



SAN MIGUEL CORPORATION

Primary Offer in the Philippines of 446,667,000 Series “2” Preferred Shares
consisting of

Subseries “2-D”: 5.9431% per annum

Subseries “2-E”: 6.3255% per annum

Subseries “2-F”: 6.8072% per annum

at an Offer Price of ₱75.00 per Preferred Share

to be listed and traded on the Main Board of The Philippine Stock Exchange, Inc.

Joint Lead Underwriters and Bookrunners

BDO Capital & Investment Corporation

BPI Capital Corporation

China Banking Corporation

The Hongkong and Shanghai Banking Corporation Limited

ING Bank N.V., Manila Branch

PNB Capital and Investment Corporation

RCBC Capital Corporation

SB Capital Investment Corporation

Standard Chartered Bank

Co-Lead Manager

First Metro Investment Corporation

United Coconut Planters Bank

Co-Manager

Asia United Bank

Selling Agents

Bank of Commerce

The Trading Participants of The Philippine Stock Exchange, Inc.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

This Prospectus is dated August 19, 2015

SAN MIGUEL CORPORATION
40 San Miguel Avenue
Mandaluyong City
1550 Philippines
Telephone number (632) 632-3000
<http://www.sanmiguel.com.ph>

This Prospectus relates to the primary offer by way of sale in the Philippines (the "Offer") of 446,667,000 cumulative, non-voting, non-participating, non-convertible Peso-denominated Series "2" Preferred Shares with a par value of ₱5.00 each (the "Offer Shares") of San Miguel Corporation ("SMC", the "Company", the "Parent Company or the "Issuer"), a corporation duly organized and existing under Philippine law, subject to the registration requirements of the Securities and Exchange Commission of the Philippines (the "SEC"). The Offer Shares will be issued from the Series "2" Preferred Shares in the treasury and unissued shares.

The Offer Shares are being offered for subscription solely in the Philippines through the Joint Lead Underwriters and Bookrunners namely BDO Capital & Investment Corporation, BPI Capital Corporation, China Banking Corporation, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Manila Branch, PNB Capital and Investment Corporation, RCBC Capital Corporation, SB Capital Investment Corporation, and Standard Cartered Bank at a subscription price of ₱75.00 per share (the "Offer Price").

On March 26, 2015 the Board of Directors of the Company (the "Board of Directors") approved the amendment in the Articles of Incorporation of the Company to re-classify 810,000,000 Series "1" Preferred Shares of the Company, which are not currently outstanding, inclusive of treasury shares and unissued Series "1" Preferred Shares, with a par value of ₱5.00 per share to Series "2" Preferred Shares (the "Reclassification"). On June 9, 2015, the stockholders of the Company approved the amendment. The amendment of the Articles of Incorporation of the Company was approved by the SEC on July 14, 2015.

Upon the completion of the Offer, and after the redemption of the Subseries "2-A" Preferred Shares, the Company will have the following outstanding Preferred Shares (i) 279,406,667 Series "1" Preferred Shares and (ii) 792,654,600 Series "2" Preferred Shares issued and outstanding. The Reclassification and subsequent issuance of the Offer Shares will not have effect on the 2,378,511,011 issued and outstanding common shares.

Upon redemption, the Offer Shares shall not be considered retired and may be re-issued by the Company at a price to be determined by the Board of Directors. The holders of the Offer Shares do not have identical rights and privileges with holders of the existing common shares and Series "1" Preferred Shares of the Company but shall have the same rights and privileges as the existing holders of the Series "2-B" and "2-C" Preferred Shares.

Dividends may be declared at the discretion of the Board of Directors and will depend upon the future results of operations and general financial condition, capital requirements of SMC, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations (both at the parent and subsidiary levels) and other factors the Board of Directors may deem relevant. While there is no assurance that SMC will declare dividends on the Offer Shares in the future, SMC has consistently paid quarterly cash dividends to both its common and preferred shareholders, details of which are found on page 162.

The date of declaration of cash dividends on the Offer Shares will be subject to the discretion of the Board of Directors to the extent permitted by law. The declaration and payment of dividends (except stock dividends) do not require any further approval from the shareholders.

As and if cash dividends are declared by the Board of Directors, and in accordance with the Enabling Resolutions passed by the Board of Directors on July 14, 2015, cash dividends on the Offer Shares shall be at the fixed rates as follows for Subseries "2-D": 5.9431% per annum; for Subseries "2-E": 6.3255% per annum; and for Subseries "2-F": 6.8072% per annum, in all cases calculated for each share by reference to the Offer Price thereof in respect of each Dividend Period (each, the "Dividend Rate" for the relevant subseries). Subject to limitations on the payment of cash dividends as described in the section on the "Terms of the Offer", dividends on the Offer Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a "Dividend Payment Date"), which date shall be any day within the period commencing on (and including) the last date of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period. A "Dividend Period" shall be the period commencing on the Issue Date, as defined in the section on "Terms of the Offer", and

having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of, the immediately succeeding Dividend Period; provided that the first Dividend Period of the Offer Shares shall be the period commencing on the Issue Date and ending on the last day of the then current dividend period for the Subseries “2-B” and “2-C” preferred shares. If a Dividend Payment Date occurs after the end of a Dividend Period, there shall be no adjustment as to the amount of dividends to be paid.

The dividends on the Offer Shares will be calculated on a 30/360-day basis.

If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.

For the purpose of the first dividend payment of the Offer Shares, the same will be paid on such date as to synchronize with the payment of dividends for the outstanding Series “2” Preferred Shares, Subseries “2-B” and “2-C”.

Unless the Offer Shares are redeemed by SMC on the applicable Optional Redemption Dates (as defined below), the Dividend Rate shall be adjusted thereafter to the higher of: (a) the Dividend Rate of the relevant Subseries, or (b) (i) for Subseries “2-D”, if not redeemed on the fifth (5th) anniversary from the Issue Date of the subseries, the simple average of the closing rates of the 10-year PDST-R2 rate for three (3) consecutive days ending on and including the fifth (5th) anniversary from the Issue Date as shown on the PDEX page (or such relevant alternative page) of Bloomberg (or such other electronic service provider) plus 3.0% per annum; (ii) for Subseries “2-E”, if not redeemed on the seventh (7th) anniversary from the Issue Date of the subseries, the simple average of the closing rates of the 15-year PDST-R2, which rate, if not existing on the date of redemption, shall be determined by interpolation on a straight line basis, based on the 10-year PDST-R2 rate and the 20-year PDST-R2 rate for three (3) consecutive days ending on and including the seventh (7th) anniversary from the Issue Date as shown on the PDEX page (or such relevant alternative page) of Bloomberg (or such other electronic service provider) plus 3.0% per annum; and (iii) for Subseries “2-F”, if not redeemed on the tenth (10th) anniversary from the Issue Date of the subseries, the simple average of the 20-year PDST R-2 rate for three (3) consecutive days ending on and including the tenth (10th) anniversary from the Issue Date as shown on the PDEX page (or such relevant alternative page) of Bloomberg (or such other electronic service provider) plus 3.0% per annum.

If the PDST-R2 rates are not available or cannot be determined, the relevant alternative benchmark rates that are recognized for capital market transactions by the market or a self-regulating organization as shown on the PDEX page (or such relevant alternative page) of Bloomberg (or such other electronic service provider) shall be applied and utilized.

The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where (a) payment of the cash dividend would cause SMC to breach any of its financial covenants or (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Series “2” Preferred Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Series “2” Preferred Shares and that have an equal right to dividends as the Series “2” Preferred Shares.

As and if approved by the Board of Directors, SMC may redeem the Offer Shares on the following dates, or on the last day of any Dividend Period thereafter (each an “Optional Redemption Date”), in whole or in part, at a redemption price equal to the relevant Offer Price of the Offer Shares plus any accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all arrears of dividends outstanding (the “Redemption Price”): (i) for Subseries “2-D”, the third (3rd) anniversary from Issue Date thereof; (ii) for Subseries 2-E, the fifth (5th) anniversary from Issue Date thereof; and (iii) for Subseries “2-F”, the seventh (7th) anniversary from Issue Date thereof.

If at any time, SMC redeems more than one Subseries, which, under the terms and conditions by which they were offered may be subject to early redemption. SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries; provided that in case of partial redemption of a Subseries, such redemption shall apply pro rata among the holders thereof.

SMC may also redeem the Offer Shares, in whole or in part, at any time prior to any Optional Redemption Date if an Accounting Event or Tax Event (as defined in the “Terms of the Offer”) has occurred and is continuing, in each case at the Redemption Price.

Upon listing of the Offer Shares on The Philippine Stock Exchange, Inc. ("PSE"), SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE without any obligation to purchase or redeem the other outstanding preferred shares of the Company.

The gross proceeds of the Offer are expected to reach approximately ₱33,500,025,000.00. The net proceeds from the Offer, estimated to be determined by deducting from the gross proceeds the underwriting and selling fees, registration and listing fees, taxes and other related fees and out-of-pocket expenses. This will be used by the Company to partially fund the redemption of the outstanding ₱54,075,930,000.00 Subseries "2-A" Preferred Shares of SMC which, as and if declared by the Board of Directors of SMC, are callable on September 21, 2015 or on any Dividend Payment Date thereafter (see "Use of Proceeds" on page 64). The difference between the balance of the redemption price for the Subseries "2-A" Preferred Shares and net proceeds of this Offer will be paid for using the available cash of SMC.

The Joint Lead Underwriters and Bookrunners shall receive an estimated underwriting fee of ₱252,150,726.00 from the gross proceeds of the Offer, inclusive of amounts to be paid to any other underwriters and Selling Agents.

No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Joint Lead Underwriters and Bookrunners or any of the underwriters.

The distribution of this Prospectus and the offer and sale of the Offer Shares may, in certain jurisdictions, be restricted by law. The Company and the Joint Lead Underwriters and Bookrunners require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person whom it is unlawful to make such offer in such jurisdiction.

Unless otherwise stated, the information contained in this Prospectus has been supplied by the Company. The Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect. The Joint Lead Underwriters and Bookrunners have exercised reasonable due diligence required by regulations in ascertaining that all material representations contained in the Prospectus, and any amendment or supplement thereto are true and correct and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading.

Unless otherwise indicated, all information in the Prospectus is as of the date hereof. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company and the Joint Lead Underwriters and Bookrunners makes any representation, undertaking or other assurance as to the accuracy or completeness of such information or that any projections will be achieved, or in relation to any other matter, information, opinion or statements in relation to the Offer. Any reliance placed on any projections or forecasts is a matter of commercial judgment. Certain agreements are referred to in this Prospectus in summary form. Any such summary does not purport to be a complete or accurate description of the agreement and prospective investors are expected to independently review such agreements in full.

This Prospectus is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer, the Joint Lead Underwriters and Bookrunners or their

respective affiliates or legal advisers that any recipient of this Prospectus should purchase the Offer Shares. Each person contemplating an investment in the Offer Shares should make his own investigation and analysis of the creditworthiness of SMC and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Offer Shares. A person contemplating an investment in the Offer Shares should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. Investing in the Offer Shares involves a higher degree of risk compared to debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Offer Shares, see the section on "Risks Factors" starting on page 44.

The Company owns land as identified in the section on Description of Property on page 158. In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60.0% of whose capital is owned by such citizens. For as long as the percentage of Filipino ownership of the capital stock of the Company is at least 60.0% of the total shares outstanding and voting, the corporation shall be considered as a 100.0% Filipino-owned corporation.

The listing of the Offer Shares is subject to the approval of the Board of Directors of the PSE. An application to list the Offer Shares has been filed with the PSE, but has not yet been approved by the Board of Directors of the PSE. If approved by the PSE, such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Offer Shares by the PSE. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of the Prospectus.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CORRECT.

SAN MIGUEL CORPORATION

By: 

RAMON S. ANG

President and Chief Operating Officer

SUBSCRIBED AND SWORN to before me this AUG 19 2015 in Mandaluyong City, affiant exhibiting to me his Passport No. EC3542718 expiring on February 26, 2020 as competent evidence of identity.

Doc No. 29
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Book No. VII
Series of 2015.


RICARDO P. BERNABE III
Commission No. 0416-14
Notary Public for Mandaluyong City
Until Dec. 31, 2015
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 61400
PTR No. 2253811; 01/07/15; Mandaluyong City
IBP Lifetime Member No. 011669; 03/08/13; RSM

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Forward-looking Statements

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of SMC to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which SMC will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of SMC to successfully implement its strategies;
- the ability of SMC to anticipate and respond to consumer trends;
- changes in availability of raw materials used in the production processes of the SMC Group;
- the ability of the SMC Group to successfully manage its growth;
- the condition and changes in the Philippines, Asian or global economies;
- any future political instability in the Philippines, Asia or other regions;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. Dollar and other currencies;
- changes in government regulations, including tax laws, or licensing requirements in the Philippines, Asia or other regions; and
- competition in the beer, liquor, food, packaging, power, fuel and oil, telecommunications, and infrastructure industries in the Philippines and globally.

Additional factors that could cause actual results, performance or achievements of SMC to differ materially include, but are not limited to, those disclosed under “Risk Factors” and elsewhere in this Prospectus.

These forward-looking statements speak only as of the date of this Prospectus. SMC and the Joint Lead Underwriters and Bookrunners expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of SMC with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

This Prospectus includes forward-looking statements, including statements regarding the expectations and projections of the Issuer for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “may”, “plan”, “intend”, “will”, “shall”, “should”, “would” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to the opinions, beliefs and intentions of the Issuer accurately reflect in all material respects the opinions, beliefs and intentions of the management of SMC as to such matters at the date of this Prospectus, although the Issuer can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section “Risk Factors” and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuer. All subsequent written and oral forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements.

Definition of Terms

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

AAIBV.....	Atlantic Aurum Investments BV including as the context requires, its subsidiaries
AAIPC.....	Atlantic Aurum Investments Philippines Corporation
AGNP.....	A. G. N. Philippines, Inc.
AHC.....	Angat Hydropower Corporation
AHEPP.....	Angat Hydroelectric Power Plant
ALECO.....	Albay Electric Cooperative
APEC.....	Albay Power and Energy Corp.
ASEAN.....	The Association of Southeast Asian Nations, consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
ATP.....	Application to Purchase
BellTel.....	Bell Telecommunication Philippines, Inc.
BIR.....	Bureau of Internal Revenue of the Philippines
Board of Directors.....	Board of Directors of SMC
Bonanza Energy.....	Bonanza Energy Resources, Inc
BGTOM.....	Build-Gradual Transfer-Operate-Maintain
BOT.....	Build-Operate-Transfer
BOC.....	Bank of Commerce
BPG.....	Business Procurement Group
BROT.....	Build-Rehabilitate-Operate-Trasfer
BTO.....	Build-Transfer-Operate
BSP.....	Bangko Sentral ng Pilipinas
CALABARZON.....	Cavite, Laguna, Batangas, Rizal and Quezon provinces of the Philippines
CCEC.....	Citra Central Expressway Corp.
Clean Air Act.....	The Philippine Clean Air Act of 1999
Clean Water Act.....	The Philippine Clean Water Act of 2004
CMMTC.....	Citra Metro Manila Tollways Corporation
Co-Lead Managers.....	First Metro Investment Corporation and United Coconut Planters Bank
Co-Managers.....	Asia United Bank
Corporation Code	Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines, as amended
CTCII.....	Cypress Tree Capital Investments, Inc.
DA.....	Department of Agriculture of the Philippines
Daguma.....	Daguma Agro Minerals, Inc.
DBI.....	Distileria Bago, Inc.
DENR.....	Department of Environment and Natural Resources of the Philippines
Distribution Code	The Philippine Distribution Code

DOE.....	Department of Energy of the Philippines
DOH.....	Department of Health of the Philippines, including the FDA
DOTC.....	Department of Transportation and Communications of the Philippines
DPWH.....	Department of Public Works and Highways of the Philippines
DTI.....	Department of Trade and Industry of the Philippines
EBITDA.....	Earnings before interest, taxes, depreciation and amortizations
Eastern Telecom.....	Eastern Telecommunications Philippines, Inc.
ECA.....	Energy conversion agreement
ECC.....	Environmental Compliance Certificate
EIS.....	Environmental Impact Statement
EMEPMI.....	ExxonMobil Exploration and Production Malaysia, Inc.
EPIRA.....	Electric Power Industry Reform Act of 2001
ERC.....	Energy Regulatory Commission of the Philippines
FDA.....	The Food and Drug Administration of the Philippines
FDDC Act.....	The Philippine Foods, Drugs and Devices, and Cosmetics Act, as amended by the Food and Drug Administration Act of 2009
FIA.....	Foreign Investment Act of 1991
Grid Code.....	The Philippine Grid Code
Ginebra.....	Ginebra San Miguel Inc., including as the context requires, its subsidiaries
GWh.....	Giga-watt hours
IMF.....	International Monetary Fund
IPP.....	Independent Power Producer
IPPA.....	Independent Power Producer Administrator
ISO.....	International Organization for Standardization
Joint Lead Underwriters and Bookrunners.....	BDO Capital & Investment Corporation, BPI Capital Corporation, China Banking Corporation, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Manila Branch, PNB Capital and Investment Corporation, RCBC Capital Corporation, SB Capital Investment Corporation, and Standard Chartered Bank
K-Water.....	Korea Water Resources Corporation
Kirin.....	Kirin Holdings Company, Limited
LGU.....	Local government unit
Liberty Telecom.....	Liberty Telecoms Holdings, Inc.
Livestock and Poultry Feeds Act.....	The Philippine Livestock and Poultry Feeds Act, including its implementing rules and regulations
LPG.....	Liquefied petroleum gas
Magnolia.....	Magnolia Inc.
MARINA.....	Maritime Industry Authority of the Philippines
Meat Inspection Code.....	The Meat Inspection Code of the Philippines
Meralco.....	Manila Electric Company
Metrix.....	Metrix Research Sdn. Bhd.
Mincorr.....	Mindanao Corrugated Fibreboard, Inc

