferred tax liabilities | **15,956** | 15,329 |
| Finance lease liabilities - net of current portion (Notes 8 and 9) | **157,694** | 162,713 |
| Other noncurrent liabilities (Notes 4, 8 and 9) | **31,845** | 32,561 |
| Total Noncurrent Liabilities | **554,379** | 541,426 |
| Equity | | |
| Equity Attributable to Equity Holders of the Parent Company | | |
| Capital stock - common | **16,418** | 16,417 |
| Capital stock - preferred | **10,187** | 10,187 |
| Additional paid-in capital | **177,838** | 177,871 |
| Equity reserve | **(1,211)** | (798) |
| Reserve for retirement plan | **(3,544)** | (3,546) |
| Cumulative translation adjustments | **2,007** | 725 |
| Retained earnings: | | |
| Appropriated | **47,398** | 48,927 |
| Unappropriated | **134,708** | 127,855 |
| Treasury stock | **(109,501)** | (139,501) |
| | **274,300** | 238,137 |
| Non-controlling Interests | **148,920** | 146,740 |
| Total Equity | **423,220** | 384,877 |
| | ₱ **1,274,369** | ₱ 1,246,022 |

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

**CERTIFIED CORRECT:**

**BELLA C. NAVARRA**
**VP, Corporate Finance - Comptrollership**

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE PERIODS ENDED MARCH 31, 2016 AND 2015**
***(In Millions, Except Per Share Data)***

| | 2016 Unaudited | 2015 Unaudited |
|---|---|---|
| SALES (Note 2) | ₱ **159,625** | ₱ 157,751 |
| COST OF SALES | **119,949** | 127,107 |
| GROSS PROFIT | **39,676** | 30,644 |
| SELLING AND ADMINISTRATIVE EXPENSES | **(16,854)** | (14,089) |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | **(8,739)** | (7,603) |
| INTEREST INCOME | **961** | 1,209 |
| EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES | **179** | 208 |
| LOSS ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT | **(3)** | (122) |
| OTHER INCOME (CHARGES) - Net (Note 3) | **4,033** | (789) |
| INCOME BEFORE INCOME TAX | **19,253** | 9,458 |
| INCOME TAX EXPENSE | **5,714** | 3,351 |
| NET INCOME | ₱ **13,539** | ₱ 6,107 |
| Attributable to: | | |
| Equity holders of the Parent Company | ₱ **7,508** | ₱ 2,390 |
| Non-controlling interests | **6,031** | 3,717 |
| | ₱ **13,539** | ₱ 6,107 |
| Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6): | | |
| Basic | ₱ **2.59** | ₱ 0.36 |
| Diluted | ₱ **2.58** | ₱ 0.36 |

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

**CERTIFIED CORRECT:**

**BELLA O. NAVARRA**
**VP, Corporate Finance - Comptrollership**

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE PERIODS ENDED MARCH 31, 2016 AND 2015**
***(In Millions)***

| | 2016 Unaudited | 2015 Unaudited |
|---|---|---|
| **NET INCOME** | **₱ 13,539** | ₱ 6,107 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| **ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS** | | |
| EQUITY RESERVE FOR RETIREMENT PLAN | **13** | 3 |
| INCOME TAX EXPENSE | **(4)** | (1) |
| SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net | **-** | 222 |
| | **9** | 224 |
| **ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** | | |
| GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS | **2,025** | (1,993) |
| NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS | **271** | (34) |
| INCOME TAX BENEFIT (EXPENSE) | **(4)** | 5 |
| | **2,292** | (2,022) |
| **OTHER COMPREHENSIVE INCOME (LOSS) -** Net of tax | **2,301** | (1,798) |
| **TOTAL COMPREHENSIVE INCOME -** Net of tax | **₱ 15,840** | ₱ 4,309 |
| **Attributable to:** | | |
| Equity holders of the Parent Company | **₱ 8,792** | ₱ 1,356 |
| Non-controlling interests | **7,048** | 2,953 |
| | **₱ 15,840** | ₱ 4,309 |

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

**CERTIFIED CORRECT:**

**BELLA O. NAVARRA**
**VP, Corporate Finance - Comptrollership**

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2016 AND 2015
*(In Millions)*

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock | | Additional Paid-in | Reserve for | Equity | Cumulative Translation Adjustments | | Retained Earnings | | Treasury Stock | | | | |
| | Common | Preferred | Capital | Retirement Plan | Reserve | Translation Reserve | Fair Value Reserve | Appropriated | Unappropriated | Common | Preferred | Total | | |
| As of January 1, 2016 (Audited) | ₱ 16,417 | ₱ 10,187 | ₱ 177,871 | ₱ (3,546) | ₱ (798) | ₱ 947 | ₱ (222) | ₱ 48,927 | ₱ 127,855 | ₱ (67,093) | ₱ (72,408) | ₱ 238,137 | ₱ 146,740 | ₱ 384,877 |
| Gain on exchange differences on translation of foreign operations | - | - | - | - | - | 1,017 | - | - | - | - | - | 1,017 | 1,008 | 2,025 |
| Equity reserve for retirement plan | - | - | - | 2 | - | - | - | - | - | - | - | 2 | 7 | 9 |
| Net gain on available-for-sale financial assets | - | - | - | - | - | - | 265 | - | - | - | - | 265 | 2 | 267 |
| Other comprehensive income | - | - | - | 2 | - | 1,017 | 265 | - | - | - | - | 1,284 | 1,017 | 2,301 |
| Net income | - | - | - | - | - | - | - | - | 7,508 | - | - | 7,508 | 6,031 | 13,539 |
| Total comprehensive income | - | - | - | 2 | - | 1,017 | 265 | - | 7,508 | - | - | 8,792 | 7,048 | 15,840 |
| Issuance of common shares | 1 | - | 5 | - | - | - | - | - | - | - | - | 6 | - | 6 |
| Reissuance of treasury shares | - | - | (38) | - | - | - | - | - | - | - | 30,000 | 29,962 | - | 29,962 |
| Net addition to non-controlling interests and others | - | - | - | - | (413) | - | - | - | - | - | - | (413) | 435 | 22 |
| Appropriations - net | - | - | - | - | - | - | - | (1,529) | 1,529 | - | - | - | - | - |
| Cash dividends and distributions (Note 7): | | | | | | | | | | | | | | |
| Common | - | - | - | - | - | - | - | - | (833) | - | - | (833) | (2,160) | (2,993) |
| Preferred | - | - | - | - | - | - | - | - | (1,351) | - | - | (1,351) | (535) | (1,886) |
| Undated subordinated capital securities | - | - | - | - | - | - | - | - | - | - | - | - | (2,608) | (2,608) |
| As of March 31, 2016 (Unaudited) | ₱ 16,418 | ₱ 10,187 | ₱ 177,838 | ₱ (3,544) | ₱ (1,211) | ₱ 1,964 | ₱ 43 | ₱ 47,398 | ₱ 134,708 | ₱ (67,093) | ₱ (42,408) | ₱ 274,300 | ₱ 148,920 | ₱ 423,220 |
| As of January 1, 2015 (Audited) | ₱ 16,415 | ₱ 10,187 | ₱ 178,101 | ₱ (1,216) | ₱ 761 | ₱ 4,058 | ₱ (184) | ₱ 52,088 | ₱ 120,571 | ₱ (67,093) | ₱ (72,788) | ₱ 240,900 | ₱ 149,020 | ₱ 389,920 |
| Loss on exchange differences on translation of foreign operations | - | - | - | - | - | (1,227) | - | - | - | - | - | (1,227) | (766) | (1,993) |
| Share in other comprehensive income of associates and joint ventures - net | - | - | - | - | - | - | 221 | - | - | - | - | 221 | 1 | 222 |
| Equity reserve for retirement plan | - | - | - | 1 | - | - | - | - | - | - | - | 1 | 1 | 2 |
| Net loss on available-for-sale financial assets | - | - | - | - | - | - | (29) | - | - | - | - | (29) | - | (29) |
| Other comprehensive income (loss) | - | - | - | 1 | - | (1,227) | 192 | - | - | - | - | (1,034) | (764) | (1,798) |
| Net income | - | - | - | - | - | - | - | - | 2,390 | - | - | 2,390 | 3,717 | 6,107 |
| Total comprehensive income (loss) | - | - | - | 1 | - | (1,227) | 192 | - | 2,390 | - | - | 1,356 | 2,953 | 4,309 |
| Issuance of common shares | 2 | - | 24 | - | - | - | - | - | - | - | - | 26 | - | 26 |
| Net reduction to non-controlling interests and others | - | - | - | - | 328 | - | - | - | - | - | - | 328 | (358) | (30) |
| Appropriations - net | - | - | - | - | - | - | - | (2) | 2 | - | - | - | - | - |
| Cash dividends and distributions (Note 7): | | | | | | | | | | | | | | |
| Common | - | - | - | - | - | - | - | - | - | - | - | - | (2,175) | (2,175) |
| Preferred | - | - | - | - | - | - | - | - | - | - | - | - | (623) | (623) |
| Undated subordinated capital securities | - | - | - | - | - | - | - | - | - | - | - | - | (1,770) | (1,770) |
| As of March 31, 2015 (Unaudited) | ₱ 16,417 | ₱ 10,187 | ₱ 178,125 | ₱ (1,215) | ₱ 1,089 | ₱ 2,831 | ₱ 8 | ₱ 52,086 | ₱ 122,963 | ₱ (67,093) | ₱ (72,788) | ₱ 242,610 | ₱ 147,047 | ₱ 389,657 |

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

CERTIFIED CORRECT:

BELLA B. NAVARRA
VP, Corporate Finance - Comptrollership

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE PERIODS ENDED MARCH 31, 2016 AND 2015**
***(In Millions)***

| | 2016 Unaudited | 2015 Unaudited |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | ₱ **19,253** | ₱ 9,458 |
| Adjustments for: | | |
| Depreciation, amortization and others - net | **1,302** | 4,771 |
| Interest expense and other financing charges | **8,739** | 7,603 |
| Interest income | **(961)** | (1,209) |
| Equity in net earnings of associates and joint ventures | **(179)** | (208) |
| Loss on sale of investments and property and equipment | **3** | 122 |
| Operating income before working capital changes | **28,157** | 20,537 |
| Changes in noncash current assets, certain current liabilities and others | **4,336** | (5,832) |
| Cash generated from operations | **32,493** | 14,705 |
| Interest and other financing charges paid | **(5,354)** | (4,572) |
| Income taxes paid | **(1,753)** | (604) |
| Net cash flows provided by operating activities | **25,386** | 9,529 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of subsidiaries | **-** | (1,081) |
| Cash and cash equivalents acquired from business combination, net of cash paid | **-** | 14,828 |
| Additions to investments and advances | **(1,712)** | (910) |
| Additions to property, plant and equipment | **(9,157)** | (13,344) |
| Decrease (increase) in other noncurrent assets and others | **(2,373)** | 4,694 |
| Proceeds from sale of investments and property and equipment | **10** | 517 |
| Interest received | **939** | 1,205 |
| Dividend received from an associate | **-** | 7 |
| Net cash flows provided by (used in) investing activities | **(12,293)** | 5,916 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from: | | |
| Short-term borrowings | **158,220** | 192,746 |
| Long-term borrowings | **28,760** | 10,969 |
| Payments of: | | |
| Short-term borrowings | **(162,571)** | (219,799) |
| Long-term borrowings | **(35,707)** | (2,841) |
| Payments of finance lease liabilities | **(5,935)** | (5,483) |
| Cash dividends paid | **(817)** | (2,301) |
| Cash dividends and distributions paid to non-controlling shareholders | **(4,080)** | (3,083) |
| Proceeds from issuance of capital stock | **6** | 26 |
| Proceeds from issuance of Series "2" preferred shares | **29,962** | - |
| Redemption of preferred shares of subsidiaries | **-** | (25,000) |
| Increase in non-controlling interests | **-** | 557 |
| Net proceeds from issuance of preferred shares of a subsidiary | **-** | 14,885 |
| Net cash flows provided by (used in) financing activities | **7,838** | (39,324) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | **(595)** | 680 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **20,336** | (23,199) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | **180,758** | 258,606 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | ₱ **201,094** | ₱ 235,407 |

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

**CERTIFIED CORRECT:**

**BELLA C. NAVARRA**
**VP, Corporate Finance - Comptrollership**

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**
**TRADE AND OTHER RECEIVABLES**
**MARCH 31, 2016**
**(Amounts in Millions)**

| | Total | Current | Past Due | | |
|---|---|---|---|---|---|
| | | | 1 - 30 Days | 31 - 60 Days | Over 60 Days |
| Trade | ₱ 52,398 | ₱ 40,505 | ₱ 3,912 | ₱ 1,491 | ₱ 6,490 |
| Non-trade | 40,209 | 29,199 | 1,225 | 391 | 9,394 |
| Others | 15,219 | 15,219 | - | - | - |
| Total | 107,826 | ₱ 84,923 | ₱ 5,137 | ₱ 1,882 | ₱ 15,884 |
| Less allowance for impairment losses | 9,968 | | | | |
| Net | ₱ **97,858** | | | | |

**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 March 31, 2016 and December 31, 2015 for liquidity, solvency and profitability ratios and for the periods ending March 31, 2016 and 2015 for operating efficiency ratios.

| | **March 2016** | December 2015 |
|---|---|---|
| Liquidity: | | |
| Current Ratio | **1.49** | 1.32 |
| Solvency: | | |
| Debt to Equity Ratio | **2.01** | 2.24 |
| Asset to Equity Ratio | **3.01** | 3.24 |
| Profitability: | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | **6.86%** | 5.20% |
| Interest Rate Coverage Ratio | **3.60** | 3.35 |

| | **Period Ended March 31** | |
|---|---|---|
| | **2016** | 2015 |
| Operating Efficiency: | | |
| Volume Growth | **12%** | 7% |
| Revenue Growth | **1%** | (15%) |
| Operating Margin | **14%** | 10% |

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

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

* *Annualized for quarterly reporting*

## PART II - OTHER INFORMATION

**ANNEX "C"**

**San Miguel Corporation**
**Proceeds from Issuance of Series "2", in Subseries "G, H and I" Preferred Shares**
**March 31, 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 | | 430 |
| Net Proceeds | | | P | 29,570 |

**ii) Actual Gross and Net Proceeds**

| | | | | |
|---|---|---|---|---|
| Gross Proceeds | | | P | 30,000 |
| SEC filing and legal research fee | P | 8 | | |
| PSE listing and processing fee | | 30 | | 38 |
| Net Proceeds/Balance of the Proceeds as of March 31, 2016 | | | P | 29,962 |

1. **Summary of Significant Accounting and Financial Reporting Policies**

The Group prepared its interim consolidated financial statements as of and for the period ended March 31, 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.

- 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.

- *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 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.

- 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.

- 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 SEC issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

- *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.

- 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 of 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.

## 2. Segment Information

Operating Segments

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

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

The beverage segment produces and markets alcoholic and 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 segment is engaged in rendering all types of domestic and international telecommunications services.