MRT-7.....	Metro Rail Transit Line 7
MTDME.....	MTD Manila Expressways, Inc.
MW.....	Mega-watt
NAIAx.....	NAIA Expressway
NCR.....	National Capital Region of the Philippines
NGCP.....	National Grid Corporation of the Philippines
NPC.....	National Power Corporation of the Philippines
NVRC.....	New Ventures Realty Corporation
NYG.....	Nihon Yamamura Glass Company, Ltd.
Oil Deregulation Act.....	The Philippine Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998
Packaging Group	San Miguel Yamamura Packaging Corporation, San Miguel Yamamura Packaging International Limited and its subsidiaries, San Miguel Yamamura Asia Corporation and Mindanao Corrugated Fibreboard Inc.
Padma.....	Padma Funds L.P.
PDTCT.....	The Philippine Depository & Trust Corporation
PEMC.....	Philippine Electricity Market Corporation
Penderyn.....	Penderyn Pte Ltd.
Peso or ₱.....	Philippine Peso, the lawful currency of the Republic of the Philippines
PET.....	Polyethylene Terephthalate
Petron.....	Petron Corporation including as the context requires, its subsidiaries
PFRS.....	Philippine Financial Reporting Standards
PIDC.....	Private Infra Dev Corporation
PNCC.....	Philippine National Construction Company
PNOC.....	Philippine National Oil Company
PPA.....	Power purchase agreement
PPP.....	Public-Private Partnership
Price Act.....	The Price Act
Privado.....	Privado Holdings Corporation
PSALM.....	Power Sector Assets and Liabilities Management Corporation
PSC.....	Power supply contract
PSE.....	The Philippine Stock Exchange, Inc.
PVEI.....	PowerOne Ventures Energy Inc.
Rapid.....	Rapid Thoroughfares, Inc.
RCOA.....	Retail Competition and Open Access
RMP-2.....	Petron Bataan Refinery Master Plan Phase -2 Upgrade
S3HC.....	Stage 3 Connector Tollways Holdings Corp.
San Miguel Pure Foods	San Miguel Pure Foods Company, Inc., including as the context requires, its subsidiaries
Saudi Aramco.....	Saudi Arabian Oil Company
SCCP.....	The Securities Clearing Corporation of the Philippines

SEC.....	Securities and Exchange Commission of the Philippines
SIDC.....	Star Infrastructure Development Corporation
SLEX.....	South Luzon Expressway
SMB.....	San Miguel Brewery Inc., including as the context requires, its subsidiaries
SMBIL.....	San Miguel Brewing International, Ltd.
SMC, the Company, the Parent Company or the Issuer.....	San Miguel Corporation, a corporation incorporated under the laws of the Republic of the Philippines
SMC Global Power.....	SMC Global Power Holdings Corp. including as the context requires, its subsidiaries
SMC Group.....	SMC and its subsidiaries
SMEC.....	San Miguel Energy Corporation
SMEII.....	San Miguel Equity Investments Inc.
SMELC.....	San Miguel Electric Corp.
SMESI.....	San Miguel Equity Securities, Inc.
SMHC.....	San Miguel Holdings Corp., including as the context requires, its subsidiaries
SMMI.....	San Miguel Mills, Inc.
SMPI.....	San Miguel Properties, Inc., including as the context requires, its subsidiaries
SMYAC.....	San Miguel Yamamura Asia Corporation
SMYPC.....	San Miguel Yamamura Packaging Corporation, including as the context requires, its subsidiaries
SMYPIL.....	San Miguel Yamamura Packaging International Limited
SPDC.....	Strategic Power Dev. Corp.
SPI.....	SMC Powergen Inc.
SPPC.....	South Premiere Power Corp.
SRC.....	Securities Regulation Code of the Philippines
SRPC.....	San Roque Power Corporation
SSS.....	Social Security System of the Philippines
STAR.....	Southern Tagalog Arterial Road
Sultan Energy.....	Sultan Energy Philippines Corp.
TADHC.....	Trans Aire Development Holdings Corp.
Tax Code.....	The Philippine National Internal Revenue Code of 1997, as amended
Top Frontier.....	Top Frontier Holdings, Inc.
TPLEX.....	Tarlac–Pangasinan–La Union Expressway
TransCo.....	National Transmission Corporation
TRB.....	Toll Regulatory Board of the Philippines
Underwriting Agreement.....	Underwriting Agreement dated August 19, 2015, among SMC and the Joint Lead Underwriters and Bookrunners
Universal LRT.....	Universal LRT Corporation (BVI) Limited
VAT.....	Value added tax
Vega.....	Vega Telecom Inc.
Vertex.....	Vertex Tollways Devt. Inc.

WESM..... Philippine Wholesale Electricity Spot Market

Executive Summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the appendices of this Prospectus.

Prospective investors should read this entire Prospectus fully and carefully, including the section on “Risk Factors”. In case of any inconsistency between this summary and the more detailed information in this Prospectus, then the more detailed portions, as the case may be, shall at all times prevail.

Brief Background on the Company

San Miguel Corporation (“SMC”, the “Company”, the “Parent Company”, or the “Issuer”), together with its subsidiaries (collectively with the Company referred to as the “SMC Group”), is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales of about 6.2% of the Philippine gross domestic product in 2014.

Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverage, food and packaging business with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses and investments in the fuel and oil, energy, infrastructure, telecommunications and banking industries. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefiting from and contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now The Philippine Stock Exchange, Inc.

In 2007, in light of the opportunities presented by the global financial crisis, the ongoing program of asset and industry privatization of the Philippine government, the strong cash position of SMC enhanced by recent divestments and the strong cash flow generated by its established businesses, SMC adopted an aggressive business diversification program. The program channeled the resources of SMC into what it believes were attractive growth sectors, aligned with the development and growth of the Philippine economy. SMC believes this strategy will achieve a more diverse mix of sales and operating income, and better position for SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles.

Since January 2008 up to the first quarter of 2015, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure, telecommunications and banking industries. A summary of these transactions is set forth below:

- acquired 68.26% equity interest in Petron Corporation (“Petron”)
- acquired the rights, pursuant to Independent Power Producer Administrator (“IPPA”) agreements with Power Sector Assets and Liabilities Management Corporation (“PSALM”) to administer three (3) power plants in Sual and San Roque in Pangasinan and Ilijan in Batangas
- made the following infrastructure acquisitions:
 - initial 35.0% equity interest in Private Infra Dev Corporation (“PIDC”), which is now at 45.0%
 - initial 93.4% equity interest in Trans Aire Development Holdings Corp. (“TADHC”, formerly known as Caticlan International Airport Development Corporation), which is now at 99.77% of the total outstanding common shares of TADHC
 - 51.0% equity interest in Universal LRT Corporation (BVI) Limited (“Universal LRT”)
 - initial 46.53% equity interest in Atlantic Aurum Investments BV (“AAIBV”), which is now at 95.0%
- made the following telecommunications acquisitions:
 - initial 41.48% equity interest in Liberty Telecommunications Holdings, Inc. (“Liberty Telecom”), which is now at 45.58%

- 100.0% equity interest in Bell Telecommunication Philippines, Inc. (“BellTel”), a 100.0% equity interest in A.G.N. Philippines, Inc. (“AGNP”), which holds 40.0% interest in Eastern Telecommunications Philippines, Inc. (“Eastern Telecom”) and 37.7% equity interest in Eastern Telecom through its wholly-owned subsidiary, San Miguel Equity Securities, Inc. (“SMESI”), bringing its total indirect equity interest in Eastern Telecom to 77.7%
- acquired 100.0% equity interest in each of the three (3) concession holders of coal deposits in the Southern Mindanao region – namely, Daguma Agro Minerals, Inc. (“Daguma”), Bonanza Energy Resources, Inc. (“Bonanza Energy”) and Sultan Energy Phils. Corp. (“Sultan Energy”)
- acquired initially 30.0% in Bank of Commerce (“BOC”), which is now at 39.93%

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses with 19,838 employees and more than 100 production facilities in the Asia-Pacific region as of March 31, 2015. The extensive portfolio of SMC products includes beer, liquor, non-alcoholic beverages, poultry, animal feeds, flour, fresh and processed meats, dairy products, coffee, various packaging products and a full range of refined petroleum products, most of which are market leaders in their respective markets. In addition, the SMC Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Through the partnerships it has forged with major international companies, the SMC Group has gained access to the latest technologies and expertise, thereby enhancing its status as a world-class organization.

SMC has strategic partnerships with international companies, among them are Kirin Holdings Company, Limited (“Kirin”) for beer, Hormel Foods International Corporation (“Hormel”) for processed meats, Nihon Yamamura Glass Company, Ltd. (“NYG”) for packaging products, Padma Funds L.P. (“Padma”) for toll roads and Super Coffee Corporation Pte Ltd for coffee.

Major developments in the SMC Group are discussed in Management’s Discussion and Analysis of Financial Position and Performance, found on page 180.

Core Businesses

Beverages

San Miguel Brewery Inc. (“SMB”) is primarily engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes. SMB has five (5) breweries and one (1) bottling plant in the Philippines strategically located in Luzon, Visayas and Mindanao and operates one (1) brewery each in Hong Kong, Indonesia, Vietnam, Thailand, and two (2) breweries in China. In addition, SMB has recently acquired the non-alcoholic beverage business. The SMC Group also produces hard liquor through its majority-owned subsidiary, Ginebra San Miguel, Inc. (“Ginebra”). Ginebra is one of the largest gin producers in the world by volume with some of the most recognizable brands in the Philippine liquor market. It operates one (1) distillery, five (5) liquor bottling plants and one (1) cassava starch milk plant, and has engaged two (2) toll bottlers strategically located throughout the Philippines and one (1) bottling and distillery plant in Thailand.

Food

The food operations of SMC holds numerous market leading positions in the Philippine food industry, offering a wide range of high-quality food products and services to both household and food service customers. The food business is conducted through San Miguel Pure Foods Company, Inc. (“San Miguel Pure Foods”). In addition to its Philippine operations, the food business has operations in Indonesia and Vietnam.

San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers in the Philippines. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *B-Meg* for animal feeds and *La Pacita* for biscuits.

Packaging

The packaging business is a total packaging solutions business servicing many of the leading food, pharmaceutical, chemical, beverages, spirits and personal care manufacturers in the region. The packaging business is comprised of San Miguel Yamamura Packaging Corporation ("SMYPC"), San Miguel Yamamura Packaging International Limited ("SMYPIL"), San Miguel Yamamura Asia Corporation ("SMYAC") and Mindanao Corrugated Fibreboard, Inc ("Mincorr"), collectively referred to as the Packaging Group.

The Packaging Group has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET (Polyethylene Terephthalate) and other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies its products to customers across the Asia-Pacific region, the United States, Africa, Australia and the Middle East, as well as to major multinational corporations in the Philippines, including Coca-Cola Bottling Company, Nestle Philippines and Pepsi Cola Products Philippines.

The Packaging Group has 13 international packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and a packaging research center) and Australia (glass, trading, wine closures and bottle caps) and New Zealand (plastics and trading).

Aside from extending the reach of the packaging business overseas, these facilities also allow the Packaging Group to serve the packaging requirements of SMB breweries in China and Vietnam.

Properties

San Miguel Properties Inc. ("SMPI") was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.68% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

New Businesses

Fuel and Oil

SMC operates its fuel and oil business through Petron, which is involved in refining of crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in the Philippines, with a market share of 35.4% as of December 2014, according to the Department of Energy of the Philippines ("DOE"). Petron participates in the reseller (service station), industrial, lube and liquified petroleum gas ("LPG") sectors. In addition, Petron is also engaged in non-fuels business through its billboards and locators, which are largely situated within the premises of the service stations.

In Malaysia, Petron holds a 16.6% share of the retail market as of March 2015, based on company estimates and information from Metrix Research Sdn. Bhd. ("Metrix Research"), the market research consultant appointed by Malaysian retail market participants to compile industry data.

Petron owns and manages the most extensive oil distribution infrastructure in the Philippines with over 30 depots, terminals and airport installations and approximately 2,200 retail service stations and eight (8) product terminals and 560 retail service stations in Malaysia. Petron also exports various petroleum products and petrochemical feedstock, including high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Petron owns and operates a petroleum refining complex, with a capacity of 180,000 barrels per day located in Limay, Bataan. The refinery has its own piers and two (2) offshore berthing facilities. In 2010, Petron upgraded its refinery by undertaking the Petron Bataan Refinery Master Plan Phase-2 Upgrade ("RMP-2") which was completed in 2014. RMP-2 upgraded the Petron Bataan Refinery to a full conversion refining complex, where all fuel oil is converted to higher value products – gasoline, diesel, jet fuel and petrochemicals, making it comparable to highly complex refineries worldwide. The completion of RMP-2 made Petron the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clear air standards for fuels. Petron also has a refinery in Malaysia with a capacity of 88,000 barrels per day.

Energy

The energy business, which is conducted through SMC Global Power Holdings Corp. ("SMC Global Power"), is one of the leaders in the Philippine power generation industry in terms of installed capacity. SMC Global Power administers three (3) power plants, located in Sual, Pangasinan (coal), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric), with a combined capacity of 2,545 MW, pursuant to the IPPA agreements with PSALM and National Power Corporation of the Philippines ("NPC").

SMC Global Power began acting as an IPPA of the Sual power plant in November 2009, the San Roque power plant in January 2010 and the Ilijan power plant in June 2010. SMC Global Power sells power through off take agreements either directly to customers, including Manila Electric Company and other distribution utilities, electric cooperatives and industrial customers, or through the Philippine Wholesale Electricity Spot Market ("WESM").

In September 2013, SMC Powergen Inc. ("SPI"), a subsidiary of SMC Global Power, acquired the 2 x 35 MW co-generation solid fuel fired plant of Petron located in Limay, Bataan. The plant added 140 MW to the total capacity of SMC Global Power. During the same period, SMC Global Power was awarded the winning concessionaire for the rehabilitation, operations and maintenance of Albay Electric Cooperative ("ALECO"), located in Albay, Bicol. A new subsidiary, Albay Power and Energy Corp. ("APEC") was created for this purpose.

In 2013, San Miguel Consolidated Power Corporation broke ground on the new coal-fired power plant in Malita, Davao and SMC Consolidated Power Corporation for another coal-fired power plant in Limay, Bataan which will have an initial capacity of 300 MW each. These power plants are expected to be commercially available by 2016.

In 2014, PowerOne Ventures Energy Inc. ("PVEI"), a subsidiary of SMC Global Power, and Korea Water Resources Corporation ("K-Water") entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant ("AHEPP"), awarded by PSALM to K-Water. This brought total installed capacity of SMC Global Power to 2,903 MW.

As of April 2015, SMC Global Power is one of the largest power companies in the Philippines, which holds a 22.2% market share of the total installed power generation capacity for the Luzon power grid and a 16.5% market share of the national grid according to the Energy Regulatory Commission of the Philippines ("ERC").

SMC Global Power, through San Miguel Energy Corporation ("SMEC"), likewise owns three (3) coal mining companies which are concession holders of coal deposits in Southern Mindanao.

Infrastructure

The infrastructure business, conducted through San Miguel Holdings Corp. ("SMHC"), consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Current operating tollroads include the Tarlac-Pangasinan-La Union Toll Expressway ("TPLEX"), South Luzon Expressway ("SLEX"), Skyway Stage 1 and 2 and the Southern Tagalog Arterial Road ("STAR") Tollways and ongoing tollroad projects are the NAIA Expressway ("NAIAx") and the Skyway Stage 3. It also operates and is currently expanding Boracay Airport. In addition, it has the concession right to construct, operate and maintain the Mass Rail Transit Line 7 ("MRT-7").

TPLEX

SMHC, through its subsidiary, Rapid Thoroughfares, Inc. ("Rapid"), owns a 45.0% equity interest in PIDC. PIDC is a company which holds a 35-year Build-Transfer-Operate ("BTO") concession rights to construct, operate and maintain an 88.85 km toll expressway from La Paz, Tarlac, through Pangasinan to Rosario, La Union.

Boracay Airport

SMC, through the 99.77% interest of SMHC in TADHC, is undertaking the expansion of Boracay Airport under a 25-year Build-Rehabilitate-Operate-Transfer ("BROT") concession granted by the Republic of the Philippines ("ROP"), through the Department of Transportation and Communications of the Philippines ("DOTC").

STAR Tollway

SMHC, through Cypress Tree Capital Investments, Inc. ("CTCI") has an effective 53.32% interest in Star Infrastructure Development Corporation ("SIDC"). SIDC holds the 30-year BTO concession rights of the STAR Project consisting of: Stage 1 - operation and maintenance of the 22.16 km toll road from Sto. Tomas to Lipa City; and Stage 2 - financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City to Batangas City.