Inter-segment Transactions

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

Financial information about reportable segments follows:

| | Beverage | | Food | | Packaging | | Energy | | Fuel and Oil | | Infrastructure | | Telecommu-nications | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| **Sales** | | | | | | | | | | | | | | | | | | | | |
| External sales | **P27,167** | P22,517 | **P25,953** | P25,091 | **P4,830** | P4,727 | **P17,449** | P17,695 | **P76,160** | P85,512 | **P4,692** | P1,464 | **P478** | P403 | **P2,896** | P342 | **P –** | P – | **P159,625** | P157,751 |
| Inter-segment sales | **34** | 33 | **27** | - | **1,673** | 1,084 | **2,482** | 2,062 | **697** | 1,232 | **–** | – | **8** | – | **2,781** | 3,193 | **(7,702)** | (7,604) | **–** | – |
| Total sales | **P27,201** | P22,550 | **P25,980** | P25,091 | **6,503** | 5,811 | **P19,931** | P19,757 | **P76,857** | P86,744 | **P4,692** | P1,464 | **P486** | P403 | **P5,677** | P3,535 | **(P7,702)** | (P7,604) | **P159,625** | P157,751 |
| **Results** | | | | | | | | | | | | | | | | | | | | |
| Segment results | **P6,238** | P5,260 | **P1,776** | P1,468 | **P597** | P479 | **P7,310** | P6,834 | **P4,899** | P1,882 | **P2,429** | P659 | **(P570)** | (P68) | **P415** | (P29) | **(P272)** | P70 | **P22,822** | P16,555 |

## 3. Other Income (Charges)

Other income (charges) consists of:

| | March 31 | |
|---|---|---|
| | **2016** | 2015 |
| Gain (loss) on foreign exchange - net | **P5,701** | (P578) |
| Construction revenue | **1,620** | 1,423 |
| Loss on derivatives - net | **(1,627)** | (248) |
| Construction costs | **(1,620)** | (1,423) |
| Others | **(41)** | 37 |
| | **P4,033** | (P789) |

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.

## 4. Related Party Disclosures

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

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

| | | Revenue from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| Ultimate Parent Company | **March 31, 2016** | **P-** | **P-** | **P5,757** | **P551** | On demand or less than 4 to 6 years; interest and non-interest bearing | Unsecured; no impairment |
| | December 31, 2015 | 1 | 1 | 5,816 | 551 | | |
| Retirement Plans | **March 31, 2016** | **74** | **-** | **13,284** | **-** | On demand; interest bearing | Unsecured; no impairment |
| | December 31, 2015 | 485 | - | 13,194 | - | | |
| Associates | **March 31, 2016** | **403** | **3** | **418** | **-** | On demand; interest and non-interest bearing | Unsecured; no impairment |
| | December 31, 2015 | 1,940 | 119 | 452 | 28 | | |
| | **March 31, 2016** | **-** | **-** | **-** | **19,097** | Less than 1 to 10 years; interest bearing | Unsecured and secured |
| | December 31, 2015 | - | - | - | 20,529 | | |
| Joint Ventures | **March 31, 2016** | **-** | **1** | **652** | **2** | On demand; non-interest bearing | Unsecured; no impairment |
| | December 31, 2015 | 3 | 416 | 665 | 162 | | |
| Shareholders in subsidiaries | **March 31, 2016** | **-** | **-** | **92** | **2,816** | On demand; non-interest bearing | Unsecured; no impairment |
| | December 31, 2015 | 222 | 77 | 108 | 2,763 | | |
| Others | **March 31, 2016** | **27** | **-** | **88** | **6,143** | On demand; non-interest bearing | Unsecured; no impairment |
| | December 31, 2015 | 142 | - | 80 | 6,232 | | |
| **Total** | **March 31, 2016** | **P504** | **P4** | **P20,291** | **P28,609** | | |
| Total | December 31, 2015 | P2,793 | P613 | P20,315 | P30,265 | | |

a. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

b. Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable.

c. 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.

## 5. Property, Plant and Equipment

Property, plant and equipment consist of:

**March 31, 2016 and December 31, 2015**

| | Land and Land Improvements | Buildings and Improvements | Power Plants | Refinery and Plant Equipment | Service Stations and Other Equipment | Equipment, Furniture and Fixtures | Leasehold Improvements | Capital Projects in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| 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/ acquisition of subsidiaries | 3,036 | (1,770) | - | (362) | (74) | 5,132 | (147) | 2,938 | 8,753 |
| Currency translation 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 | 36 | 109 | - | 29 | 10 | 288 | 1 | 8,684 | 9,157 |
| Disposals/reclassifications | 121 | (71) | - | 109,423 | 536 | 4,647 | 8 | (114,621) | 43 |
| Currency translation adjustments | 461 | 433 | - | 677 | 441 | (161) | (1) | 119 | 1,969 |
| **March 31, 2016 (Unaudited)** | **31,970** | **50,924** | **226,789** | **159,914** | **17,217** | **145,569** | **2,195** | **76,589** | **711,167** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| 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/ acquisition of subsidiaries | 61 | (777) | - | (109) | (53) | 4,656 | (284) | - | 3,494 |
| Currency translation 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 | 59 | 460 | 1,508 | 1,153 | 301 | 1,783 | 40 | - | 5,304 |
| Disposals/reclassifications/ acquisition of subsidiaries | (2) | (75) | (1) | (2,435) | 142 | 1,699 | 9 | - | (663) |
| Currency translation adjustments | 31 | 281 | - | 593 | 243 | (89) | (1) | - | 1,058 |
| **March 31, 2016 (Unaudited)** | **3,662** | **20,860** | **34,469** | **32,399** | **11,826** | **91,318** | **1,197** | **-** | **195,731** |

*(Forward)*

| | Land and Land Improvements | Buildings and Improvements | Power Plants | Refinery and Plant Equipment | Service Stations and Other Equipment | Equipment, Furniture and Fixtures | Leasehold Improvements | Capital Projects in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Accumulated Impairment Losses** | | | | | | | | | |
| 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) | - | - | - | 720 | 7 | - | 721 |
| Currency translation adjustments | - | (39) | - | - | - | (145) | - | - | (184) |
| **March 31, 2016 (Unaudited)** | **266** | **2,405** | - | - | - | **10,472** | **8** | - | **13,151** |
| **Carrying Amount** | | | | | | | | | |
| December 31, 2015 (Audited) | P27,512 | P27,809 | P193,827 | P16,697 | P5,090 | P42,973 | P1,037 | P182,407 | P497,352 |
| **March 31, 2016 (Unaudited)** | **P28,042** | **P27,659** | **P192,320** | **P127,515** | **P5,391** | **P43,779** | **P990** | **P76,589** | **P502,285** |

**March 31, 2015**

| | Land and Land Improvements | Buildings and Improvements | Power Plants | Refinery and Plant Equipment | Service Stations and Other Equipment | Equipment, Furniture and Fixtures | Leasehold Improvements | Capital Projects in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| January 1, 2015 (Audited) | P28,605 | P49,743 | P226,789 | P50,532 | P16,142 | P126,939 | P2,219 | P135,978 | P636,947 |
| Additions | 177 | 251 | - | 59 | 193 | 1,280 | 11 | 11,373 | 13,344 |
| Disposals/reclassifications/ acquisition of subsidiaries | 548 | (1,420) | - | - | (145) | (1,793) | 177 | 501 | (2,132) |
| Currency translation adjustments | (458) | (601) | - | (645) | (426) | (390) | - | (147) | (2,667) |
| March 31, 2015 (Unaudited) | 28,872 | 47,973 | 226,789 | 49,946 | 15,764 | 126,036 | 2,407 | 147,705 | 645,492 |

*(Forward)*

| | Land and Land Improvements | Buildings and Improvements | Power Plants | Refinery and Plant Equipment | Service Stations and Other Equipment | Equipment, Furniture and Fixtures | Leasehold Improvements | Capital Projects in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| January 1, 2015 (Audited) | P3,383 | P19,939 | P26,931 | P32,218 | P10,471 | P77,185 | P1,270 | P - | P171,397 |
| Depreciation and amortization | 45 | 440 | 1,509 | 477 | 318 | 1,547 | 40 | - | 4,376 |
| Disposals/reclassifications/ acquisition of subsidiaries | 64 | (927) | - | - | (24) | (892) | 137 | - | (1,642) |
| Currency translation adjustments | (33) | (327) | - | (373) | (229) | (385) | - | - | (1,347) |
| March 31, 2015 (Unaudited) | 3,459 | 19,125 | 28,440 | 32,322 | 10,536 | 77,455 | 1,447 | - | 172,784 |
| **Accumulated Impairment Losses** | | | | | | | | | |
| January 1, 2015 (Audited) | 266 | 2,270 | - | - | - | 7,690 | 1 | - | 10,227 |
| Currency translation adjustments | - | (10) | - | - | - | (22) | - | - | (32) |
| March 31, 2015 (Unaudited) | 266 | 2,260 | - | - | - | 7,668 | 1 | - | 10,195 |
| Carrying Amount | | | | | | | | | |
| March 31, 2015 (Unaudited) | P25,147 | P26,588 | P198,349 | P17,624 | P5,228 | P40,913 | P959 | P147,705 | P462,513 |

Depreciation and amortization charged to operations amounted to P5,304 and P4,376 for the periods ended March 31, 2016 and 2015, respectively.

## 6. Basic and Diluted Earnings Per Share (EPS)

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

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

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

Basic and diluted EPS is computed as follows:

| | March 31 | |
|---|---|---|
| | **2016** | 2015 |
| Income attributable to equity holders of the Parent Company | **P7,508** | P2,390 |
| Less dividends on preferred shares for the period | **1,351** | 1,527 |
| Net income attributable to common shareholders of the Parent Company (a) | **P6,157** | P863 |
| Weighted average number of common shares outstanding (in millions) - basic (b) | **2,378** | 2,378 |
| Effect of dilution - common | **7** | 13 |
| Weighted average number of common shares outstanding (in millions) - diluted (c) | **2,385** | 2,391 |
| Earnings per common share attributable to equity holders of the Parent Company | | |
| Basic (a/b) | **P2.59** | P0.36 |
| Diluted (a/c) | **P2.58** | P0.36 |

## 7. 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:

| | Date of Declaration | Date of Record | Date of Payment | Dividend per Share |
|---|---|---|---|---|
| **Common** | March 17, 2016 | April 8, 2016 | May 4, 2016 | **P0.35** |
| **Preferred** | | | | |
| SMC2B | January 15, 2016 | March 21, 2016 | April 5, 2016 | **1.4296875** |
| SMC2C | January 15, 2016 | March 21, 2016 | April 5, 2016 | **1.50** |
| SMC2D | January 15, 2016 | March 21, 2016 | April 5, 2016 | **1.11433125** |
| SMC2E | January 15, 2016 | March 21, 2016 | April 5, 2016 | **1.18603125** |
| SMC2F | January 15, 2016 | March 21, 2016 | April 5, 2016 | **1.27635** |
| SMCP1 | January 15, 2016 | March 21, 2016 | April 5, 2016 | **1.0565625** |

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 April 22, 2015, the Board of Directors (BOD) of the Parent Company declared cash dividends at P0.35 per share, payable on May 20, 2015 to all common shareholders as of May 8, 2015.

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

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

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

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the

independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the annual report of the Group.

The 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.

The accounting policies in relation to derivatives are set out in Note 9 to the selected notes to the consolidated financial statements.

Interest Rate Risk

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

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

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

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

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

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 P1,835 and P1,933 for the period ended March 31, 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:

| **March 31, 2016** | **<1 Year** | **1-2 Years** | **>2-3 Years** | **>3-4 Years** | **>4-5 Years** | **>5 Years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Fixed Rate** | | | | | | | |
| Philippine peso-denominated | **P7,309** | **P30,744** | **P10,921** | **P24,709** | **P14,960** | **P66,772** | **P155,415** |
| Interest rate | **5.65% - 8.74899%** | **5.5% - 8.74899%** | **5.5% - 8.74899%** | **5.50% - 10.50%** | **4.9925% - 8.74899%** | **5.50% - 8.74899%** | |
| Foreign currency-denominated (expressed in Philippine peso) | **66** | **-** | **-** | **-** | **-** | **23,789** | **23,855** |
| Interest rate | **12.45% - 13.27%** | **-** | **-** | **-** | **-** | **4.875%** | |
| **Floating Rate** | | | | | | | |
| Philippine peso-denominated | **1,124** | **1,255** | **1,278** | **895** | **545** | **1,779** | **6,876** |
| Interest rate | **PDST-R + margin or BSP overnight rate, whichever is higher** | **PDST-R + margin or BSP overnight rate, whichever is higher** | **PDST-R + margin or BSP overnight rate, whichever is higher** | **PDST-R + margin or BSP overnight rate, whichever is higher** | **PDST-R + margin or 5,75%, whichever is higher** | **PDST-R + margin or 5.75%, whichever is higher** | |
| Foreign currency-denominated (expressed in Philippine peso) | **975** | **13,897** | **123,965** | **11,657** | **18,924** | **7,182** | **176,600** |
| Interest rate | **LIBOR + margin, COF + margin** | **LIBOR + margin, COF + margin** | **LIBOR + margin, COF + margin** | **LIBOR + margin, COF + margin** | **LIBOR + margin,** | | |
| | **P9,474** | **P45,896** | **P136,164** | **P37,261** | **P34,429** | **P99,522** | **P362,746** |

| December 31, 2015 | <1 Year | 1-2 Years | >2-3 Years | >3-4 Years | >4-5 Years | >5 Years | Total |
|---|---|---|---|---|---|---|---|
| Fixed Rate | | | | | | | |
| Philippine peso-denominated | P6,060 | P29,399 | P9,643 | P23,426 | P13,730 | P58,854 | P141,112 |
| 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 (expressed in Philippine peso) | 14,021 | - | - | - | - | 24,301 | 38,322 |
| Interest rate | 7% - 13.27% | - | - | - | - | 4.875% | |
| Floating Rate | | | | | | | |
| Philippine peso-denominated | 1,096 | 1,215 | 1,303 | 1,059 | 545 | 1,915 | 7,133 |
| Interest rate | PDST-R + margin or BSP overnight rate, whichever is higher | PDST-R + margin or BSP overnight rate, whichever is higher | PDST-R + margin or BSP overnight rate, whichever is higher | PDST-R + margin or BSP overnight rate, whichever is higher | PDST-R + margin or 5,75%, whichever is higher | PDST-R + margin or 5.75%, whichever is higher | |
| Foreign currency-denominated (expressed in Philippine peso) | 16,672 | 11,181 | 126,410 | 11,046 | 20,901 | - | 186,210 |
| Interest rate | LIBOR + margin, COF + margin | LIBOR + margin, COF + margin | LIBOR + margin, COF + margin | LIBOR + margin, COF + margin | LIBOR + margin, | | |
| | P37,849 | P41,795 | P137,356 | P35,531 | P35,176 | P85,070 | P372,777 |

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:

| | **March 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$1,820** | **P83,859** | US$1,766 | P83,084 |
| Trade and other receivables | **757** | **34,924** | 866 | 40,098 |
| Prepaid expenses and other current assets | **1** | **46** | 56 | 2,578 |
| Noncurrent receivables | **38** | **1,768** | 43 | 2,007 |
| | **2,616** | **120,597** | 2,731 | 127,767 |
| **Liabilities** | | | | |
| Loans payable | **594** | **27,368** | 356 | 16,774 |
| Accounts payable and accrued expenses | **954** | **44,092** | 851 | 40,064 |
| Long-term debt (including current maturities) | **4,350** | **200,455** | 4,770 | 224,532 |
| Finance lease liabilities (including current portion) | **2,014** | **92,803** | 2,058 | 96,843 |
| Other noncurrent liabilities | **17** | **783** | 1 | 33 |
| | **7,929** | **365,501** | 8,036 | 378,246 |
| Net foreign currency-denominated monetary liabilities | **(US$5,313)** | **(P244,904)** | (US$5,305) | (P250,479) |