NAIAx

On May 31, 2013, SMHC incorporated Vertex Tollways Devt. Inc. ("Vertex"), a company that holds the 30-year BTO concession rights for the construction and operation of the NAIA Expressway ("NAIAx") – a four (4) lane elevated expressway with end-to-end distance of 5.4 km that will provide access to NAIA Terminals 1, 2 and 3. NAIAx will connect to the Skyway system, the Manila-Cavite Toll Expressway ("CAVITEX") and the Entertainment City of the Philippine Amusement and Gaming Corporation ("PAGCOR").

SLEX / Skyway Stage 1 and 2

As of March 5, 2014, SMHC has a 95.0% stake in AAIBV, a company which has the following shareholdings:

- 80.0% stake in South Luzon Tollway Corporation ("SLTC"), through MTD Manila Expressways, Inc. ("MTDME"), a wholly-owned subsidiary of AAIBV. SLTC holds a 30-year concession rights to operate the 36.1 km South Luzon Expressway ("SLEX"), one of the three (3) major expressways that link Metro Manila to Southern Luzon;
- 87.84% beneficial ownership in Citra Metro Manila Tollways Corporation ("CMMTC"), through Atlantic Aurum Investments Philippines Corporation ("AAIPC"), a wholly-owned subsidiary of AAIBV. CMMTC holds a 30-year concession to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2 Project.

Skyway Stage 3

On February 28, 2014, SMHC through AAIBV incorporated Stage 3 Connector Tollways Holdings Corp. ("S3HC"), which holds an 80.0% ownership interest in Citra Central Expressway Corp. ("CCEC"). CCEC holds a 30-year concession to construct, operate, and maintain the Skyway Stage 3, an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the southern and northern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

MRT-7

In October 2010, SMC, through SMHC, acquired a 51.0% stake in Universal LRT, which holds the 25-year Build-Gradual Transfer-Operate-Maintain ("BGTOM") concession for MRT-7. MRT-7 is a planned expansion of the metro rail system in Manila which mainly involves the construction of 22 km mass rail transit system with 14 stations that will start from San Jose del Monte City and end at the integrated LRT-1 / MRT-3 / MRT-7 station at North EDSA and a 22 km six (6) lane asphalt highway that will connect the North Luzon Expressway to the intermodal transport terminal in San Jose del Monte City, Bulacan.

Telecom

SMC has made investments in the telecommunications sector in the Philippines through acquisitions of stakes in Liberty Telecom, BellTel and Eastern Telecom.

Liberty Telecom

In 2010, SMC through its subsidiary, Vega Telecom Inc. ("Vega"), owns a 41.48% stake in Liberty Telecom, a telecommunications carrier listed in The Philippine Stock Exchange, Inc., offering data communications and data connectivity services. Vega increased its ownership from 41.48% to 45.05% in April 2014 and to 45.58% in December 2014.

BellTel

Also, in 2010, Vega subscribed to the shares of stock equivalent to 100.0% of Two Cassandra-CCI Conglomerates, Inc., Power Smart Capital Limited, and Perchpoint Holdings, Corp. that collectively owns 100.0% of BellTel. In December 2014, Vega made a direct additional investment to BellTel by subscribing to its unissued shares.

BellTel, which began commercial operations in 2002, offers an integrated package of services, including local and long distance telephony, high speed data connectivity and Internet. It has various licenses that include local exchange carrier, international gateway facility, inter-exchange carrier, very small aperture terminal, internet service provider, and wireless local loop telephone systems in various cities and municipalities in the National Capital Region of the Philippines ("NCR"). It is authorized to provide the full range of services throughout the Philippines. In 2014, BellTel acquired 100.0% of Dominer Pointe, Inc. and Somete Logistics & Dev't. Corp. from various individuals. Both tower companies are engaged in the business of conceptualization, construction, installation, establishment, operation, leasing, sale and maintenance, and rendering of specialty technical services for tower infrastructures to be utilized by telecommunication companies.

Eastern Telecom

In 2010, SMC, through Vega, acquired 100.0% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40.0% of Eastern Telecom, inclusive of the existing businesses, investments and telecommunications service facilities of Eastern Telecom. On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, acquired an additional 37.7% of the outstanding and issued shares of stock of Eastern Telecom bringing its total indirect equity interest in Eastern Telecom to 77.7%.

Established more than 130 years ago, Eastern Telecom offers a full range of telecommunication services, including internet, data, voice and certain value added services. Eastern Telecom is a provider of voice, data and internet services to the business process outsourcing market.

Competitive Strengths

SMC believes that its principal strengths include the following:

Diversified platform with broad exposure to the Philippine economy

The Philippines has become one of the fastest growing economies in Asia, with consecutive annual positive gross domestic product growth since 1999. According to the Association of South East Asian Nations ("ASEAN") briefing, the Philippines announced a gross domestic product growth of 6.1% in 2014, the second (2nd) highest in the Asia-Pacific region. According to the International Monetary Fund ("IMF"), the Philippines is expected to experience strong gross domestic product growth at the rate of 6.2% and 6.5% for 2015 and 2016, respectively. In addition, the Philippine population is young, comparably literate and growing, which provides the Philippine economy with favorable demographics for further growth.

As one of the largest conglomerates in the Philippines by revenues and total assets, with sales of about 6.2% of the Philippine gross domestic product in 2014, the SMC Group is broadly exposed to the Philippine economy through its diverse range of businesses spanning the beverage, food, packaging, fuel and oil, energy, infrastructure, telecommunication, property, and banking industries. This diversified portfolio aligns SMC to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

Market leading positions in key Philippine industries

Many of the businesses of SMC are leaders in their domestic markets.

Beverages: The domestic beer business of SMC has consistently dominated the Philippine beer market, with a market share of over 90.0% by volume in 2012, according to Canadean data, with no significant changes in 2013. SMC has held this position since 1999. SMC also produces some of the most recognizable brands in the Philippine liquor market. It also has a growing non-alcoholic beverage business which produces non-carbonated ready to drink teas, fruit juices and water.

Food: San Miguel Pure Foods is a leading Philippine food company with market-leading positions in key food categories and offers a broad range of high-quality food products and services to household, institutional and food service customers. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38.0% for poultry, 43.0% for animal feeds, 16.0% for flour and 40.0% for fresh meats (based on volume for large commercial farms), in each case as of December 2014. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 64.3% for hotdogs sold in Philippine supermarkets, 87.4% in the chicken nugget product category, and market shares of 40.0% for butter, 97.7% for refrigerated margarine, in each case based on value as of December 2014. According to Nielsen, San Miguel Pure Foods has a 97.3% market share for non-refrigerated margarine and 19.8% market share for cheese as of December 2014. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted marketing and promotional campaigns.

Packaging: The packaging business is one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies its products to major multinational corporations in the Philippines and customers across the Asia-Pacific region, the United States, Africa, Australia and the Middle East.

Fuel and oil: Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron is the number one integrated oil refining and marketing company, with an overall market share of 35.4% of the Philippine oil market in terms of sales volume based on industry data from the DOE as of December 2014. Petron also has a 16.6% share of the Malaysian retail market as of March 2015, according to Metrix Research estimates.

Energy: SMC Global Power is one of the largest IPPAs in the Philippines, holding a 22.2% market share of the total installed capacity of the Luzon power grid and a 16.5% market share of the national grid as of April 2015, according to the ERC. SMC Global Power administers three (3) power plants, located in Sual, Pangasinan (coal-fired), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric) and owns the power plant in Limay, Bataan (coal co-generation). In addition, SMC also owns 60.0% interest in the AHEPP. This brings total combined capacity of SMC Global Power to 2,903 MW. The energy trading team of SMC comprises of pioneers in WESM trading.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in toll roads, airport and mass rail transit. SMHC has rights to about 52.7% of the total road length of awarded toll road projects. This includes operating toll roads such as TPLEX, SLEX, Skyway Stages 1 and 2 and STAR tollways while ongoing projects include NAIAX and Skyway Stage 3. SMHC also operates the Boracay Airport which is currently doing improvement and expansion activities that will take advantage of the growing number of tourists in the area. In addition, SMHC holds the concession to construct, operate and maintain the MRT-7 project, a 22-km rapid mass rail transit system, which spans from North EDSA to San Jose del Monte City, Bulacan, and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX.

Experienced management team

SMC has an extensive pool of experienced managers who have been with SMC for more than 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage SMC through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience. The new businesses of SMC have provided significant contribution to the performance of SMC for the past three (3) years. In 2014, sales from these new businesses accounted for 71.7% of the total consolidated sales of SMC. Likewise, in 2014 the earnings before interest, taxes, depreciation and amortization ("EBITDA") contribution of the new businesses was 56.1%.

Operating businesses provide sustainable stream of income and cash flows.

The beverage, food and packaging businesses provide SMC with a sustainable stream of income with low capital expenditure requirements. These businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its recent diversification strategy. In

2014, the core businesses of beverage, food and packaging businesses provided 28.3% of total SMC sales and 43.9% of total SMC EBITDA.

In 2014, SMC generated ₱88,096 million of EBITDA and ₱14,692 million of net income attributable to the Parent Company with ₱38,951 million of capital expenditure. In 2013, it generated ₱77,283 million of EBITDA and ₱38,053 million of net income attributable to the Parent Company with ₱65,865 million of capital expenditure. In 2012, it generated ₱76,626 million of EBITDA and ₱26,806 million of net income attributable to the Parent Company with ₱52,917 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The established businesses of SMC in beverage, food and packaging continue to provide stable cash flow, while its new businesses have enabled the Company to expand its ability to generate higher returns.

Beverage: The beverage business is well-positioned to benefit from the increasing affluence and population growth in the Philippines, which the Company believes present significant opportunities in the premium beer market. In addition, the international beer business of SMC is experiencing increased sales through growing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, US and Asia-Pacific region. SMC is expanding its liquor business throughout the Philippines and internationally. SMC plans to create rapid deployment task forces, particularly in the southern Philippines, where market penetration is low and where there is no existing dealership system. With the transfer of the non-alcoholic beverage business from Ginebra to SMB, SMC believes that the strong distribution infrastructure of SMB will be able to increase margins and improve profitability of the beverage business as a whole. The beverage business continues to introduce new products and new package formats to increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.

Food: The food business aims to become the least-cost producer through its vertically-integrated meats business model, which allows it to secure stable raw material supply and develop cheaper alternative raw materials. San Miguel Pure Foods is also streamlining its operations to improve the profitability of its established business segments, such as poultry, feeds, meats and flour, maximize synergies across operations, and improve margins by shifting to stable-priced and value-added products.

Packaging: The packaging business aims to provide a total packaging solution to be able to serve a wide spectrum of customers thereby increasing its potential for higher growth. It also aims to benefit from trade liberalization and globalization in the ASEAN region as it further expands its exports market. The rising environmental awareness also provides opportunities for the production of more environmentally friendly products such as heavy metal free paint glass and recycled PET resin. The packaging business plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.

Fuel and Oil: Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which it believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an automatic pricing mechanism that provides stable returns to fuel retailers.

Petron owns refineries in both the Philippines and Malaysia capable of producing finished petroleum products. Petron believes it has the competitive advantage against other oil players that only import finished petroleum products. Petron plans to continue its service station network expansion and seek growth in complementary non-fuel businesses. Petron also plans to increase the production of higher margin products mainly from the benefits of RMP-2. The RMP-2 is the second phase of a refinery expansion project, which includes further enhancements to the operational efficiencies of the refinery, increase in conversion capability and reduction of production of lower-value fuel oils. In addition to RMP-2 and the expansion of the service station network, Petron is operating the new coal Co-generation power plant to supply the power requirements of the Limay Refinery that replaced some of the existing turbo and steam generators. The new coal Co-generation power plant is utilizing more efficient technology and generating power at lower costs.

Energy: SMC Global Power is expanding its power generating capacity over the next five (5) years, and believes its energy business will benefit from growing demand for electricity in the Philippines, which is forecasted to exceed the growth rates of the Philippine gross domestic product, and shortage in electricity supply, with the industry constrained by aging power generation assets and minimal additional capacities. Also, if spot electricity rates move higher as a result of increased demand, the margins of SMC Global Power are expected to increase.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. In addition, concession agreements for the various projects will provide strong and stable long-term income streams, as well as serve as a barrier to entry to new players to the business.

Telecom: SMC believes its investments in the telecommunications industry provide the Company with an opportunity to participate in a high growth industry as the Philippine population becomes more affluent and spends more on higher margin services. In particular, SMC is currently refining its telecommunications business strategy, where it plans to take advantage of opportunities in digitization of businesses, the emergence of mobile platforms for businesses and the provision of services to consumers. Moreover, the three (3) telecom companies of SMC have a wide bandwidth of spectrum that would enable SMC to be competitive in both current (2G/3G/4G) and future technologies.

Synergies across businesses

SMC expects significant opportunities to develop and increase synergies across many of its businesses, including:

Ancillary business opportunities: SMC believes it has opportunities within its existing businesses to secure growth in its new businesses by using the relevant areas to conduct business and activities. Potential initiatives of this type include installing SMC Group advertisements, building service stations, retail outlets, rest stops and kiosks along toll roads.

Immediate distribution channel: The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of Petron service stations provides an immediate distribution channel for retail sales for the beverage and food products of SMC.

Economies of scale: SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.

Integration: SMC plans to continue pursuing vertical integration across the established and strategic businesses, such as supplying the fuel and oil and power requirements of its businesses internally.

Business Strategies of SMC

The principal strategies of SMC include the following:

Enhance value of established businesses

SMC aims to enhance the value of its established businesses by pursuing operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

Continue to diversify into industries that underpin the development and growth of the Philippine economy

In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

Identify and pursue synergies across businesses through vertical integration, platform matching and channel management

SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.

Invest in and develop businesses with leading market positions

SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include constructing new power plants and expanding its power generation portfolio, building additional service and micro-filling stations and expanding distribution networks for its beverage and food products. SMC believes its strong domestic market position and brand recognition provide an effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses it believes have the potential to gain leading positions in their respective markets.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders, such as Kirin for beer, Hormel for processed meats and NYG for packaging products. These partnerships provide marketing and expansion opportunities.

Risks of Investing

Prospective investors should also consider the following risks of investing in the Offer Shares:

1. Macroeconomic risks, including the current and immediate political and economic factors in the Philippines and the experience of the country with natural catastrophes, as a principal risk for investing in general;
2. Risks relating to SMC, its subsidiaries and their business and operations; and
3. The nature of the Offer Shares as perpetual securities, the absence of a liquid secondary market and volatility of the Offer Shares and other risks relating to the Offer Shares.

(For a more detailed discussion, see “Risk Factors” on page 44)

Use of Proceeds

The Offer Price shall be at ₱75.00. SMC expects to raise gross proceeds amounting to ₱33,500,025,000.00. The net proceeds of the Offer, after deduction of fees, commissions, and expenses, is approximately ₱252,150,726.00. Proceeds of the Offer will be used to partially fund the redemption of the outstanding Subseries “2-A” Preferred Shares (see “Use of Proceeds” on page 64).

Plan of Distribution

SMC plans to issue the Offer Shares to institutional and retail investors through a public offering to be conducted through the Joint Lead Underwriters and Bookrunners (for a more detailed discussion, see “Plan of Distribution” on page 68).

Expected Timetable

The indicative timetable of the Offer is expected to be as follows:

Particulars	Dates
Filing of the Initial Registration Statement with the SEC.....	July 14, 2015
Filing of the PSE Listing Application.....	July 15, 2015
SEC Approval Period.....	July 14 – August 10, 2015
Receipt of SEC Pre-Effective Approval.....	August 7, 2015
PSE Listing Approval.....	August 12, 2015
Pricing and Allocation.....	August 19, 2015
Submission of Final Prospectus	August 20, 2015
Start of the Offer Period.....	August 24, 2015
Final Allocation for PSE Trading Participants.....	August 28, 2015
End of the Offer Period.....	September 11, 2015
Issue Date.....	September 21, 2015
Listing Date.....	September 21, 2015

The dates indicated above are subject to market and other conditions and may be changed by the agreement of SMC and Joint Lead Underwriters and Bookrunners, subject to the approval by the SEC and PSE.

Summary of Financial Information

Prospective purchasers of the Offer Shares should read the summary financial data below together with the financial statements, including the notes thereto, included in this Prospectus and “Management’s Discussion and Analysis of Results of Operations and Financial Condition”. The summary financial data for the three years ended December 31, 2014, 2013 and 2012 are derived from the audited financial statements of SMC, including the notes thereto, which are found as Appendix “B” of this Prospectus. The detailed financial information for the three (3) years ended December 31, 2014, 2013 and 2012 are found on Appendix “B” of this Prospectus and the three (3) months ended March 31, 2015 and 2014 are found on Appendix “A” of this Prospectus.