The Group reported net gains (losses) on foreign exchange - net amounting to P5,701 and (P578) for the period ended March 31, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

| | Philippine Peso to US Dollar |
|---|---|
| **March 31, 2016** | **46.07** |
| December 31, 2015 | 47.06 |
| March 31, 2015 | 44.70 |
| 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):

| | P1 Decrease in the US Dollar Exchange Rate | | P1 Increase in the US Dollar Exchange Rate | |
|---|---|---|---|---|
| **March 31, 2016** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P1,470)** | **(P1,376)** | **P1,470** | **P1,376** |
| Trade and other receivables | **(327)** | **(661)** | **327** | **661** |
| Prepaid expenses and other current assets | **(1)** | **(1)** | **1** | **1** |
| Noncurrent receivables | **(32)** | **(28)** | **32** | **28** |
| | **(1,830)** | **(2,066)** | **1,830** | **2,066** |
| Loans payable | **500** | **444** | **(500)** | **(444)** |
| Accounts payable and accrued expenses | **584** | **780** | **(584)** | **(780)** |
| Long-term debt (including current maturities) | **4,273** | **3,068** | **(4,273)** | **(3,068)** |
| Finance lease liabilities (including current portion) | **2,014** | **1,410** | **(2,014)** | **(1,410)** |
| Other noncurrent liabilities | **1** | **17** | **(1)** | **(17)** |
| | **7,372** | **5,719** | **(7,372)** | **(5,719)** |
| | **P5,542** | **P3,653** | **(P5,542)** | **(P3,653)** |

| December 31, 2015 | P1 Decrease in the US Dollar Exchange Rate | | P1 Increase in the US Dollar Exchange Rate | |
|---|---|---|---|---|
| | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| Cash and cash equivalents | (P1,457) | (P1,329) | P1,457 | P1,329 |
| Trade and other receivables | (689) | (662) | 689 | 662 |
| Prepaid expenses and other 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 accrued expenses | 529 | 692 | (529) | (692) |
| Long-term debt (including current maturities) | 4,360 | 3,462 | (4,360) | (3,462) |
| Finance lease liabilities (including current portion) | 2,058 | 1,441 | (2,058) | (1,441) |
| Other noncurrent 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.

| March 31, 2016 | 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 | **P201,094** | **P201,094** | **P201,094** | **P -** | **P -** | **P -** |
| Trade and other receivables - net | **97,858** | **97,858** | **97,858** | **-** | **-** | **-** |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **347** | **347** | **347** | **-** | **-** | **-** |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | **149** | **149** | **149** | **-** | **-** | **-** |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | **41,847** | **41,888** | **45** | **41,453** | **214** | **176** |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account) | **8,698** | **8,788** | **-** | **2,382** | **1,419** | **4,987** |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | **5,050** | **5,050** | **3,463** | **1,587** | **-** | **-** |
| **Financial Liabilities** | | | | | | |
| Loans payable | **142,119** | **142,737** | **142,737** | **-** | **-** | **-** |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO) | **102,673** | **102,673** | **102,673** | **-** | **-** | **-** |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | **3,541** | **3,541** | **3,541** | **-** | **-** | **-** |
| Long-term debt (including current maturities) | **358,066** | **434,194** | **26,410** | **61,737** | **234,266** | **111,781** |
| Finance lease liabilities (including current portion) | **173,891** | **223,650** | **23,603** | **23,868** | **78,007** | **98,172** |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO) | **18,406** | **18,414** | **-** | **17,809** | **7** | **598** |

| 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.

| | **March 31, 2016** | December 31, 2015 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | **P199,841** | P178,581 |
| Trade and other receivables - net | **97,858** | 100,727 |
| Derivative assets | **347** | 391 |
| Financial assets at FVPL | **149** | 147 |
| AFS financial assets | **41,847** | 41,616 |
| Noncurrent receivables and deposits - net | **8,698** | 9,389 |
| Restricted cash | **5,050** | 5,661 |
| | **P353,790** | P336,512 |

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

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous

counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

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

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing 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.

## 9. Financial Assets and Financial Liabilities

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

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

| | **March 31, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **P201,094** | **P201,094** | P180,758 | P180,758 |
| Trade and other receivables - net | **97,858** | **97,858** | 100,727 | 100,727 |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **347** | **347** | 391 | 391 |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | **149** | **149** | 147 | 147 |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | **41,847** | **41,847** | 41,616 | 41,616 |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account) | **8,698** | **8,437** | 9,389 | 9,078 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | **5,050** | **5,050** | 5,661 | 5,661 |
| **Financial Liabilities** | | | | |
| Loans payable | **142,119** | **142,119** | 146,859 | 146,859 |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO) | **102,673** | **102,673** | 99,794 | 99,794 |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | **3,541** | **3,541** | 2,581 | 2,581 |
| Long-term debt (including current maturities) | **358,066** | **385,301** | 368,377 | 392,690 |
| Finance lease liabilities (including current portion) | **173,891** | **173,891** | 179,280 | 179,280 |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO) | **18,406** | **18,406** | 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 1.7% to 4.7% and 2.4% to 4.6% as of March 31, 2016 and December 31, 2015, respectively. The discount rates used for foreign currency-denominated loans range from 0.4% to 7.6% and 0.4% to 9.1% as of March 31, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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 P1,052 and P632 as of March 31, 2016 and December 31, 2015, respectively.

*Currency Forwards*

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,139 and US$1,013 as of March 31, 2016 and December 31, 2015, respectively, and with various maturities in 2016. The net negative fair value of these currency forwards amounted to P727 and P202 as of March 31, 2016 and December 31, 2015, respectively.

*Currency Options*

As of March 31, 2016 and December 31, 2015, the Group has outstanding currency options with an aggregate notional amount of US$565, and with various maturities in 2016. The net negative fair value of these currency options amounted to P1,443 and P1,232 as of March 31, 2016 and December 31, 2015, respectively.

*Commodity Swaps*

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 465 and 1,150 metric tons as of March 31, 2016 and December 31, 2015, respectively. The net negative fair value of these swaps amounted to P1 and P2 as of March 31, 2016 and December 31, 2015, respectively.

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 9.2 and 10.9 million barrels as of March 31, 2016 and December 31, 2015, respectively. The negative fair value of these swaps amounted to P46 and P39 as of March 31, 2016 and December 31, 2015, respectively.

*Commodity Options*

As of March 31, 2016 and December 31, 2015, the Group has no outstanding commodity options on the purchase of wheat.

As of March 31, 2016 and December 31, 2015, the Group has no outstanding commodity options on the purchase of soybean meals.

As of March 31, 2016 and December 31, 2015, the Group has no outstanding 3-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$166 and US$173 as of March 31, 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 positive (negative) fair value of these embedded currency forwards amounted to P75 and (P83) as of March 31, 2016 and December 31, 2015, respectively.

*Embedded Currency Options*
As of March 31, 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 (P1,627), (P248) and P3,971 for the periods ended March 31, 2016 and 2015 and December 31, 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:

| | **March 31, 2016** | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** | Level 1 | Level 2 | Total |
| **Financial Assets** | | | | | | |
| Derivative assets | **P -** | **P347** | **P347** | P - | P391 | P391 |
| Financial assets at FVPL | **-** | **149** | **149** | - | 147 | 147 |
| AFS financial assets | **688** | **41,159** | **41,847** | 407 | 41,209 | 41,616 |
| **Financial Liabilities** | | | | | | |
| Derivative liabilities | **-** | **3,541** | **3,541** | - | 2,581 | 2,581 |

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

10. **Other Matters**

a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

b. There were no material changes in estimates of amounts reported in prior financial years.

c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 25 (c) and Note 45 (a) of the 2015 Audited Consolidated Financial Statements, that remain outstanding as of March 31, 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 cyclicality on the interim operations of the Group's businesses are not material.

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 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 March 31, 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.

ANNEX "B"

SAN MIGUEL CORPORATION

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

## INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended March 31, 2016 (with comparative figures as of December 31, 2015 and for the period ended March 31, 2015). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 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

### 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 (BOD) of Philippine Stock Exchange, Inc. (PSE) 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 (SEC) 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 will be 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%, 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 shall have 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**

- *Refinancing of Long-term Debt*

- SMC Global Power Holdings Corp. (SMC Global)

On January 26, 2016, SMC Global redeemed its US$300 million (P14,115 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.