The summary financial and operating information of SMC presented below as of and for the years ended December 31, 2014, 2013 and 2012 were derived from the consolidated financial statements of SMC, audited by RG Manabat & Co. (formerly Manabat Sanagustin & Co.) and prepared in compliance with the Philippine Financial Reporting Standards (“PFRS”). The financial and operating information of SMC presented below as of and for the three months ended March 31, 2015 and 2014 were derived from the unaudited consolidated financial statements of SMC prepared in compliance with Philippine Accounting Standards (“PAS”) 34, “Interim Financial Reporting” and reviewed by RG Manabat & Co. in accordance with Philippine Standards on Reviewing Engagements (“PSRE”) 2410, “Review of Interim Financial Information performed by the Independent Auditors of the Entity.” The information below should be read in conjunction with the consolidated financial statements of SMC and the related notes thereto, which are included in Appendices “A” and “B” of this Prospectus. The historical financial condition, results of operations and cash flows of SMC are not a guarantee of its future operating and financial performance.

	For the years ended December 31,			For the three months ended March 31,	
	2012	2013	2014	2014	2015
		(Audited)		(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales.....	₱ 699,916	₱ 748,241	₱782,434	₱194,911	159,171
Cost of sales.....	595,581	631,856	669,641	166,513	128,526
Gross profit.....	104,335	116,385	112,793	28,398	30,645
Selling and administrative expenses.....	(52,600)	(60,971)	(57,018)	(12,810)	(14,092)
Interest expense and other financing charges.....	(29,800)	(30,970)	(29,710)	(7,424)	(7,603)
Interest income.....	4,253	3,539	4,012	991	1,209
Equity in net earnings (losses) of associates and joint ventures.....	2,638	(967)	1,255	(323)	136
Gain on sale of investments and property and equipment.....	4,549	41,192	777	132	(122)
Other income (charges) – Net.....	12,689	(13,780)	6,307	(1,222)	(787)
Income before income tax.....	46,064	54,428	38,416	7,742	9,386
Income tax expense.....	8,406	3,700	10,284	1,726	3,351
Net income.....	₱37,658	₱50,728	₱ 28,132	₱6,016	₱6,035
Attributable to:					
Equity holders of the Parent Company.....	₱ 26,806	₱ 38,053	₱14,692	₱2,154	₱2,318
Non-controlling interests.....	10,852	12,675	13,440	3,862	3,717
	₱37,658	₱ 50,728	₱ 28,132	₱ 6,016	₱6,035
Earnings per common share attributable to equity holders of the Parent Company basic.....	₱ 8.72	₱13.43	₱ 3.61	₱0.26	₱0.33
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 8.67	₱ 13.36	₱ 3.59	₱0.26	₱0.33

	As of the years ended December 31,			As of the three months ended March 31,
	(Audited)			(Unaudited)
	(in millions except per share figures or where otherwise indicated)			
	2012	2013	2014	2015
Consolidated Statements of Financial Position Data				
Assets				
Total current assets.....	₱ 372,891	₱ 489,006	₱ 539,235	₱495,862
Total noncurrent assets.....	670,079	681,081	677,815	746,621
Total assets.....	<u>₱ 1,042,970</u>	<u>₱ 1,170,087</u>	<u>₱ 1,217,050</u>	<u>₱1,242,483</u>
Liabilities and Equity				
Current liabilities				
Total current liabilities	<u>₱ 268,710</u>	<u>₱ 335,546</u>	<u>₱ 354,411</u>	<u>₱337,931</u>
Total noncurrent liabilities	<u>425,323</u>	<u>468,764</u>	<u>473,158</u>	<u>515,406</u>
Equity				
Equity attributable to equity holders of the Parent Company.....	252,249	237,707	240,462	242,100
Non-controlling interests	96,688	128,070	149,019	147,046
Total equity	<u>348,937</u>	<u>365,777</u>	<u>389,481</u>	<u>389,146</u>
Total liabilities and equity	<u>₱ 1,042,970</u>	<u>₱ 1,170,087</u>	<u>₱ 1,217,050</u>	<u>₱1,242,483</u>

	For the years ended December 31,			For the three months ended March 31,	
	(Audited)			(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
	2012	2013	2014	2014	2015
Cash Flow Data					
Net cash provided by (used in):					
Operating activities.....	₱ 15,763	₱49,739	₱ 29,417	₱9,857	₱8,272
Investing activities	(56,262)	(27,219)	27,520	22,826	7,173
Financing activities.....	37,843	42,563	9,904	717	(39,324)
Effect of exchange rates changes in cash and cash equivalents.....	(701)	1,023	152	304	680
Net increase/(decrease) in cash and cash equivalents.....	(3,357)	66,106	66,993	33,704	(23,199)
Cash and cash equivalents at beginning of year.....	128,864	125,507	191,613	191,613	258,606
Cash and cash equivalents at end of period	<u>₱125,507</u>	<u>₱ 191,613</u>	<u>₱ 258,606</u>	<u>₱ 225,317</u>	<u>₱235,407</u>

Capitalization

The following table sets forth the unaudited consolidated short-term and long-term debt and capitalization of SMC as of March 31, 2015. This table should be read in conjunction with the more detailed information and reviewed and unaudited financial statements, including notes thereto, found in Appendix "B" in this Prospectus.

(in ₱ Millions)	As of March 31, 2015 (Unaudited)	Adjustments	Notes	As adjusted for maximum Issue Size of ₱33.50 Billion (Upon creation of Offer Shares)
Current Liabilities				
Drafts and loans payable.....	₱ 152,084			₱ 152,084
Accounts payable and accrued expenses.....	116,557			116,557
Finance lease liabilities – current portion.....	16,184			16,184
Income and other taxes payable.....	13,836			13,836
Dividends payable.....	2,318			2,318
Current maturities of long-term debt – net of debt issue cost.....	36,952			36,952
Total Current Liabilities.....	337,931			337,931
Noncurrent Liabilities				
Long term debt – net of current maturities and debt issue costs..	321,888			321,888
Deferred tax liabilities.....	13,187			13,187
Finance lease liabilities – net of current portion.....	167,198			167,198
Other noncurrent liabilities.....	13,133			13,133
Total Non-current Liabilities.....	515,406			515,406
Equity				
Common stock – ₱5.00 par value.....	16,417			16,417
Authorized – 3,790,000,000 shares				
Issued – 3,283,262,018 shares				
Series "1" Preferred stock – ₱5.00 par value.....	4,852	(3,455)	1, 2	1,397
As of March 31, 2015				
Authorized – 1,110,000,000 shares				
Issued – 970,506,353 shares				
Outstanding – NIL				
With the re-issuance of Series "1" Preferred stock				
Authorized – 300,000,000 shares				
Issued – 279,406,667 shares				
Outstanding – 279,406,667 shares				
Series "2" Preferred stock – ₱5.00 par value.....	5,335	3,455	2	8,790
As of March 31, 2015				
Authorized – 1,100,000,000 shares				
Issued – 1,067,000,000 shares				
Outstanding – 1,067,000,000 shares				
Upon issuance of the Offer Shares				
Authorized – 1,910,000,000 shares				
Issued – 1,758,099,686 shares				
Outstanding – 792,654,600 shares				
Additional paid-in capital.....	178,125			178,125
Revaluation increment	1,089			1,089
Reserve for retirement plan	(1,114)			(1,114)
Cumulative translation adjustments.....	3,216			3,216
Retained earnings				
Appropriated.....	52,086			52,086
Unappropriated.....	121,975			121,975
Treasury Stock.....	(139,881)	20,956 (54,076) 33,500	1 3 4	(139,501)
Non-controlling interests.....	147,046			147,046
Total Equity	389,146	380		389,526
Total Capitalization.....	1,242,483	380		1,242,863

Notes:

- On April 14, 2015, the Parent Company issued 279,406,667 Series "1" Preferred Shares amounting to ₱20,956.
- The Parent Company reclassified 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares, consisting of 691,099,686 treasury shares with par value of ₱3,455 and 118,900,314 unissued shares with a par value of ₱5.00 per share.
- The Parent Company redeemed 721,012,400 Preferred Shares Series "2A" at ₱75.00 per share amounting to ₱54,076.
- The Parent Company issued 446,667,000 shares at ₱75 "Offer Shares" amounting ₱33,500.
- The adjustments do not include any transaction cost.

Terms of the Offer

The following does not purport to be a complete listing of all the rights, obligations and privileges attaching to or arising from the Offer Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective shareholders are enjoined to perform their own independent investigation and analysis of SMC and the Offer Shares. Each prospective shareholder must rely on its own appraisal of SMC and the Offer Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Offer Shares and must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective shareholder's independent evaluation and analysis.

Issuer.....	San Miguel Corporation ("SMC", the "Company")
Offer Size.....	₱33,500,025,000.00
Instrument.....	Series "2" cumulative, non-voting, non-participating, non-convertible Peso-denominated Preferred Shares (the "Series "2" Preferred Shares"). The Series "2" Preferred Shares may be issued in one or more Subseries.
The Offer.....	SMC, through the Joint Lead Underwriters and Bookrunners, is offering for subscription a Primary Offering of up to 446,667,000 Series "2" Preferred Shares (the "Offer Shares"). The Offer Shares may be issued in up to three (3) subseries, at the discretion of the Issuer: <ul style="list-style-type: none"> • Subseries "2-D" (SMC2D); • Subseries "2-E" (SMC2E); and • Subseries "2-F" (SMC2F).
Registration and Listing.....	The Offer Shares will be registered with the Securities and Exchange Commission ("SEC") and listed on The Philippine Stock Exchange, Inc. ("PSE"), subject to compliance with SEC regulations and PSE listing rules.
Issue Date.....	September 21, 2015
Listing Date.....	September 21, 2015
Use of Proceeds.....	To partially fund the redemption of the Outstanding Subseries "2-A" Preferred Shares of SMC amounting to ₱54,075,930,000.00 (the "Subseries "2-A" Preferred Shares") which, as and if declared by the Board of Directors of SMC, are callable on September 21, 2015 or on any dividend payment date thereafter. The difference between the balance of the redemption price for the Subseries "2-A" Preferred Shares and net proceeds of this Offer will be paid for using the available cash of SMC.
Par Value.....	The Series "2" Preferred Shares have a par value of ₱5.00 per share.
Offer Price.....	The Offer Shares shall be offered at a price of ₱75.00 per share.

Dividend Rate	<p>As and if cash dividends are declared by the Board of Directors, cash dividends on the Offer Shares shall be at the fixed rates of:</p> <ul style="list-style-type: none"> • Subseries “2-D” Preferred Shares: 5.9431%; • Subseries “2-E” Preferred Shares: 6.3255%; and • Subseries “2-F” Preferred Shares: 6.8072% <p>in all cases calculated for each share by reference to the Offer Price thereof in respect of each Dividend Period (each, the “Dividend Rate” for the relevant subseries).</p>
Dividend Rate Step-Up	<p>Unless the Offer Shares are redeemed by SMC on the applicable Optional Redemption Dates (as defined below under “Optional Redemption and Purchase”), the Dividend Rate shall be adjusted thereafter to the higher of:</p> <ul style="list-style-type: none"> (a) the Dividend Rate for the relevant Subseries, or (b) (i) for Subseries “2-D” Preferred Shares, if not redeemed on the fifth (5th) anniversary from the Issue Date of the subseries, the simple average of the closing rates of the 10-year PDST-R2 for three (3) consecutive days ending on and including the fifth (5th) anniversary from the Issue Date as shown on the PDEX page (or such relevant alternative page) of Bloomberg (or such other electronic service provider) plus 3.00% per annum; (ii) for Subseries “2-E” Preferred Shares, if not redeemed on the seventh (7th) anniversary from the Issue Date of the subseries, the simple average of the closing rates of the 15-year PDST-R2, which rate, if not existing on the date of redemption, shall be determined by interpolation on a straight line basis, based on the 10-year PDST-R2 rate and the 20-year PDST-R2 rate, for three (3) consecutive days ending on and including the seventh (7th) anniversary from the Issue Date as shown on the PDEX page (or such relevant alternative page) of Bloomberg (or such other electronic service provider) plus 3.00% per annum; and (iii) for Subseries “2-F” Preferred Shares, if not redeemed on the tenth (10th) anniversary from the Issue Date of the subseries, the simple average of the 20-year PDST-R2 rate for three (3) consecutive days ending on and including the tenth (10th) anniversary from the Issue Date as shown on the PDEX page (or such relevant alternative page) of Bloomberg (or such other electronic service provider) plus 3.00% per annum; <p>(or if the PDST-R2 rates are not available or cannot be determined, the relevant alternative benchmark rates that are recognized for capital market transactions by the market or a self-regulatory organization as shown on the PDEX page (or such relevant alternative page) of Bloomberg (or such other electronic service provider)).</p>
Dividend Payment Dates	<p>Cash dividends on the Offer Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a “Dividend Payment Date”) in accordance with the terms and conditions of the Offer Shares, which date shall be any day within the period</p>

commencing on (and including) the last day of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period. A “Dividend Period” shall refer to the period commencing on the Issue Date and having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of the immediately succeeding Dividend Period; provided that, the first Dividend Period of the Offer Shares shall be the period commencing on the Issue Date and ending on the last day of the then current dividend period for the Subseries “2-B” and “2-C” Preferred Shares. If a Dividend Payment Date occurs after the end of a Dividend Period, there shall be no adjustment as to the amounts of dividends to be paid.

The dividends on the Offer Shares will be calculated on a 30/360-day basis.

If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.

Conditions on Payment of Cash
Dividends

The declaration of cash dividends will be subject to the discretion of the Board of Directors to the extent permitted by law.

The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where:

- (a) payment of the cash dividend would cause SMC to breach any of its financial covenants; or
- (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Offer Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Offer Shares and that have an equal right to dividends as the Offer Shares.

If the profits available to distribute as dividends are, in the opinion of the Board of Directors, not sufficient to enable SMC to pay in full on the same date both cash dividends on the Offer Shares and the dividends on other shares that have an equal right to dividends as the Offer Shares, SMC is required (i) to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that Dividend Payment Date on any shares with a right to dividends ranking in priority to that of the Offer Shares; and (ii) to pay cash dividends on the Offer Shares and any other shares ranking equally with the Offer Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the right to dividends with the Offer Shares.

Any such cash dividends deferred or not declared in accordance with the above provisions shall constitute “Arrears of Dividends” which shall accrue cash dividends at the prevailing Dividend Rate.

The profits available for distribution are, in general and with some adjustments, equal to the accumulated realized profits of SMC

less accumulated realized loss.

Cash dividends on the Offer Shares will be cumulative. If for any reason the Board of Directors of SMC does not declare a cash dividend on the Offer Shares for a Dividend Period, SMC will not pay a cash dividend on the Dividend Payment Date for that Dividend Period. However, on any future Dividend Payment Date on which cash dividends are declared, holders of the Offer Shares will receive the accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends to the holders of the Offer Shares prior to such Dividend Payment Date.

Holders of the Offer Shares shall not be entitled to participate in any other or further dividends, cash, property or stock beyond the dividends specifically payable on the Offer Shares.

SMC will covenant that, in the event:

- (a) any cash dividends due with respect to any Series "1" and Series "2" Preferred Shares then outstanding for any period are not declared and paid in full when due;
- (b) where there remains outstanding Arrears of Dividends; or
- (c) any other amounts payable under the terms and conditions of the Offer Shares described in the Prospectus are not paid in full when due for any reason,

then it will not declare or pay any dividends or other distributions in respect of, or repurchase or redeem, securities ranking pari passu with, or junior to, the Offer Shares (or contribute any moneys to a sinking fund for the redemption of any securities ranking pari passu with, or junior to, the Offer Shares) until any and all Arrears of Dividends and accrued but unpaid cash dividends have been paid to the holders of the Offer Shares.

Optional Redemption and Purchase.....	<p>As and if approved by the Board of Directors, SMC may redeem the Offer Shares on the following dates, or on the last day of any Dividend Period thereafter (each an “Optional Redemption Date”) in whole or in part, at a redemption price equal to the relevant Offer Price of the Offer Shares plus any accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends outstanding (the “Redemption Price”):</p> <ul style="list-style-type: none"> (i) For Subseries “2-D”, the third (3rd) anniversary from Issue Date thereof; (ii) For Subseries “2-E”, the fifth (5th) anniversary from Issue Date thereof; and (iii) For Subseries “2-F”, the seventh (7th) anniversary from Issue Date thereof. <p>If at any time, SMC redeems more than one Subseries, which, under the terms and conditions by which they were offered, may be subject to early redemption SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries; provided that in case of partial redemption of a Subseries, such redemption shall apply pro rata among the holders thereof.</p> <p>SMC may also redeem the Offer Shares, in whole or in part, at any time prior to any Optional Redemption Date if an Accounting Event or Tax Event (each as defined below) has occurred and is continuing, in each case at the Redemption Price.</p>
No Sinking Fund.....	SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Offer Shares.
Accounting Event.....	An accounting event (“Accounting Event”) shall occur if an opinion of any recognized person authorized to perform auditing services in the Republic of the Philippines has stated that there is more than an insubstantial risk that the funds raised through the issuance of the Offer Shares may no longer be recorded as “equity” pursuant to the PFRS, or such other accounting standards which succeed PFRS, as adopted by the Republic of the Philippines, applied by SMC for drawing up its consolidated financial statements for the relevant financial year and such event cannot be avoided by SMC taking reasonable measures available to it.
Tax Event.....	A tax event (“Tax Event”) shall occur if dividend payments become subject to higher withholding tax or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to SMC.
Purchase of the Offer Shares.....	Upon listing on the PSE, SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE without any obligation to purchase or redeem the other Offer Shares.
Taxation.....	Subject to the proviso set forth below, all payments in respect of the Offer Shares are to be made free and clear of any deductions or withholding for or on account of any future taxes or duties imposed by or on behalf of Republic of the Philippines, including but not limited to, stamp, issue, registration, documentary, value

added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, SMC will pay additional amounts so that holders of the Offer Shares will receive the full amount of the relevant payment which otherwise would have been due and payable; provided, however, that SMC shall not be liable for, and the foregoing payment undertaking of SMC shall not apply to: (a) the applicable final withholding tax applicable on dividends declared on the Offer Shares prescribed under the Tax Code (as may be amended from time to time), (b) any expanded value added tax which may be payable by any holder of the Offer Shares on any amount to be received from SMC under the Offer and (c) any withholding tax on any amount payable to any holder of the Offer Shares or any entity which is a U.S. Person under the Foreign Account Tax Compliance Act of the United States (FATCA) or is otherwise a non-resident foreign corporation.

Documentary stamp tax for the primary issue of the Offer Shares and the documentation, if any, shall be for the account of SMC. The applicable taxes to any subsequent sale of the Offer Shares by any holder of the Offer Shares shall be for the account of the said holder.

Liquidation Rights

In the event of a return of capital in respect of the liquidation, dissolution or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Offer Shares at the time outstanding will be entitled to receive, in Pesos out of the assets of SMC available for distribution to shareholders, together with the holders of any other of the shares of SMC ranking, as regards repayment of capital, *pari passu* with the Offer Shares and before any distribution of assets is made to holders of any class of the shares of SMC ranking after the Offer Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price as of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Offer Shares and any other shares of SMC ranking as to any such distribution *pari passu* with the Offer Shares are not paid in full, the holders of the Offer Shares and of such other shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Offer Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.

Form, Title and Registration of the Preferred Shares.....

The Offer Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as registrar for the Offer Registrar, and lodged with the Philippine Depository and Trust Corporation ("PDTC") as depository agent on Listing Date through PSE trading participants nominated by the applicants. For this purpose, applicants shall indicate in the proper space provided for in the Application to Purchase (as defined below) the name of a PSE trading participant under whose name their Offer Shares will be registered.

After Listing Date, shareholders may request the registrar, through their nominated PSE trading participant, to (a) open a scripless registry account and have their holdings of the Offer Shares registered under their name (“name-on-registry account”), or (b) issue stock certificates evidencing their investment in the Offer Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting shareholder.

Legal title to the Offer Shares will be shown in an electronic register of shareholders (the “Registry of Shareholders”) which shall be maintained by the registrar. The registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Offer Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The registrar shall send (at the cost of SMC) at least once every year a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of the given date thereof. Any request by shareholders for certifications, reports or other documents from the registrar, except as provided herein, shall be for the account of the requesting shareholder.

For scripless shares, the maintenance and custody fee payable to the PDTC shall be for the account of the shareholder.

Selling and Transfer
Restrictions.....

After listing, the subsequent transfers of interests in the Offer Shares shall be subject to normal selling restrictions for listed securities as may prevail in the Philippines from time to time.

Governing Law.....

The Offer Shares will be issued pursuant to the laws of the Republic of the Philippines.

Other Terms of the Offer

Offer Period.....

The offer period shall commence at 9:00 a.m., Manila Time on August 24, 2015 and end at 12:00 noon, Manila Time on September 11, 2015 (the “Offer Period”). SMC and the Joint Lead Underwriters and Bookrunners reserve the right to extend or terminate the offer period with the approval of the SEC.

Applications shall be considered irrevocable upon submission to any Joint Lead Underwriter and Bookrunner or Selling Agent, and shall be subject to the terms and conditions of the Offer as stated in the Prospectus and in the application form to subscribe to the Offer Shares (the “Application to Purchase”). Applications to subscribe to the Offer Shares (each an “Application”) must be received by the Joint Lead Underwriters and Bookrunners not later than 12:00 noon Manila time on September 11, 2015. Applications received thereafter or without the required documents and/or full payments will be rejected. SMC reserves the right to waive any requirement for the acceptance of the Applications.

Minimum Subscription to the Offer
Shares.....

Each Application shall be for a minimum of 500 Offer Shares, and thereafter, in multiples of 100 Offer Shares. No Application for multiples of any other number of Offer Shares will be considered.

Eligible Investors..... The Offer Shares may be owned or subscribed to by any person, partnership, association or corporation regardless of nationality, subject to limits under Philippine law. However, under certain circumstances, SMC may reject an Application or reduce the number of the Offer Shares applied for subscription.

Subscription to the Offer Shares may be restricted in certain jurisdictions. Foreign investors interested in subscribing or purchasing the Offer Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Offer Shares.

Procedure for Application..... Applications to Purchase may be obtained from any of the Joint Lead Underwriters and Bookrunners and any Selling Agents that may be appointed by the Joint Lead Underwriters and Bookrunners. The Application to Purchase may also be obtained from the website of the Company at www.sanmiguel.com.ph. All Applications shall be evidenced by the Application to Purchase, duly executed in each case by an authorized signatory of the applicant and accompanied by two (2) completed signature cards, the corresponding payment for the Offer Shares covered by the Application and all other required documents including documents required for registry with the registrar and depository agent. The duly executed Application to Purchase and required documents should be submitted to the Joint Lead Underwriters and Bookrunners or Selling Agents at or prior to 12:00 noon, Manila time of the last day of the Offer Period. If the applicant is a corporation, partnership, or trust account, the Application must be accompanied by the following documents:

- (a) a certified true copy of the applicant's latest articles of incorporation and by-laws and other constitutive documents, each as amended to date, duly certified by the corporate secretary;
- (b) a certified true copy of the applicant's SEC certificate of registration, duly certified by the corporate secretary; and
- (c) a duly notarized corporate secretary's certificate setting forth the resolution of the applicant's board of directors or equivalent body authorizing (i) the purchase of the Offer Shares indicated in the application and (ii) the designated signatories for the purpose, including their respective specimen signatures.

Individual applicants must also submit a photocopy of any one of the following identification cards ("ID"): passport/driver's license, company ID, Social Security System/Government Service and Insurance System ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank.

An applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates must indicate such exemption or entitlement in the ATP and also submit additional documents as may be required by the Issuer, including but not limited to, the documents described in page 71 and 232 of the

Prospectus.

Payment for the Offer Shares.....

The Offer Price of the Offer Shares must be paid in full upon submission of the Application.

Payment shall be in the form of either:

- (a) a Metro Manila clearing cashier's/manager's or corporate check or personal check drawn against a bank account with a BSP-authorized agent bank located in Metro Manila and dated as of the date of submission of the Application to Purchase covering the entire number of the Offer Shares covered by the same Application. Checks should be made payable to "SMC Preferred Shares Offer"; or
- (b) for applicants submitting their Application to Purchase to any of the Joint Lead Underwriters and Bookrunners or Selling Agents:
 - (i) through the Real Time Gross Settlement facility of the BSP to the Joint Lead Underwriter and Bookrunner or Selling Agent to whom such Application was submitted, or
 - (ii) via direct debit from their deposit account maintained with the Bookrunner or Selling Agent, or
 - (iii) with respect to applicants that are holders of Subseries "2-A" Preferred Shares, via application of proceeds from the redemption ("Redemption Proceeds") to be received in relation to the redemption thereof to the subscription amount of the Offer Shares to be subscribed to, by giving the Issuer, the authority to apply the Redemption Proceeds as payment of the subscription price for the Offer Shares, provided that:
 - If the subscription amount for the Offer Shares subscribed is less than the Redemption Proceeds, the authority to the Issuer, to apply the Redemption Proceeds shall only be to the extent of the subscription amount.
 - If the subscription amount for the Offer Shares subscribed is more than the Redemption Proceeds, the subscriber shall pay the balance of the subscription amount through the payment modes referred to in items (a), (b)(i), and (b)(ii) above.

Acceptance/Rejection of Applications.....

The actual number of the Offer Shares that an applicant will be allowed to subscribe to is subject to the confirmation of the Joint Lead Underwriters and Bookrunners. SMC reserves the right to accept or reject, in whole or in part, or to reduce any application due to any grounds specified in the underwriting agreement to be entered into by SMC. Applications which were unpaid or where payments were insufficient and those that do not comply with the terms of the Offer shall be rejected. Moreover, any payment received pursuant to the Application does not constitute as approval or acceptance by SMC of the Application.

An Application, when accepted, shall constitute an agreement between the applicant and SMC for the subscription to the Offer Shares at the time, in the manner and subject to terms and conditions set forth in the Application to Purchase and those described in the Prospectus for the Offer. Notwithstanding the

acceptance of any Application by SMC, the actual subscription by the applicant for the Offer Shares will become effective only on Issue Date.

Refunds of Application Payments..... In the event that the number of the Offer Shares to be allotted to an applicant, as confirmed by a Joint Lead Underwriter and Bookrunner or Selling Agent, is less than the number covered by its Application, or if an Application is wholly or partially rejected by SMC, then SMC shall refund, without interest, within five (5) Banking Days from the end of the Offer Period, all, or a portion of the payment corresponding to the number of the Offer Shares wholly or partially rejected. All refunds shall be made through the Joint Lead Underwriter and Bookrunner or Selling Agent with whom the applicant has filed the Application at the risk of the applicant.

Expected Timetable..... The timetable of the Offer is expected to be as follows:

Dividend Rate Setting	August 19, 2015
Dividend Rate Announcement and Allocation of the Offer Shares	August 20, 2015
Offer Period	August 24, 2015 – September 11, 2015
PSE Trading Participants' Commitment Deadline	August 27, 2015
PSE Trading Participants' Allocation	August 28, 2015
Issue Date	September 21, 2015
Listing Date, and Commencement of Trading on the PSE	September 21, 2015

The dates indicated above are subject to the approval of the PSE and the SEC, market and other conditions, and may be changed.

Joint Lead Underwriters and Bookrunners..... BDO Capital & Investment Corporation
BPI Capital Corporation
China Banking Corporation
The Hongkong and Shanghai Banking Corporation Limited
ING Bank N.V., Manila Branch
PNB Capital and Investment Corporation
RCBC Capital Corporation
SB Capital Investment Corporation
Standard Chartered Bank

Co-Lead Manager First Metro Investment Corporation
United Coconut Planters Bank

Co-Manager Asia United Bank

Selling Agents..... Trading Participants of The Philippine Stock Exchange, Inc.
Bank of Commerce

Depository Agent Philippine Depository and Trust Corporation

Receiving Agent, Registrar, and Paying Agent..... SMC Stock Transfer Service Corporation

Counsel to SMC.....	Picazo Buyco Tan Fider & Santos
Counsel to the Joint Lead Underwriters and Bookrunners.....	SyCip Salazar Hernandez & Gatmaitan
Underwriting Commitment.....	Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Lead Underwriters and Bookrunners have committed to underwrite the Offer on a firm basis. For a breakdown of the respective underwriting commitment of the Joint Lead Underwriters and Bookrunners please refer to the section on “Plan of Distribution”.

Description of the Offer Shares

Set forth below is information relating to the Offer Shares. This description is only a summary and is qualified by reference to Philippine law and the Amended Articles of Incorporation and Amended By-laws of SMC, as may be amended from time to time.

Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the articles of incorporation and the by-laws of the corporation.

SMC has an authorized capital stock of ₱30,000,000,000.00, divided into 3,790,000,000 common shares, 300,000,000 Series “1” Preferred Shares, and 1,910,000,000 Series “2” Preferred Shares all with par value of ₱5.00. Below is a table illustrating the outstanding and issued shares of the Company as of July 31, 2015:

Share Class	Issued	Outstanding	Treasury
Common Shares.....	3,283,263,548	2,378,511,011	904,752,537
Series “1”.....	279,406,667	279,406,667	-
Series “2-A”.....	1,758,099,686	1,067,000,000	691,099,686
Series “2-B”.....	90,428,200	90,428,200	-
Series “2-C”.....	255,559,400	255,559,400	-
TOTAL	55,666,757,501	4,070,905,278	1,595,852,223

SMC will exercise its option to redeem the Subseries “2-A” of the Series “2” Preferred Shares, which may be redeemed on the third (3rd) anniversary from its issue date, which is on September 21, 2015, or on any subsequent Dividend Payment Date. The redemption will be partially funded by the proceeds of the issuance of the Offer Shares. The net proceeds of the Subseries “2-A”, “2-B”, and “2-C” Preferred Shares issued in September 21, 2012 were used to redeem all of the Series “1” Preferred Shares and for general corporate purposes.

The Issuance of the Offer Shares

On March 26, 2015, the Board of Directors approved the reclassification of 810,000,000 Series “1” Preferred Shares to Series “2” Preferred Shares. On June 9, 2015, the amendment of the Amended Articles of Incorporation of the Company to reflect the reclassification of the 810,000,000 Series “1” Preferred Shares to Series “2” Preferred Shares was approved by a 2/3 vote of the stockholders of common and preferred shares of stock of the Company during the Annual Stockholders Meeting of the Company. On July 14, 2015, the SEC approved the reclassification of the 810,000,000 Series “1” Preferred Shares to Series “2” Preferred Shares and the corresponding amendment of the Article VII of the Amended Articles of Incorporation of the Company.

With the approval by the SEC of the amendment to the Amended Articles of Incorporation of the Company, the following is the resulting distribution of the preferred shares of the Company:

Particulars	No. of Shares
Total Number. of Series “1” Preferred Shares	300,000,000
Issued	279,406,667
Outstanding	279,406,667
Treasury Shares	0
Unissued Shares	20,593,333
Number of shares that may be issued	20,593,333
 Total Number of Series “2” Preferred Shares	 1,910,000,000
Issued	1,758,099,686
Outstanding	1,067,000,000
Treasury Shares.....	691,099,686
Unissued Shares.....	151,900,314
Number of shares that may be issued.....	843,000,000

In the same meeting of the stockholders of the Company, the stockholders of SMC approved of the issuance of the Offer Shares and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares through the approval of the Enabling Resolutions. On July 8, 2015, the Board of Directors authorized the issuance and the offer to the general public of up to a total of 446,667,000 Series “2” Preferred Shares pursuant to the Re-classification. On July 14, 2015, the SEC approved the amendment to the Articles of Incorporation of the Company relating to the Re-classification. The net proceeds of the Subseries “2-A”, “2-B”, and “2-C” Preferred Shares issued in September 21, 2012 were used to redeem all of the Series “1” Preferred Shares and for general corporate purposes.

The Company has filed an application for the listing of the Offer Shares on the PSE. Once the Offer Shares are listed on the PSE, SMC may purchase the Offer Shares at any time in the open market or by public tender or by private contract at any price through the PSE.

Features of the Offer Shares

In accordance with the Amended Articles of Incorporation of the Company and as approved by the Board of Directors of the Company through the Enabling Resolutions, the Offer Shares are Philippine Peso-denominated, cumulative, non-voting, non-participating and non-convertible, and issued in up to three (3) subseries or tranches, each with different features on dividend rate, redemption and adjustment of dividend rate. The number of Offer Shares to be allocated to each subseries or tranche shall be determined by the Board of Directors of the Company. SMC can issue the Offer Shares only upon full payment by the subscribers of the subscription price for the said shares which shall be ₱75.00 per share.

The Offer Shares have a par value of ₱5.00 per share and with the following general features (for the specific terms of the Offer Shares please refer to the “Terms of the Offer”):

(a) **Dividends** – The Board of Directors shall have the sole discretion to declare dividends on the Offer Shares, provided that SMC has unrestricted retained earnings, and provided that the rate of dividend or formula for determining the same rate shall be indicated in the relevant enabling resolutions.

Dividends, if and when declared by the Board of Directors, will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a “Dividend Payment Date”) with reference to the Offer Price, which date shall be any day within the period commencing on (and including) the last day of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period. A “Dividend Period” shall refer to the period commencing on the Issue Date and having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of the immediately succeeding Dividend Period; provided that, the first Dividend Period of the Offer Shares shall be the period commencing on the Issue Date and ending on the last day of the then current dividend period for the Subseries “2-B” and “2-C” Preferred Shares.

The holders of the Offer Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on the shares as aforementioned, nor shall they be entitled to any other kind of dividend payment whether cash, property, or stock, other than corresponding to the dividend rate determined by the Board of Directors.

For the dividend rights on the Offer Shares, please see “Terms of the Offer” on page 28.

(b) **Conversion** - The Series “2” Shares may be convertible into common shares, as determined by the Board of Directors, on terms and conditions (including conversion period, conversion ratio and price) to be determined and fixed by the Board of Directors in the relevant enabling resolutions.

The Offer Shares, as stated in the Enabling Resolutions, are not convertible.

(c) **Redemption** – SMC has the option, but not the obligation, to redeem all or part of the Offer Shares at a price and at such time that the Board of Directors shall determine. The Offer Shares, when redeemed, shall not be considered retired and may be re-issued by SMC at a price to be determined by the Board of Directors.

As and if declared by the Board of Directors, SMC may redeem the Offer Shares on the redemption price determined therefor.

If at any time, SMC is allowed to redeem more than one Subseries of the Series “2” Preferred Shares, and provided that such Subseries is already redeemable in accordance with the terms and conditions of their issuance. SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries of the Series to Preferred Shares.

SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Offer Shares.

For a more detailed discussion, please see “Terms of the Offer” on page 28.