SMC Global availed of a US$300 million (P14,364 million) bridge financing, six-month term loan, with a local bank on January 14, 2016 for the redemption of the US$300 million bond.

On April 18, 2016, SMC Global filed with the SEC the relevant documents relating to its fixed-rate bond offering in the aggregate amount of P15,000 million. Proceeds of the offering will be used to refinance the US$300 million short-term loan used to fully redeem the US$300 million bonds.

The fixed-rate bonds are expected to be issued and listed with the Philippine Dealing & Exchange Corp. in June 2016.

- 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 9 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 (P16,000 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)

On March 8, 2016, SCPC made an initial drawdown of US$250 million (P11,739 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 is earmarked for the financing of the construction of the 2x150MW Limay Power Plant (Phase I), in Bataan. As of March 31, 2016, the total proceeds of the loan is still in the cash in bank balance of SCPC.

- 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**

The consolidated sales revenue of San Miguel Corporation amounted to P159,625 million for the first quarter of 2016. This is slightly higher than 2015. Most businesses increased their revenue but were offset by the lower Petron Corporation (Petron) revenues.

The Group's consolidated operating income reached P22,822 Million, 38% increase from last year. This is a result of Petron's higher refinery margins, the Infrastructure business' higher full quarter contribution of Metro Manila Skyway (Skyway) and South Luzon Expressway (SLEX), core Beverage, Food and Packaging business' double digit income growth as well as the Energy business' improved income performance.

The consolidation of the three months balances in 2016 of the AAIBV Group compared to the consolidation of the balances in 2015 starting March mainly accounts for the increase in interest expense and other financing charges. Petron and the Parent Company also incurred higher losses on derivatives mainly from the currency hedging.

Lower interest income due to lower average balance of money market placements of SMC, Petron and SMC Global, net of the higher interest income of the AAIBV Group due to three-month period balance contribution compared to one month last year, mainly accounts for the decrease in interest income.

The decrease in the equity in net earnings in 2016 primarily represents the share of San Miguel Properties, Inc. (SMPI) in the net loss of Bank of Commerce (BOC) compared to the share in the net income in 2015, partly offset by the increase in the share of SMC Global in the net income of Angat Hydropower Corporation (Angat Hydro) as compared to 2015.

Other income in 2016 consists mainly of the gain on foreign exchange, tempered by the Group's losses on derivatives mainly from the currency hedging of Petron and the Parent Company. The appreciation of the Philippine Peso (PhP) against the United States Dollar (US$) by P0.99 on March 31, 2016 as compared to P0.02 on March 31, 2015, resulted to higher gain on foreign exchange.

The higher income tax expense resulted from the: a) recognition of deferred income tax on the unrealized foreign exchange gains of SMC Global and SMC; b) increase in taxable net income of Petron, SMC Shipping and Lighterage Corporation, SMC PowerGen Inc. and South Premiere Power Corporation; and c) recognition of income tax on the dividend income received from foreign subsidiaries of Petron. The increase in income tax expense of Petron was tempered by the recognition of income tax holiday from the Refinery Master Plan Phase 2.

Consolidated net income stood at P13,539 million, more than double the previous year's level of P6,107 million.

The higher share of non-controlling interests (NCI) on the Group's net income in 2016 is mainly due to the increase in share of the holders of undated subordinated capital securities on the net income of SMC Global on account of additional issuance of capital securities in August 2015, the increase in share of NCI due to higher net income of Petron and San Miguel Brewery Inc. (SMB) in 2016 and, the higher share of NCI in the net income of Citra Metro Manila Tollways Corporation and South Luzon Tollways Corporation, which were consolidated to the Group starting March 5, 2015.

**2015 vs. 2014**

The consolidated sales revenue of San Miguel Corporation for the first quarter of 2015 amounted to P157,751 million, 15% lower than 2014. This is mainly a result of the significant decline in Petron's sale revenue with the decline in oil prices. Beverage, Food and Packaging businesses, delivered 6% growth in revenues. The Infrastructure business also contributed higher revenues with the consolidation of SLEX and Skyway starting March 2015.

Despite decrease in revenue, March 2015 consolidated operating income amounted to P16,555 million, 6% higher than 2014. Beverage, Food, Packaging, Energy and Infrastructure businesses showed improved operating performance. This was however, tempered by weak margins for Petron.

The increase in interest income was mainly due to higher cash in bank balance and the consolidation of the interest income balance of AAIBV Group.

The 2015 balance of equity in net earnings (losses) of associates and joint ventures mainly represents the share in the net income of Angat Hydro, acquired in November 2014, and the share of SMPI in the net income of BOC, while the 2014 balance primarily consists of the share in the net loss of Philippine Airlines, Inc. and Air Philippines Corporation, which were disposed in October 2014, net of the share in the net income of AAIBV, which was consolidated starting March 5, 2015.

The loss on sale of property and equipment in 2015 was mainly on account of the retirement of service stations of Petron Malaysia due to the rebranding project, while the balance in 2014 pertains mainly to the gain on sale of certain property of the Parent Company.

The balance of other charges primarily consists of the gain (loss) on foreign exchange and derivatives. Foreign exchange loss in 2015 is substantially lower than in 2014, due to the appreciation of the PhP against the US$ in March 2015 by P.02 versus the depreciation of the PhP by P0.42 in March 2014. The loss on derivatives in 2015 primarily consists of the marked-to-market loss on the Parent Company's currency derivatives, while the balance in 2014 mainly consist of the net marked-to-market gain on the commodity and currency derivatives of Petron.

The higher income tax expense of the Group was mainly on account of the expiration of the income tax holiday of San Miguel Energy Corporation, Strategic Power Devt. Corp. and South Premiere Power Corp. in July 2014.

Including net financing charges and taxes, consolidated net income amounted to P6,107 million, at par with 2014. The corresponding net income attributable to equity holders of the Parent Company is P2,390 million, 11% higher than 2014.

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

**1. BEVERAGE**

**2016 vs. 2015**

**a. San Miguel Brewery Inc.**

For the first quarter of 2016, SMB posted 23% growth in sales revenue to P23,267 million. This was supported by 25% increase in domestic beer sales volumes reaching about 51 million cases.

Volume improvement was due to: new brand campaigns backed by consumer and trade activations, encouraging external environment, election related spending, and trade stock build-up in March in anticipation of the price increase last April 1.

Total beer volumes reached 57.4 million cases, up by 21% from last year. In the international beer operations, the recovery of Indonesia and Export volumes were offset by declines in China, particularly in the North.

The corresponding Beer consolidated operating income for the first quarter amounted to P6,050 million, 17% better than last year. International beer was able to turnaround from the last year's negative results with strong performance of Indonesia and Exports.

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

GSMI started the year strong as its first quarter operating income doubled to P188 million from last year's P94 million. This is on account of better volumes and managed fixed costs.

Hard liquor volumes and revenues both increased by 7% and reached 5.3 million cases or P3,934 million in revenues.

**2015 vs. 2014**

**a. San Miguel Brewery Inc.**

SMB posted an 8% growth in sales revenues to P18,883 million, with its domestic business expansion despite the imposition of higher excise taxes. Sales volume in the local market expanded by 7% to 40.9 million cases contributing sales revenue of P16,197 million, 17% higher than 2014.

Revenue from the international operations is behind 2014 with the decline in volumes, particularly Indonesia and Hong Kong. Indonesian beer industry contracted following the new government regulation banning beer sales in minimarkets, convenience stores, and traditional – off-premise channels. Hong Kong, on the other hand, was affected by the pull out of Anheuser-Busch InBev in the last quarter of 2014.

Total beer volumes reached 47.4 million cases, up by 2% from 2014. Coupled with operating efficiency and cost management programs, operating income for the first quarter of 2015 amounted to P5,166 million, 10% better than 2014.