(d) **Liquidation** – In the event of a return of capital in respect of liquidation, dissolution, bankruptcy or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Offer Shares at the time outstanding will be entitled to receive, in Pesos, out of the assets of SMC available for distribution to shareholders, together with the holders of any other shares of SMC ranking, as regards repayment of capital, *pari passu* with the Offer Shares and before any distribution of assets is made to holders of any class of shares ranking after the Offer Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Series “1” and Series “2” Preferred Shares, inclusive of the Offer Shares are not paid in full, the holders of such shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Offer Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.

(e) **Voting Rights** – Holders of the Series “2” Preferred Shares shall not be entitled to vote except in cases expressly provided by law. Thus, the holders of the Offered Shares are not eligible, for example, to vote for or elect the Board of Directors of SMC. Holders of the Series “2” Preferred Shares, including the Offer Shares, however, may vote on matters which the Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. The following acts require the approval of the shareholders representing at least two-thirds of the issued and outstanding capital stock of SMC in a meeting duly called for the purpose:

- Amendment of the Amended Articles of Incorporation (including any increase or decrease of capital stock);
- Delegation to the Board of Directors of the power to amend or repeal the Amended By-laws or to adopt a new by-laws;
- Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of SMC;
- Incurring, creating or increasing bonded indebtedness;
- Increase or decrease of capital stock;
- Merger or consolidation of SMC with another corporation or corporations;
- Investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which SMC was organized;
- Ratification of contracts of a director or an officer with SMC;
- Extension or shortening of the corporate term of SMC;
- Declaration and issuance of stock dividends; and
- Dissolution of SMC.

However, for the amendment of the Amended By-laws of SMC, the approval of the shareholders representing at least a majority of the issued and outstanding capital stock of SMC in a meeting duly called for the purpose is required.

(f) **Pre-emptive Rights** – Holders of the Series “2” Preferred Shares including the Offer Shares, shall have no pre-emptive right to any issue or disposition of any share of any class of SMC.

It is envisioned that the Offer Shares will be listed on the PSE not later than September 21, 2015, subject to the approval of the SEC and compliance with the requirements of the PSE.

Other Rights and Incidents Relating to the Preferred Shares

The other rights and incidents relating to the Offer Shares, which may also apply to other classes of shares of SMC, are as follows:

Derivative Suit

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

Appraisal Rights

The Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or shortening the term of corporate existence;
- the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all of the assets of the corporation;
- the extension of corporate term;
- the investment of corporate funds in another corporation or business for any purpose other than the primary purpose for which the corporation was organized; and
- a merger or consolidation.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default of agreement, is determined by three (3) disinterested persons, one (1) of whom shall be named by the shareholder, one (1) by the corporation, and the third by the two (2) thus chosen. The SEC will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The dissenting shareholder will be paid if the corporate action in question is implemented and the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

Shareholders' Meetings

At the annual meeting or at any special meeting of shareholders of the Company, the latter may be asked to approve actions requiring shareholder approval under Philippine law.

Quorum

The Corporation Code provides that, except in instances where the assent of shareholders representing two-thirds of the outstanding capital stock is required to approve a corporate act (usually involving the significant corporate acts where even non-voting shares may vote, as identified above) or where the by-laws provide otherwise, a quorum for a meeting of shareholders will exist if shareholders representing a majority of the capital stock are present in person or by proxy.

Voting

Holders of the Offer Shares shall not be entitled to vote except in cases expressly provided by law. At any such shareholders' meeting where holders of the Offer Shares are allowed to vote, each holder of the Offer Shares shall be entitled to vote in person, or by proxy, all shares held by him which have voting power, upon any matter duly raised in such meeting.

The By-laws of SMC provide that proxies shall be in writing and signed and in accordance with the existing laws, rules and regulations of the SEC. Duly accomplished proxies must be submitted to the office of the Corporate Secretary not later than ten (10) trading days prior to the date of the shareholders' meeting.

Fixing Record Dates

The Board of Directors has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their votes voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. The Board of Directors may, by resolution, direct the stock transfer books of the Company be closed for a period not exceeding 20 days preceding the date of any meeting of shareholders. The record date shall in no case be more than 60 days or less than 35 days preceding such meeting of shareholders.

Accounting and Auditing Requirements/Rights of Inspection

Philippine stock corporations are required to file copies of their annual financial statements with the SEC. Corporations whose shares are listed on the PSE are also required to file quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board of Directors is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year. This report is required to include audited financial statements.

Changes in Control

There is no provision in the Amended Articles of Incorporation and Amended By-laws of SMC which would delay, deter or prevent a change in control of SMC. There are no existing arrangements to which SMC is a party or which are otherwise known to SMC that may result in a change in control of SMC.

Risk Factors

General Risk Warning

An investment in the Offer Shares involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the business, financial condition, results of operations and cause the market price of the Offer Shares to decline. All or part of an investment in the Offer Shares could be lost. Investors deal in a range of investments each of which may carry a different level of risk.

Prudence Required

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the Offer Shares and SMC from the SEC and PSE.

Professional Advice

An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high risk securities.

Risk Factors

This Prospectus contains forward-looking statements that involve risks and uncertainties. SMC adopts what it considers conservative financial and operational controls and policies to manage its business risks. The actual results may differ significantly from the results discussed in the forward-looking statements. See section “Forward-Looking Statements” of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of SMC, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Offer Shares. The business, financial condition and results of operations of the Company could be materially and adversely affected by any of these risk factors.

Risks Relating to SMC and the SMC Group

Diversification of businesses and acquisition of new businesses

The traditional core businesses of SMC comprise primarily of beverage, food and packaging products. SMC has embarked on a diversification strategy and has expanded into a number of new businesses, including fuel and oil, energy, infrastructure, telecom and other businesses outside of its traditional core businesses. SMC has implemented this strategy through a series of acquisitions and investments and intends to continue to pursue its diversification strategy. SMC intends to make further acquisitions and investments to enhance its product and brand portfolio and realize other strategic and cost benefits.

The diversification strategy of SMC involves a number of risks and challenges, including the substantial financial investments required to implement this strategy, diversion of time and resources of management to focus on implementing the strategy and managing a broader scope of businesses and risks inherent in making new acquisitions and investments. Growth through acquisitions involves business risks, including unforeseen contingent risks, latent business liabilities and other challenges that may only become apparent after the acquisition is finalized, such as the successful integration and management of the acquired business by SMC, retention of key personnel, joint sales and marketing efforts, and management of a larger

business. In addition, there is no assurance that SMC will achieve the anticipated benefits, expected returns, strategic benefits or synergies of an acquisition, or that SMC will be as successful in new businesses as it has been in its traditional core businesses. Failure to successfully implement its diversification strategy, to integrate acquired businesses or to realize the anticipated benefits of acquisitions or investments could materially and adversely affect the business, financial condition, results of operations and prospects of SMC.

SMC, through its merger and acquisitions team, undertakes prudent review and due diligence, and evaluates the viability of any acquisition or investment. In addition, the Company is guided by metrics when assessing possible investments, which include, but not limited to, financial returns and possible synergies across the Group, with an overall objective of maximizing returns for its shareholders.

Ability of the largest shareholders to influence corporate actions

Top Frontier Holdings Inc. ("Top Frontier") and Privado Holdings Corporation ("Privado") are the major shareholders of SMC and hold approximately 66.14% and 15.71% of the common shares of SMC, respectively, and collectively control approximately 81.85% of the voting rights of the common shares as of March 31, 2015. Top Frontier and Privado are able to influence the businesses of SMC through their ability to vote on corporate actions that require Board and shareholder approval. Top Frontier and Privado are not obligated to provide SMC with financial support. There can be no assurance that Top Frontier and Privado will influence SMC to pursue actions that are in the best interests of the shareholders.

The Company continues to have comprehensive discussions and good relationship with its shareholders working towards a common goal of expanding the business, increasing profitability and maximizing shareholder value.

Possible disagreements among joint venture partners of SMC

Some of the subsidiaries and associates of SMC are conducted through joint ventures with other partners, including Kirin for beer, Hormel Foods Corporation for processed meats, NYG for a number of packaging products, and Padma for toll roads. Cooperation among the joint venture partners on business decisions is crucial to the sound operation and financial success of these joint venture companies.

There is no assurance that these relationships will be sustained or issues will not develop and occurrence of such could have a material adverse effect on the financial condition and results of operations of SMC.

SMC continues to engage and generally has good working relationships with its business partners to ensure sound operation and financial success of these joint ventures.

Dependence on trademarks and proprietary rights

The SMC Group uses various brand names and trademarks, including *San Miguel*, *Ginebra San Miguel*, *Purefoods*, *Magnolia*, *Star*, *Dari Crème*, *B-Meg*, *La Pacita*, *Petron*, *Gasul* and other intellectual property rights to prepare, package, advertise, distribute and sell its products for its various businesses. Protection of those brands and intellectual property rights is important to maintaining the distinctive corporate and market identities of the SMC Group. If third parties sell products which use counterfeit versions or otherwise look confusingly similar to SMC Group brands, consumers may mistake products of the Company with those that they consider to be inferior. This could negatively affect the brand image and sales of the SMC Group, particularly in the beverage and food businesses. In addition, the SMC Group has been granted numerous trademark registrations covering its brands and products, and has filed, and expects to continue to file, trademark applications seeking to protect newly developed brands and products.

There is no assurance that third parties will not challenge, invalidate or circumvent any existing or future trademarks issued to, or licensed by, the SMC Group. Any failure to protect the proprietary rights of the SMC Group could severely harm its competitive position, which could materially and adversely affect the business, financial condition, results of operations and prospects, as well as reputation, of the SMC Group. In addition, certain intellectual property rights of the SMC Group are licensed and there is no assurance that the relevant licensors will offer to renew the licenses on terms acceptable to the SMC Group or at all. The failure to renew one or more of its material licenses could have a material adverse effect on the ability of the SMC Group to market certain products and on results of operations of the SMC Group.

SMC closely monitors products released in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of its brands and other proprietary rights. The Company has also retained independent external counsels to alert the Company of any such attempts and to enjoin third parties from the use of colorable imitations of its brands and/or marked similarities in general appearance or packaging of products, which may constitute trademark infringement and unfair competition.

Loss of Key Personnel

Any loss of key personnel, inability to replace such personnel and to train and retain replacement personnel could materially and adversely affect the ability of the SMC Group to provide products and services to its customers. Continued resignation of trained personnel could also result in the SMC Group incurring additional expenses in hiring and training replacement personnel in a competitive job market, and it may take time for these new personnel to reach the level of technical skill and expertise of the personnel being replaced. In addition, the SMC Group has relied and will continue to rely significantly on the continued individual and collective contributions of its senior management team. If any key personnel are unable or unwilling to continue in their present positions, or join a competitor or establish a competing business, the SMC Group may not be able to replace them easily, and its business may be significantly disrupted. Any of the foregoing could have a material adverse effect on the business, financial condition and results of operations of the SMC Group.

SMC Group strives to strengthen the competencies of its employees, specifically those in the succession pipeline of key personnel. The subsidiaries of SMC have established employee training programs such as the Brewing School for SMB that trains brewmasters, the San Miguel Pure Foods University and the Leadership Enrichment and Development of Petron, management training programs in partnership with Harvard Business Publishing and John Clements Consultants that prepare their employees to take on higher responsibilities. SMC also pursues strategic hiring for identified critical positions.

Labor disruptions

As of March 31, 2015, approximately 20.0% of the employees of the SMC Group were parties to various collective bargaining agreements and there are 32 labor unions within the businesses of the SMC Group. While the SMC Group has not experienced any strikes, work stoppages or other labor disruptions since 2003, there is no assurance that it will not experience future labor disruptions to its operations due to disputes or other issues with employees, which could materially and adversely affect its business, financial condition and results of operations.

The SMC Group maintains good labor relationships and a constant line of communication with its employees. SMC also engages its employees through employee relations programs to maintain a high level of employee satisfaction.

Changes in the legal and regulatory environment

The businesses and operations of the SMC Group are subject to a number of national and local laws, rules and regulations governing several different industries in the Philippines and in other countries where it conducts its businesses.

The SMC Group is also subject to various taxes, duties and tariffs. In the case of Petron, import duties for crude oil and petroleum products were increased on January 1, 2005 from 3.0% to 5.0% and then decreased to 3.0% effective as of November 1, 2005. These duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). The Philippine government imposed an additional 12.0% value added tax ("VAT") on the sale or importation of petroleum products in 2006. Therefore, there is no assurance that taxes applicable to the SMC Group will not be increased again in the future.

The beer and liquor businesses became subject to higher excise taxes starting in 2013. Starting January 1, 2013, the excise tax rates applicable to SMB products were ₱15.00 per liter (for products in Tier 1 which have net retail price per liter of ₱50.60 or less) and ₱20.00 per liter (for products in Tier 2 with net retail price per liter of more than ₱50.60). In January 2014 and 2015, Tier 1 products increased to ₱17.00 per liter and ₱19.00 per liter, respectively, while Tier 2 products increased to ₱21.00 per liter and ₱22.00 per liter, respectively. As of January 1, 2013, the ad valorem excise tax rate applicable to Ginebra products was 15.0% of the net retail price per proof plus a specific tax of ₱20.00 per proof liter. In January 2015, the ad valorem excise tax rate applicable was increased from 15.0% to 20.0% of the net retail price per proof plus a

specific tax of ₱20.00 per proof liter. SMB and Ginebra may be unable to fully pass on to customers any increase in excise taxes, which may adversely affect their business, financial condition and results of operations.

SMC Global Power is subject to extensive regulation in the Philippines, including the Electric Power Industry Reform Act of 2001 ("EPIRA"). As of December 31, 2014, several bills relevant to the power industry have been filed with both houses of the Congress of the Philippines. Some of the proposed bills, if enacted, would impose additional costs on SMC Global Power, including the requirement to directly remit proceeds of financial benefits set aside for host communities to local government units and the redefinition of the term "host communities" to include all areas that protect and maintain the watersheds that supply a particular dam or hydroelectric power generation facility. Several bills proposing amendments to the EPIRA have also been filed, some of which would include changes to the ability of power generators and distributors to pass on costs or allowable system losses to end-users. The enactment and implementation of any such bills or amendments to the EPIRA, or other changes to Philippine laws and regulations relevant to the power industry, could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power, or on the rules and regulations governing the power industry, which could materially reduce its sales and profitability.

For the toll road business, the Toll Regulatory Board of the Philippines ("TRB") has yet to approve any toll rate increase for all toll road concessionaires since 2012. Specifically, in the case of SLTC, two (2) petitions for periodic toll rate adjustments were filed but these have yet to be acted upon by TRB.

In addition, the Philippine government may periodically implement measures aimed at protecting consumers from rising prices, which may constrain the ability of the SMC Group to pass on price increases to distributors who sell its products, as well as its customers. Implementation of any such measures could have a material adverse effect on the business, financial condition and results of operations of the SMC Group.

While the SMC Group believes that it has, at all relevant times, materially complied with all applicable laws, rules and regulations, there is no assurance that changes in laws, rules or regulations or the interpretation thereof, will not result in the SMC Group having to incur substantial additional costs or capital expenditures to upgrade or supplement its existing facilities or being subject to an increased rate of taxation or fines and penalties.

The SMC Group is in constant consultation with relevant government agencies and other approving bodies to ensure that all requirements, permits and approvals are anticipated and obtained in a timely manner. Further, the SMC Group maintains a strong compliance culture and has processes in place in order to manage adherence to laws and regulations. In the event that the SMC Group becomes involved in future litigation or other proceedings or be held responsible in any future litigation and proceedings, the Company endeavours to amicably settle the legal proceedings and in the event of any adverse ruling or decision, diligently exhaust all legal remedies available to it.

Exposure to safety, health and environmental costs and liabilities

The businesses of the SMC Group span several industries and are subject to a variety of laws, rules and regulations that impose limitations, prohibitions and standards with respect to health and safety as well as the use, discharge, emission, treatment, release, disposal and management of regulated materials and waste, and hazardous substances. Safety, health and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly more stringent in the future. The adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations as well as any costs related to fines and penalties.

Furthermore, if the measures implemented by the SMC Group to comply with these laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates. If the SMC Group fails to meet safety, health and environmental requirements, it may be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the SMC Group, as well as orders that could limit or halt its operations. There is no assurance that the SMC Group will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters in the future, the costs of

which could be material. Environmental compliance and remediation costs at sites on which its facilities are located and related litigation and other proceedings could materially and adversely affect the cash flow, results of operations and financial condition of SMC.

The strong compliance culture of the SMC Group and the processes in place to manage adherence with laws and regulations mitigate this risk. For further information, see section on Regulatory Framework on page 237 and Compliance to Environmental Laws on page 84.

Shortage of raw materials

The products and businesses of the SMC Group, specifically the beverage, food, packaging, fuel and oil and energy businesses, depend on the availability of raw materials. Most of these raw materials, including some critical raw materials, are procured from third parties. These raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

Movements in the supply of global crops may affect prices of raw materials, such as wheat, malted barley, adjuncts and molasses for the beverage and food businesses. The beverage business also depends heavily on the supply of water. Although the beer business uses its own deep wells for water at several breweries, it is still reliant on a third party source for the Polo brewery.