**b. Ginebra San Miguel Inc.**

Carrying its 2014 momentum, GSMI opened 2015 with a solid first quarter, posting an operating income of P94 million, significantly higher than 2014. This resulted from lower costs of bottle and alcohol as well as improved distillery operations.

This was achieved in March 2015 revenues of P3,667 million, up by 2% from 2014. Hard Liquor's sell in volumes of 5 million cases during the quarter was 3% behind 2014's volumes. Decline in volume was offset by the implemented price adjustments last January 2015 to recover higher excise taxes.

**2. FOOD**

**2016 vs. 2015**

San Miguel Pure Foods grew its revenue by 4% reaching about P25,980 million for the first quarter of 2016. This is due to the good performance of its major businesses - Agro-Industrial and Branded Value-added businesses.

The Agro-Industrial cluster posted 6% revenue growth with higher volumes and stabilized prices of chicken, as well as improved distribution and consistent quality of feeds. This was however, tempered by lower basic meat volumes and lower pork prices due to influx of lower-priced imported meat.

Branded Value-added Cluster grew revenues by 5%, consistent with the Food group strategy to grow this segment through effective marketing campaigns, better prices and product portfolio across all product line.

Driven by Poultry, Feeds, and Value-added Meat performance, San Miguel Pure Foods Company, Inc.'s (SMPFC) consolidated operating income reached P1,776 million, 21% ahead of last year results. Improved efficiencies and lower raw material costs particularly in the Poultry and Dairy businesses also contributed to the much improved results.

**2015 vs. 2014**

San Miguel Pure Foods' consolidated revenue for the first quarter of 2015 is up by 4% versus 2014 level to P25,091 million. Agro-industrial and Flour Milling businesses' revenues rose 4% on the back of higher feeds and flour sales volume coupled with better selling prices. Core brands such as Purefoods, Magnolia, Star and Dari Crème remained strong and contributed to the 11% growth in revenue of the Branded Value-added businesses.

March 2015 consolidated operating income amounted to P1,468 million, 10% above 2014. This is brought about by the strong income performance of Feeds and Flour businesses.

**3. PACKAGING**

**2016 vs. 2015**

The San Miguel Yamamura Packaging Group (SMYPG) reached sales revenues of P6,503 million for the first quarter of 2016, 12% above 2015. Contributory to the increase are the Glass business, Australia operations and Metal business. The Glass business' revenues surged 17% in the first quarter with record deliveries to beverage companies and increased requirements for generic bottles. Increased beverage requirements also pulled-up Metal Closure and Can's revenues.

The corresponding operating income increased by 25% to P597 million.

**2015 vs. 2014**

SMYPG's consolidated revenues for the first quarter of 2015 amounted to P5,811 million, 4% higher than 2014. Significant contributor to revenue is the Glass business having higher volumes from beverage clients coupled with export volumes. Also, the Paper business achieved record high revenue due to the surge in demands from all-in banana customers and tolling clients. Coupled with improved costs, Packaging group's first quarter operating income reached P479 million, 9% above 2014.

**4. ENERGY**

**2016 vs. 2015**

SMC Global's off take volume for the first quarter of 2016 was 4,457 GWh, 16% higher than 2015. All the power plants delivered higher bilateral volumes with Ilijan plant leading the growth. The Ilijan plant experienced maintenance outage, limiting its generation capacity last year. This resulted to consolidated net revenues of P19,931 million, 1% higher than last year. Both bilateral and Wholesale Electricity Spot Market (WESM) volumes have lower average realization prices.

The Energy business' corresponding operating income reached P7,310 million, 7% higher than last year. The increase was mainly due to the improved volume and margin.

**2015 vs. 2014**

SMC Global's off take volume for the first quarter of 2015 was 3.8 million megawatt hours, 7% lower than 2014. The decline was a result of limited generation capacity for Ilijan plant due to Malampaya major inspection and maintenance outage of Ilijan's Block 2 units during the second-half of March 2015. This was partly offset by 6% increase in Sual's off take volume with higher bilateral and WESM volumes.

The resulting SMC Global's consolidated revenues was P19,757 million, 1% lower than 2014. Sual also benefitted from higher average realization prices resulting from rate adjustments due to changes in dollar exchange and other pass-through costs.

With this, the Energy business' March 2015 consolidated operating income amounted to P6,834 million, 3% higher than 2014. The co-generation solid fuel fired power plant serving Petron in Limay contributed 9% to the total operating income.

**5. FUEL AND OIL**

**2016 vs. 2015**

Petron Corporation closed the first quarter of 2016 with a net income of P2,758 million, almost 11 times the previous year's P257 million. The strong performance is driven by better volumes and higher margins.

Consolidated volumes for the first quarter rose by 9% ending at 25.3 million barrels with both Philippines and Malaysia registering volume growth. Philippines grew by 8% and reached 15.7 million barrels as contributed by strong sales from Reseller, Industrial, and LPG segments and advancement in the Lubricant's sector. Malaysia also posted higher

volumes amounting to 9.6 million barrels, 12% ahead of last year as a result of increased industrial sales and service station volumes.

Operating income margin, on the other hand, increased to 7% compared to last year's 3%, resulting to operating income of P5,764 million, almost double that of last year. This was attributed to higher refining margins despite weak oil prices in the first few months of 2016. Petron's refinery upgrade also supported margin with higher crude run, increased production of higher-value fuels and petrochemicals, and the use of cost-efficient heavier crudes.

Consolidated revenues, however, still reflects lower oil prices registering decline of 11% to end at P76,857 million.

**2015 vs. 2014**

Petron Corporation's consolidated volumes for the first quarter of 2015 increased by 10%, and reached 22.9 million barrels, with Philippine operations leading the growth. Philippine volumes amounted to 14.3 million barrels, an improvement of 20% from 2014, on account of 9% increase in high-margin retail sector sales driven by continuous expansion of the service stations, and Liquefied Petroleum Gas business, which grew by 9% and 27%, respectively.

Despite of volume increase, Petron's March 2015 consolidated revenues fell by 31% and ended at P86,744 million due to the decline in selling prices as regional prices fell. During this period, reference Dubai crude average was only US$52 per barrel, half the average price of US$104 per barrel from the same quarter in 2014.

With this, operating income also dipped by 13%.

## 6. INFRASTRUCTURE

**2016 vs. 2015**

Currently, the Infrastructure business mainly composed of Skyway and SLEX contributed P4,692 million in revenues and P2,429 million in operating income, both growing 16% on a quarter on quarter comparison. The increase in revenues is driven by higher traffic from Skyway, SLEX, Southern Tagalog Arterial Road (STAR), and full year operations of Sections 1 and 2 for Tarlac-Pangasinan-La Union Toll Expressway (TPLEX).

**2015 vs. 2014**

The first quarter revenue and operating income of the Infrastructure business amounted to P1,464 million and P659 million, respectively. The first quarter results of the Infrastructure business mainly represents the tollway operations of the Skyway and SLEX for the period from March 5 to 31, 2015, and the first quarter financial performance of TPLEX and STAR. The consolidation of the Skyway and SLEX with SMC group starting March 5, 2015 contributed P1,147 million in toll revenues and P627 million in operating income.

March 2014 revenue and operating loss of the Infrastructure business amounted to P177 million and P76 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 March 31, 2016 amounted to P1,274,369 million, P28,347 million higher than 2015. The increase is primarily due to the higher balance of cash and cash equivalents, from the net proceeds of the issuance of Series "2" preferred shares of the Parent Company and increase in property, plant and equipment in relation to the costs of the on-going construction of power plants in Davao and Limay, Bataan.

Cash and cash equivalents increased by P20,336 million mainly due to the net proceeds from the issuance of Series "2" preferred shares of the Parent Company and availment of short-term loans by SMC Global, net of the net payment of finance lease liabilities and long-term debt of SMC Global and loans payable of Petron.