The food business may also face disruptions in the supply of major raw materials. In 2012, there was insufficient local supply of cassava due to adverse weather conditions in the Philippines in the latter part of 2011, which prompted some farmers to switch to planting corn rather than cassava for the next cycle. As a result, San Miguel Pure Foods had to purchase and use a bigger quantity of more expensive raw materials, such as corn.

The packaging business also needs to obtain sufficient quantities of quality raw materials, including glass, aluminum, paper, plastics and composites in a timely manner and requires a significant amount of electricity in order to maintain its operations.

Petron is primarily affected by the volatility of crude oil prices, which are affected by changes in global supply and demand, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation and other factors over which Petron has no control.

The power business requires sufficient coal supply from its power plants. SMEC entered into a coal supply contract with PT Trubaindo Coal Mining ("Banpu") and Kaltim Prima Coal ("KPC"). The terms of the formal contract with KPC are currently under negotiation. If Banpu and KPC fail to perform their obligations under the coal supply contract with SMEC, the disruption of coal supply may materially affect the operations of SMEC.

The SMC Group may also face increased costs or shortages in the supply of raw materials due to the imposition of new laws, regulations or policies. In Mindanao (located in the southern part of the Philippines), a significant portion of the population is Muslim, who require that all of the poultry processing plants of San Miguel Pure Foods in that region are halal-certified. Legislation has been proposed to require additional halal certification for feedmills that supply poultry farms from which halal products are sourced. If this proposed legislation is enacted and implemented, certain raw materials may have to be eliminated from the poultry feeds of the SMC Group used in this region. This could increase the cost of poultry feeds and the cost of poultry production in the region, which could materially reduce net income and profitability.

Although the SMC Group actively monitors the availability and prices of raw materials, there is no assurance that these items will be supplied in adequate quantities or at the required quality to meet its needs or will not be subject to significant price fluctuations in the future. While the SMC Group may, in certain limited instances, be able to shift to alternative raw materials to produce its products, there is no assurance that it will be able to reduce its reliance on these raw materials in the future. The SMC Group may only have a limited ability to hedge against commodity prices and any hedging activities may not be as effective as planned. Moreover, market prices of raw materials could increase significantly if there are material shortages due to, among other things, competing usage, drastic changes in weather or natural disasters. There is no assurance that any increases in product costs could be passed on to consumers. As a result, any significant shortages or material increase in the market price of such raw materials could have a material adverse effect on the financial and operating performance of the SMC Group.

For more information on the strategies of the Company to reduce risks relating to the availability of raw materials, see “Business Strategies” on page 82.

Changes in consumer preferences and purchasing power

The ability of the SMC Group to successfully develop and launch new products and maintain demand for existing products depends on the acceptance of such products by consumers and their purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. A significant decrease in disposable income levels or consumer purchasing power in the target markets of the food and beverage businesses could materially and adversely affect the financial position and financial performance of the SMC Group. Consumer preferences may shift for a variety of reasons, including changes in culinary, demographic and social trends or leisure activity patterns. Concerns about health effects due to negative publicity regarding alcohol consumption, negative dietary effects or other factors may also affect consumer purchasing patterns for the beverage and food products. If the marketing strategies of the SMC Group are not successful or do not respond timely or effectively to changes in consumer preferences, the business and prospects of the SMC Group could be materially and adversely affected.

Sales of beer are highly influenced by the purchasing power and disposable income levels of consumers. In periods of economic uncertainty or downturns, consumers may purchase fewer alcoholic beverages which could affect the financial performance of the beverage business of SMC. Likewise, demand for many of the food products of San Miguel Pure Foods is tied closely to the purchasing power of consumers.

For more information on the efforts of the Company to address these risks please refer to the discussion on “The Company - Business Strategies” on page 82 and “The Company - Competitive Strengths - Strong Commitment to Product Innovation” on page 100.

Ability of subsidiaries and associates to distribute dividends

SMC is a holding company that conducts all of its operations through its subsidiaries and associates. As a holding company, the revenues of SMC are derived from, among other sources, dividends paid by its subsidiaries and associates. SMC is reliant on such sources of funds with respect to its obligations and in order to finance its subsidiaries. The ability of the subsidiaries and associates of SMC to pay dividends is subject to the performance and cash flow requirements of such subsidiaries and associated companies and to applicable law and may be subject to restrictions contained in loans and/or debt instruments of such subsidiaries and may also be subject to the deduction of taxes.

Any restriction or prohibition on the ability of some or all of the subsidiaries or associates of SMC to distribute dividends or make other distributions to SMC, either resulting from regulatory restrictions, debt covenants, operating difficulties or other limitations, could have a negative effect on the cash flow, financial condition and results of operations of SMC.

SMC maintains a policy wherein subsidiaries declare a maximum level of dividends to the Parent Company, taking into consideration the funding requirements of the subsidiaries for its operations and expansion programs.

Foreign exchange risk

73.3% of the sales of the SMC Group is denominated in Philippine Peso, while a substantial portion of its expenses, including raw materials, crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. As of March 31, 2015, the percentage of outstanding debt of the SMC Group denominated in foreign currencies was 47.3%.

In addition, the financial reporting currency of SMC is in Philippine Peso, and therefore depreciation of the Philippine Peso would result in an increase in foreign currency denominated expenses of SMC as reflected in its Philippine Peso financial statements. This could also result in foreign exchange losses due to mark-to-market valuation of foreign currency denominated assets and liabilities, including increases in the Philippine Peso amounts of the foreign currency denominated debt obligations of SMC, thereby adversely affecting its results of operations and financial condition. In addition, there is no assurance that SMC could increase its Peso-denominated product prices to offset increases in costs resulting from any depreciation of the Philippine Peso.

In addition, depreciation or appreciation of the Philippine Peso may result in significantly higher domestic interest rates, liquidity shortages and capital or exchange controls. This could result in a reduction of economic activity, economic recession, sovereign or corporate loan defaults, lower deposits and an increased cost of funds. The occurrence of any of the foregoing events could have a material adverse effect on the businesses, financial condition, liquidity and results of operations of SMC.

SMC uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure.

Availability of financing

The expansion and growth plans of the SMC Group are expected to be funded through a combination of internally generated funds and external fund raising activities, including debt and equity financing. The continued access of the SMC Group to debt and equity financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors including: (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (ii) the compliance of SMC Group with existing debt covenants; (iii) the ability of the SMC Group to service new debt; and (iv) perceptions in the capital markets regarding the SMC Group and the industries in which it operates and other factors, including general conditions in the debt and equity capital markets, which are outside of its control. Political instability, an economic downturn, social unrest, or changes in the Philippine regulatory environment could increase the cost of borrowing for the SMC Group or restrict its ability to obtain debt financing. There is no assurance that the SMC Group will be able to arrange financing on acceptable terms. Any inability of the SMC Group to obtain financing from banks and other financial institutions or from the capital markets would adversely affect the ability of the SMC Group to execute its expansion and growth strategies as well as its financial condition and prospects.

The Company believes that it can withstand such events with the system of financial prudence and corporate governance that provides the foundation for its risk management initiatives. The Company can also rely on its strengths to navigate and have continual access to financing. For further discussions on these strengths, please refer to “Strengths of SMC” on page 79.

Uninsured losses

The SMC Group may not be fully insured against, and insurance may not be available for, unexpected losses caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. Any unexpected losses caused by such events against which it is not fully insured could have a material adverse effect on its businesses, financial condition and results of operations. Any accident at the facilities of the SMC Group could result in significant losses. It could suffer a decline in production, receive adverse publicity and be forced to invest significant resources in addressing such losses. Such events could materially and adversely affect its financial condition and results of operations.

While the Company has not experienced any major downturn in its operations brought about by unexpected losses caused by natural disasters or other events that could affect the facilities of SMC Group, the Company believes that it can withstand such events with its business strategies in place. The Company also has a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives. For further discussions on the business strategies of the Company, please refer to page 82.

Outsourcing risk

The SMC Group outsources most of its beverage, food and packaging manufacturing and distribution operations to third party contractors. To ensure the timely production and distribution of its products, the SMC Group continuously monitors the efficiency and manufacturing capabilities of the relevant production facilities. However, any of the third party contractors may experience operational issues that could cause production shortages and distribution delays. If one or more of the contract manufacturers, facility operators or distributors of the SMC Group fails to or is unable to manufacture, produce or distribute products in a timely manner, in sufficient quantities or at satisfactory quality levels, its ability to bring products to the market and its reputation could suffer, which could have a material adverse effect on the businesses and financial performance of SMC, as well as its prospects. In addition, there is no assurance that it will continue

to find new contract manufacturers or distributors in line with increased customer demand in the future, which could materially and adversely affect the business and prospects of SMC.

The SMC Group continuously monitors the efficiency and manufacturing capabilities of the production facilities of its various contractors.

Disruption of operations

The facilities and operations of the SMC Group could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters and other unforeseen circumstances and problems. In the case of San Miguel Pure Foods, its Marikina plant ceased operations after it was severely damaged by typhoon “Ondoy”, which affected Metro Manila in September 2009. As a result of this closure, and the consequent transfer of production capacities to a Cavite plant and other third party contracted plants, San Miguel Pure Foods was unable to meet volume demand during the relevant period, and its sales were adversely affected during the fourth quarter of 2009. These disruptions could result in product run-outs, facility shutdown, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and unplanned inventory build-up, all of which could have a material adverse effect on the business, financial condition and results of operations of SMC.

The SMC Group undertakes necessary precautions to minimize impact of any significant operational problems in its subsidiaries through effective maintenance practices.

Risks Relating to the Beverage Business

Price sensitive market

Substantial majority of beer and liquor drinkers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. Accordingly, the alcoholic beverage market in the Philippines is highly price elastic. If the beverage business raises the prices of its products, sales volumes will likely decline or slow down. In the case of the beer business, on April 1, 2008, SMB raised the selling prices of its beer products by an average of 7.0%, primarily in response to sharp increases in the prices of raw materials in 2007 and 2008. Despite the cost pressures and price increases, however, the sales volume of SMB still grew by 4.0% in 2008, albeit at a slower rate than its hefty volume growth in 2007. Recently, subsequent price increases were implemented in view of higher business costs and the annual increase in excise taxes beginning January 1, 2013. This slowed down sales performance in 2013 albeit volume recovery was noted in 2014. Price elasticity of demand for its products may limit the ability of the beverage business to pass on increases in excise taxes, raw material costs or other expenses, which may negatively affect its financial results and financial performance.

The beverage business implements campaigns and consumer and trade programs designed to strengthen brand equity, which have been successful in increasing consumption.

Increases in excise tax

Beer and liquor are subject to excise tax, and increases in excise taxes or VAT, may: (i) reduce sales volume if passed on to the consumers by way of upward price adjustments, (ii) reduce profit margins if prices remain unchanged, or (iii) have both such effects if additional taxes are not fully passed on to the consumers. On January 1, 2013, the Philippine government implemented a new excise tax structure. Additional non-scheduled increases in excise tax or VAT rates are also possible.

The beverage business has put in place an effective price management program to manage effects of taxes on both its sales volume performance and profit margins.

Competition in the beverage industry

The Philippine alcoholic beverage industry is highly competitive. The beverage business faces competition from other domestic producers, which sell their own brand and foreign brands it produces under license, and from foreign brewers and distillers. In the alcoholic beverage industry, competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. The beverage business also competes with other discretionary items, including other food and beverage products, as well as other goods and services.

The consolidation of competitors, the entry of a new and larger competitor into the Philippine market, or unanticipated actions or irrational behavior by existing competitors, could lead to downward pressure on prices or a decline in market share. Any such event could materially and adversely affect the financial position and financial performance of the beverage business.

The beverage business conducts trademark nationwide and local events such as *San Miguel Oktoberfest*, *Red Horse Muziklaban*, *Sarap Mag Babad* summer program and *National Beer Drinking Contest* for SMB and *Ginumanfest* for Ginebra. It has a dominant presence in major fiestas and festivals, thereby increasing brand exposure to the consumers. The beverage business also has an established distribution system, which serves as a strong barrier to entry for new competitors as it requires high capital investment.

Production difficulties

Although the beverage business continuously seeks to enhance the efficiency and manufacturing capabilities of its production facilities, it may experience production difficulties that may result in shortages and delays in deliveries, which is common in the manufacturing industry. There can be no assurance that the beverage business will not experience production difficulties in the future and SMC cannot assure prospective investors that it will be able to increase the efficiency and manufacturing capabilities of its production facilities in line with any increased customer demand in the future. Furthermore, the beverage business cannot assure prospective investors that it will be able to meet increasing demand for its products without having to incur significant additional capital expenditures in the future.

The beverage business undertakes necessary precautions to minimize risk of any significant operational problems in its facilities through regular and scheduled facility maintenance activities. Moreover, the current production capability of the beverage business is seen to be adequate to address the possible increase in consumer demand.

Risks Relating to the Food Business

Outbreak of diseases

The fresh meats and poultry businesses of San Miguel Pure Foods are subject to the risk of losses caused by outbreaks of diseases in any of the hog, cattle or poultry farms it owns or contracted. The livestock industry in the Philippines has experienced outbreaks of disease in the past. In particular, an industry-wide Porcine Epidemic Diarrhea that affected several facilities of San Miguel Pure Foods in the second quarter of 2008 and the third quarter of 2010, and a Porcine Reproductive and Respiratory Syndrome outbreak at contract growing facilities in the second and third quarters of 2008 negatively affected revenue growth in the fresh meats business during those periods.

In addition, any outbreak of a contagious disease in the Philippines, including bird flu or H1N1 influenza (or swine flu), could have a material adverse effect on the business, financial condition and results of operations of San Miguel Pure Foods. In particular, any outbreak of a contagious disease could adversely affect the ability to adequately staff its operations and the distribution networks for its products, as well as the general level of economic activity in the Philippines. There is no assurance that any future outbreak of a contagious disease will not have a material adverse effect on the results of operations, sales and profitability of San Miguel Pure Foods.

There is also no assurance that policies and controls of San Miguel Pure Foods will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu or any other contagious disease affecting its livestock production in the Philippines or elsewhere will not occur. Any occurrence of such events could have a material adverse effect on the business, financial condition and results of operations of San Miguel Pure Foods.

San Miguel Pure Foods has adopted strict bio-security measures in its facilities to prevent the outbreak or recurrence of diseases, including the separation of its hog breeding from nursery operations, bird proofing to prevent the entry of outside birds into its poultry farms and implementation of strict visitor screening and sanitation procedures for entrance to any of its poultry and hog facilities.

Product liability claims

The success of San Miguel Pure Foods largely depends upon the perception of the consumers on the reliability and quality of its products. Any event or development that detracts from the perceived reliability or quality of its products could materially reduce demand. Contamination of products by bacteria or other external agents, such as *Listeria monocytogenes*, Salmonella or E. coli, whether arising accidentally or through deliberate third-party action, could potentially result in product liability claims. In particular, San Miguel Pure Foods has minimal control over handling procedures once its products have been dispatched for distribution and therefore, may be vulnerable to problems. An inadvertent distribution of contaminated products may also constitute a violation of law and lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny and penalties, including injunctive relief and plant closings by regulatory authorities, and adverse publicity, which could exacerbate the associated negative consumer reaction. While no material product liability claim has been filed against San Miguel Pure Foods, any such product liability claim, whether or not successful, could damage the reputation of San Miguel Pure Foods and its products, and materially reduce sales and profitability.

For more information on the strategy of San Miguel Pure Foods to reduce risks relating to product liability claims, see discussion on “Quality Control, Health, Safety and Environmental Matters” on page 113.

Competition in the food industry

The Philippine food industry is highly competitive. While San Miguel Pure Foods believes that it has the largest market share across several of its product categories, there is no assurance that it will be able to sustain or increase its current market share. In the food industry, competitive factors include price, product quality, brand awareness, distribution coverage, customer service and the ability to respond effectively to changes in consumer tastes and preferences. Consolidation, entry of new and larger competitors or irrational actions by competitors, such as irrational pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices or cause market share to decline. Any failure by San Miguel Pure Foods to successfully compete with its competitors or sustain market share could have a material adverse effect on its business, financial condition, results of operations and prospects.

San Miguel Pure Foods continues to actively invest in market research. For more information on the efforts to address these risks please refer to the discussion on “Business Strategies” on page 82.

Importation of lower-priced products

San Miguel Pure Foods may face increased competition from less expensive imported products when import duties on those products are decreased or eliminated. In particular, the Philippines is a signatory to several free trade agreements, such as the ASEAN Free Trade Agreement, the ASEAN-Australia-New Zealand Free Trade Area Agreement and the Japan-Philippines Economic Partnership Agreement, which may lead to increasingly lower-priced imported products entering the Philippine market. As of January 1, 2010, import duties on certain value-added products, such as instant coffee, were reduced from 5.0% to zero for imports from other ASEAN countries. San Miguel Pure Foods has already experienced the effects of increased competition as a result of the elimination of these import duties.

According to news reports and statements by Philippine livestock industry trade associations, some pork imports have been incorrectly declared for customs purposes, a practice that San Miguel Pure Foods believes escalated in the first half of 2012, with imported pork cuts such as shoulder and bellies misrepresented as offals, resulting in a tariff rate of 5.0% instead of either 30.0% or 40.0%. San Miguel Pure Foods believes these tariff avoidances lead to higher imports of frozen pork, which cause market oversupply, resulting in lower selling prices. Moreover, imports of pork products from China are currently banned under phytosanitary restrictions. If this ban were to be lifted in the future, San Miguel Pure Foods would face competition from lower-priced Chinese imports.