Inventories increased by P3,977 million mainly due to: a) higher volume of crude and finished products of Petron Philippines; b) increase in raw materials inventory of SMPFC particularly soybean meal and wheat in March to take advantage of the low raw material cost, and to support production requirements; and c) increase in molasses prices and purposive build-up of raw alcohol by GSMI.

Investments and advances increased by P1,892 million in 2016 mainly due to additional advances for investment by SMPI in a property company.

The increase in income and other taxes payable of P3,954 million in 2016 represents the income and other accrued taxes due for the first quarter of 2016.

Dividends payable increased by P2,589 million mainly due to the dividend declared by the Parent Company to its preferred stockholders on January 15, 2016, which was subsequently paid on April 5, 2016, and the cash dividend declared by SMB to its common stockholders on March 11, 2016 paid on April 20, 2016.

The decrease in long-term debt - net of P10,311 million was mainly due to the net payments made by SMC Global, Petron and the Infra Group and adjustments due to foreign exchange rate changes.

The decrease in finance lease liabilities was mainly due to payments of P5,935 million and the effect of foreign exchange rate changes, net of interest.

Equity reserve decreased by P413 million primarily due to the increase in ownership interest of Petron in PAHL.

Cumulative translation adjustments increased by P1,282 million mainly due to the translation adjustments on the net assets of foreign subsidiaries, particularly of Petron and AAIBV Group.

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 March 31, 2015 amounted to P1,242,993 million, P25,504 million higher than 2014. The increase is primarily due to the consolidation of the balance of AAIBV Group's toll road concession rights to operate and maintain SLEX and Skyway and the recognition of goodwill upon the consolidation of AAIBV Group on March 5, 2015, net of the decrease in cash and cash equivalents, trade and other receivables and inventories.

Cash and cash equivalents decreased by P23,199 million mainly due to the redemption of the preferred shares of Petron and payment of short-term loans by Petron and SMPFC, net of the consolidation of the cash and cash equivalents balance of the AAIBV Group.

Trade and other receivables decreased by P10,859 million mainly due to the collection of non-trade receivables of SMHC, collection of advances to a crude supplier of Petron and the decrease in trade receivables of SMPFC attributable to the peak season sales in December 2014 which were collected during the first quarter of 2015.

Inventories decreased by P8,561 million mainly due to lower crude and finished product inventories of Petron, net of the increase in the raw materials, and finished goods and in process inventories of SMPFC.

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

Investments and advances decreased by P7,921 million mainly due to the reclassification to investments in subsidiaries of the carrying value of the investment in AAIBV, Manila Toll Expressway Systems, Inc. and Skyway O&M Corporation, which were consolidated starting March 5, 2015.

Investment properties increased by P200 million mainly due to the consolidation of the balance of a new subsidiary of SMC Global, net of the reclassification to property, plant and equipment of the cost of the model unit and land of Makati Diamond Residences.

Noncurrent portion of biological assets increased by P191 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by P17,453 million mainly due to the recognition of goodwill upon consolidation of the AAIBV Group.

Other intangible assets increased by P57,103 million mainly due to the consolidation of AAIBV Group's toll road concession rights to operate and maintain the SLEX, Skyway Stages 1 to 3; recognition of additional toll road concession rights for the various infrastructure projects such as the TPLEX, NAIA Expressway, Boracay Airport and STAR and the acquisition of La Pacita trademarks by SMPFC.

Other noncurrent assets decreased by P5,710 million mainly due to the elimination of the noncurrent receivable of the Parent Company from AAIBV upon its consolidation in March 2015.

Loans payable decreased by P27,975 million in 2015 mainly due to the payments made by Petron and SMPFC.

Dividends payable decreased by P816 million mainly due to the payment in 2015 of the dividends payable by the Parent Company to its preferred and common stockholders which were outstanding in 2014, net of the dividends declared to non-controlling stockholders by SMB and The Purefoods-Hormel Company, Inc. in March 2015.

The increase in long-term debt of P55,852 million was mainly due to the consolidation of AAIBV Group's balance, and the loan availments made by SMC Global to finance the ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes; and Vertex to fund the NAIA Expressway Project.

Deferred tax liabilities increased by P5,367 million due to the consolidation of AAIBV Group's balance.

Other noncurrent liabilities increased by P1,042 million mainly due to the consolidation of the noncurrent liabilities of AAIBV Group, particularly the noncurrent portion of the infrastructure restoration obligation, and the additional cash bond received from customers of Petron.

Equity reserve increased by P328 million primarily due to the acquisition by San Miguel Pure Foods International, Limited from Hormel Netherlands B.V. of the latter's 49% non-controlling interest San Miguel Pure Foods Investment (BVI) Limited.

Cumulative translation adjustments decreased by P1,036 million mainly due to the translation adjustments on the net assets of foreign subsidiaries, particularly of Petron.

Equity

The increase (decrease) in equity is due to:

| *(In millions)* | **March 31** | |
|---|---|---|
| | **2016** | 2015 |
| Reissuance of treasury shares | **P29,962** | P - |
| Income during the period | **13,539** | 6,107 |
| Addition (reduction) to non-controlling interests and others | **22** | (30) |
| Issuance of capital stock | **6** | 26 |
| Other comprehensive income (loss) | **2,301** | (1,798) |
| Cash dividends and distributions | **(7,487)** | (4,568) |
| | **P38,343** | (P263) |

## IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| *(In millions)* | **March 31** | |
|---|---|---|
| | **2016** | 2015 |
| Net cash flows provided by operating activities | **P25,386** | P9,529 |
| Net cash flows provided by (used in) investing activities | **(12,293)** | 5,916 |
| Net cash flows provided by (used in) financing activities | **7,838** | (39,324) |

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.

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

| *(In millions)* | **March 31** | |
|---|---|---|
| | **2016** | 2015 |
| Additions to property, plant and equipment | **(P9,157)** | (P13,344) |
| Additions to investments and advances | **(1,712)** | (910) |
| Interest received | **939** | 1,205 |
| Proceeds from sale of investments and property and equipment | **10** | 517 |
| Cash and cash equivalents acquired from business combination net of cash paid | **-** | 14,828 |
| Acquisition of subsidiaries | **-** | (1,081) |
| Decrease (increase) in other noncurrent assets and others | **(2,373)** | 4,694 |

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

| *(In millions)* | **March 31** | |
|---|---|---|
| | **2016** | 2015 |
| Proceeds from issuance of Series "2" preferred shares | **P29,962** | P - |
| Proceeds from (payments of) long-term debt - net | **(6,947)** | 8,128 |
| Payment of finance lease liabilities | **(5,935)** | (5,483) |
| Payment of cash dividends and distributions | **(4,897)** | (5,384) |
| Proceeds from (payment of) short-term loans - net | **(4,351)** | (27,053) |
| Net proceeds from issuance of preferred shares of a subsidiary | **-** | 14,885 |
| Redemption of preferred shares of subsidiaries | **-** | (25,000) |

The effect of exchange rate changes on cash and cash equivalents amounted to (P595 million) and P680 million on March 31, 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 same period of previous year. Please refer to Item II "Financial Performance" for the discussion of certain Key Performance Indicators.

| | **March 2016** | December 2015 |
|---|---|---|
| Liquidity: | | |
| Current Ratio | **1.49** | 1.32 |
| Solvency: | | |
| Debt to Equity Ratio | **2.01** | 2.24 |
| Asset to Equity Ratio | **3.01** | 3.24 |

| | **March 2016** | December 2015 |
|---|---|---|
| Profitability: | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | **6.86%** | 5.20% |
| Interest Rate Coverage Ratio | **3.60** | 3.35 |

| | **Period Ended March 31** | |
|---|---|---|
| | **2016** | 2015 |
| Operating Efficiency: | | |
| Volume Growth | **12%** | 7% |
| Revenue Growth | **1%** | (15%) |
| Operating Margin | **14%** | 10% |

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

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

* *Annualized for quarterly reporting*