The business model of San Miguel Pure Foods allows it to take advantage of least cost production to address such competition. For more information, please see discussion on “Food Business - Business Strategies - Improve profitability through cost leadership” on page 103.

Risks Relating to the Packaging Business

Handling of products

There is no assurance that products packaged by the Packaging Group would not be contaminated during manufacturing, distribution or retail process. Lack of care in the handling or storage by distributors of products produced by the customers of the Packaging Group, tampering, vandalism or terrorist activities could result in the contamination or adulteration of the finished products. Any lack of care or tampering of such products, especially in instances where it is not readily capable of detection, could negatively impact the reputation of the Packaging Group and may have a material adverse effect on its business, financial performance and results of operations.

The Packaging Group is committed to providing products and services that secure the satisfaction of its customers. It adheres to various management systems, including food safety and quality, to prevent or minimize the contamination of packaging products during manufacturing, distribution or retail process.

Competition and challenges in product development and production processes

One of the success factors of the Packaging Group depends on its ability to identify, adapt to and meet changing customer requirements and trends in the industry. Any failure to timely develop and introduce new products, or enhance existing products in response to changing customer requirements or industry standards could have a material adverse effect on its business, financial condition and results of operations.

In addition, new technology or production methods require significant capital investments and could take substantial amount of time to implement. There is no assurance that the Packaging Group will successfully develop such technology and production methods or will be accepted by existing customers or attract new customers, which could have a material adverse effect on the business, financial condition and results of operations.

The Packaging Group continues to develop and implement product innovations and improve its production technology, processes and efficiencies in order to compete in the packaging industry.

Risks Relating to the Fuel and Oil Business

Volatility in crude oil price

The financial results of Petron are primarily affected by the relationship, or margin, between the prices for its refined petroleum products and the prices for crude oil refined into petroleum products, which accounts for a large portion of total cost of goods sold. As of December 31, 2014, crude oil accounted for approximately 54.0% of the total cost of goods sold of Petron.

Many factors influence the price of crude oil, including changes in global supply and demand, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation and other factors over which Petron has no control. Historically, international crude oil prices have been volatile, and they are likely to continue to be volatile in the future. For the year 2014, prices of reference Dubai crude reached as high as US\$108 per barrel in June, which dropped to US\$60 per barrel in December. It further declined in January 2015, reaching as low as US\$46 per barrel, averaging at US\$52 per barrel in the first quarter 2015, a 50.0% decline from the same period of the previous year.

Petron holds approximately two (2) weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. Accordingly, since Petron accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect Petron, as it may require Petron to sell its refined petroleum products produced with higher-priced crude oil at lower prices. Petron may not be able to pass crude oil price fluctuations to its consumers in a timely manner due to social and competitive concerns. Any inability to pass on fluctuations in the price of crude oil may have a material adverse effect on the business, financial condition and results of operations of Petron. In addition, even if Petron were able to pass on price increases to its customers, demand for its products may decrease as a result of such price increases.

Furthermore, a sharp rise in crude oil prices would increase requirements of Petron for short-term financing for working capital and may result in higher financing costs. Any difficulty in securing short-term financing for

working capital, or unfavorable pricing terms, may have a material adverse effect on the business, financial condition and results of operations of Petron.

Petron has proactive risk management programs and hedging activities to minimize exposure to inventory losses risk. In addition, the benefits of the RMP-2 will limit the effect of crude price volatility. For further discussion on the benefits of the RMP-2, please refer to page 118.

Dependence on supplier

Petron purchases a significant portion of crude oil for its Philippine operations from Saudi Arabian Oil Company ("Saudi Aramco"). In 2014 and the first quarter of 2015, Petron purchased approximately 86.0% and 88.0%, respectively, of the total crude oil supply requirements of the Limay Refinery from Saudi Aramco, the state-owned national oil company of Saudi Arabia. Petron has a term contract with Saudi Aramco since 2008 to purchase various Saudi Aramco crudes. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is automatically renewed annually unless either Petron or Saudi Aramco decides to terminate the contract at least 60 days' written notice prior to its expiration date. The RMP-2 is expected to increase the total crude oil supply requirements of the Limay Refinery. Petron may be required to purchase more Saudi Aramco crudes to meet such increased demand. The supply of imported crude oil by Saudi Aramco is subject to a variety of factors beyond the control of Petron, including political developments in and the stability of Saudi Arabia and the rest of the Middle East, government regulations with respect to the oil and energy industry in those regions, weather conditions and overall economic conditions in the Middle East. In addition, Petron purchases a significant portion of the crude oil supply requirements for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia, Inc. ("EMEPMI").

A disruption in the operations of Saudi Aramco or of EMEPMI, or a decision by either Saudi Aramco or EMEPMI to amend or terminate their respective contracts with Petron, could negatively impact its crude oil supply. If the supply of crude oil from Saudi Aramco or EMEPMI were disrupted, Petron would be required to meet any consequent supply shortfall through other suppliers or spot market purchases. Depending on market conditions at the time of the disruption, such purchases from other suppliers could be at higher prices than the purchases of Petron from Saudi Aramco or EMEPMI, which would adversely affect its business, financial performance and results of operations.

The Limay Refinery and the Port Dickson Refinery are capable of processing other crude oils. The crude oil optimization strategy includes the utilization of other crude oils at both refineries. In addition, with RMP-2, the Limay Refinery has the flexibility to use heavier, more sour alternative crudes.

Intensive capital requirements

Petron is a capital intensive business. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures. Its ability to maintain and increase its sales, net income and cash flows depends upon the timely and successful completion of its planned capital expenditure projects. The current business strategies involve various upgrades and enhancements to its refineries, primarily the Limay Refinery pursuant to the RMP-2, the continued expansion of its service station network in the Philippines, the rebranding and refurbishing of its service station network in Malaysia, and the expansion and upgrade of its logistics capacity. If Petron fails to complete its planned capital expenditure projects on time or within budget, or to operate its facilities at their designed capacity, it may be unable to achieve the targeted growth in sales and profits, and its business, financial condition and results of operations could be adversely affected.

In addition, Petron has incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five (5) years or less. Its ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. There can be no assurance that Petron will be able to generate sufficient cash flows from its operations or obtain adequate financing for its planned capital expenditure projects or to meet its debt servicing obligations, on acceptable terms. Failure by Petron to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial performance and results of operations.

Major projects being implemented by Petron are based upon carefully laid out plans, execution of which is managed by competent technical employees to ensure timely completion. The benefits of the RMP-2 and service station expansion will ensure that targeted growth in sales profits will be achieved and meet debt servicing obligations.

Product substitution

As a result of high oil prices and environmental concerns, the use of alternative fuels such as natural gas, ethanol and coco-methyl-ester fuel blends have become more attractive to the customers of Petron in recent years. If alternative fuels become more affordable and available than petroleum products, customers may shift from petroleum to these alternative fuels not offered by Petron, resulting in lower sales volumes.

In recent years, the Philippine and Malaysian governments have each enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline fuels sold or distributed by every oil company, and these types of requirements may be increased in the future. If Petron does not respond quickly and effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

Petron is compliant with government regulations on fuel blends. It has a research and development team in place that is currently studying and evaluating the different ways that Petron can create different fuel products to adapt to the changing industry regulations, as well as market preferences.

Risks Relating to the Energy Business

Increased competition

The Philippine government has sought to implement measures designed to establish a competitive power market. These measures include the privatization of NPC-owned-and-controlled power generation assets, the establishment of the WESM and the start of the Retail Competition and Open Access ("RCOA").

The move towards a more competitive environment could result in the emergence of new competitors. These competitors may have greater financial resources and more extensive experience than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly. Competitors may be more successful than SMC Global Power in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities. The type of fuel that competitors use for their generation facilities may also allow production of electricity at a lower cost and to sell electricity at a lower price.

SMC Global Power could also come under pressure to review or renegotiate the terms of offtake agreements with customers, which may lead to downward tariff adjustments or non-renewal of contracts. All of these events may adversely affect the business, financial condition and results of operations of SMC Global Power.

SMC Global Power has a highly experienced management team which is composed of experts having an extensive knowledge of the Philippine power industry. Coupled with the strong shareholder support from SMC, this will enable SMC Global Power to sustain its position as one of the major players in the industry. Moreover, SMC Global Power also continues to engage and has good working relationship with its offtakers which ensures sound operation and financial stability.

Disruptions in fuel supply

The operations of the Sual Power Plant, Limay Co-generation Power Plant, and the Ilijan Power Plant depend on the availability of fuel, in particular coal and natural gas. SMC Global Power is responsible for supplying the fuel requirement of these power plants.

There is no assurance that there will be no interruption or disruption in, or change in terms of, the fuel supplies, or that there will be sufficient fuel in the open market or transportation capacity available to ensure that sufficient fuel supplies are received on a timely basis. There is also no assurance that SMC Global Power will be able to purchase all of its fuel requirements from its regular suppliers that produce fuel of acceptable and known quality. Consequently, SMC Global Power could experience difficulties in ensuring a consistent quality of fuel, which could negatively affect the stability and performance of these power plants. Such factors, which may include events beyond the control of SMC Global Power, could affect the normal

operation of these power plants and have material adverse effect on the business, financial condition and results of operations.

SMC Global Power has fuel supply agreements with recognized international coal suppliers, such as Banpu and KPC, for its power plants. This provides assurance of fuel supply which serves as a foundation for its existing operations and an excellent base for its future expansions.

Reliance on Independent Power Producers

Power generation involves the use of highly complex machinery and processes and the success of SMC Global Power depends on the effective maintenance of equipment for its power generation assets. IPPs associated with the respective IPPA power plants are responsible for the operation and maintenance of the IPPA power plants.

Although the energy conversion agreements (“ECAs”) with the IPPs or power purchase agreements (“PPAs”) with NPC in respect of the IPPA power plants include bonus and penalty provisions, these do not eliminate the risk of failure on the part of the IPPs to satisfactorily perform their respective operations and maintenance obligations. Any failure on the part of such IPPs to properly operate and/or adequately maintain their respective power plants could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

In addition, if SMC Global Power fails to generate or deliver electricity beyond contractually agreed periods due to the failure of the IPPs to operate and maintain the power facilities, the counterparties of SMC Global Power in its power supply contracts (“PSCs”) may have a right to terminate those contracts, and replacement contracts may not be entered into on comparable terms. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

SMC Global Power leverages on the strengths and track record of its world-class Independent Power Producer (“IPP”) partners in operating its existing power portfolio by monitoring their adherence to international best practices.

Market limitations under the EPIRA

As of April 2015, SMC Global Power had a 22.2% market share of the Luzon grid and a 16.5% market share of the national grid in terms of installed capacity based on industry data from the ERC. The EPIRA limits the market share of a participant to 30.0% per grid and 25.0% of the national grid by installed capacity. SMC Global Power may not receive permission to increase its capacity and market share if this would result in exceeding the permitted capacity or market share. An inability to expand and grow the power business could materially and adversely affect the business and prospects of SMC Global Power.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the growth of the Philippine power industry. Pursuant to the EPIRA limits, SMC Global Power may still expand by as much as 1,493 MW nationwide, but limited to the following capacities per grid: 1,014 MW in Luzon, 709 MW in Visayas and 649 MW in Mindanao. At current levels, even with the addition of greenfield power projects in the pipeline, SMC Global Power is still within the market share cap.

Development of greenfield power projects

The development of greenfield power projects involves substantial risks that could give rise to delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interest of SMC Global Power in the project. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, and unforeseen engineering and environmental problems, among others.

Any such delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interests in its projects could have a material adverse effect on the business, financial condition, results of operation and future growth prospects of SMC Global Power.

SMC Global Power continuously undertakes prudent review and due diligence in the construction of its greenfield power projects. Backed by strong shareholder support from SMC, sustainable stream of cashflows

and experienced management team, SMC Global Power believes that it can withstand such events to see through the completion of such projects.

Risks Relating to the Infrastructure Business

Enforceability of Concession Agreements

Continuity of operations of the infrastructure business is highly dependent on the validity and enforceability of the applicable concession agreements which contain all the obligations and responsibility of the concessionaire and grantor over the relevant concession period.

In particular, Vertex was granted by the Department of Public Works and Highways of the Philippines ("DPWH") the exclusive privilege, right, and obligation to construct, design and finance the NAIAX over a 30-year concession period. Non-performance of the said obligations may result to either termination, in whole or in part, of the concession agreement. Such termination may adversely affect the business, financial condition and results of operations of the infrastructure business.

The infrastructure business has been compliant with and continues to perform its obligation under the applicable concession agreements which include (but not limited to) constructing, designing, and financing its various infrastructure projects.

Inability to secure tariff increases

The commercial success of the infrastructure business depends in part on its ability to implement tariff increases. While tariff increases are permitted contractually pursuant to pricing formulas set forth in the applicable concession agreements, these may be subject to the approval of relevant government and regulatory agencies. Any constraint on the ability to increase tariffs could have a material adverse effect on business, financial condition and results of operations of the infrastructure business.

SLTC has filed two (2) petitions for toll rate adjustments with the TRB, the first was filed on July 20, 2012, which was subsequently amended on October 24, 2012, and the second petition filed on November 28, 2012. The application submitted in 2012 was due for implementation beginning January 1, 2013, but has yet to be acted upon by the TRB.

The infrastructure business continues to engage in comprehensive discussions and has good working relationships with the relevant government and regulatory agencies to obtain proper resolutions to the pending tariff increases.

Decrease in utilization

The commercial success of the infrastructure business depends in part on the ability to maintain or increase utilization of its infrastructure facilities. External events may decrease the number of vehicles, airplanes or passengers that utilize the infrastructure facilities such as rising oil prices which may result in fewer passenger vehicle journeys and increase in cost of airfares. Any decrease in utilization or any factor that would decrease patronage could have a material adverse effect on the financial condition and results of operations of the infrastructure business.

The infrastructure business continually adopts efficiency improvement programs (such as implementation of the Radio Frequency ID system for its toll road systems) and regular improvements and maintenance of the facilities that would improve utilization while providing convenience to motorists.

Completion of infrastructure projects

The completion of infrastructure projects involves risks that may be caused by delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interest of SMHC in the project. Such risks include the inability to secure adequate financing, delay in obtaining right-of-way, disagreements with project contractors and government agencies and unforeseen engineering problems. Occurrence of the aforementioned events could have a material adverse effect on the business, financial condition, results of operation and future growth prospects of SMHC.

SMHC continuously undertakes prudent review and due diligence in the construction of its projects. SMHC also has well-equipped technical people who monitor daily construction activities and the overall progress of the projects. Backed by strong shareholder support from SMC, sustainable stream of cashflows, experienced management team and good relationship with the government agencies and contractors, SMHC believes that it can withstand such events to see through the completion of such projects.

Risks Relating to the Telecom Business

Rapid changes in technology

The telecommunications industry has been characterized by rapid technological changes. The future success of the telecom business will depend, in part, on its ability to anticipate or adapt to such changes and to offer services that meet customer demands on a competitive and timely basis.

The telecom business has an adaptive IT (information technology) and network infrastructure that have the flexibility to provide short time-to-market implementation of products and promotions as well as immediate upgrades when necessary. The telecom business is likewise implementing a scalable next generation network.

Competition in the Philippine telecommunications industry

The telecommunications industry in the Philippines is currently dominated by two (2) major players: Philippine Long Distance Telephone Company and Globe Telecommunications, Inc. The telecom business expects competition to intensify further as the market forays into new growth categories such as data and content. Though SIM (Subscriber Identity Module) penetration has already surpassed the 100.0% mark, the industry is still poised to grow due to services becoming more affordable and with the entry of the category into machine-to-machine services. As a new industry player, the telecom business will encounter stiff opposition from incumbents who will most likely use their size and influence to deter any subscriber acquisition efforts.

The telecom business plans to capitalize on unmet customer needs neglected by existing industry players with the objective of providing overall superior subscriber experience, enabling them to enjoy affordable and innovative product offerings.

Risks Relating to the Philippines

Concentration of operations and assets in the Philippines

Historically, the financial condition and results of operations of SMC have been influenced to a significant degree by the general state of the Philippine economy and the overall levels of business activity in the Philippines, and the Company expects that this will continue to be the case in the future. The Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso, and the imposition of exchange controls. The Company cannot assure prospective investors that one or more of these factors will not negatively impact the purchasing power of the Philippine consumers. Demand for many of the products of SMC is tied closely to domestic consumer purchasing power and disposable income levels. In addition, as the businesses expand their product and brand portfolios in higher-priced Premium market segments in their respective industries, their businesses and prospects will be increasingly affected by any deterioration in consumer purchasing power. Any decrease in consumer purchasing power and disposable income levels could have a material adverse effect on the business, operations, and financial condition of SMC.

In addition, the global financial, credit and currency markets have experienced, since the second half of 2007, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the United States and Europe, as well as the global economy, which could cause economic conditions in the Philippines to deteriorate. In 2014, the SMC Group sales of about 6.2% of the gross domestic product of the Philippines and is in the position to benefit and contribute from the continued growth of the Philippine economy. Nonetheless, any downturn in the Philippine economy may have a negative impact on consumer sentiment and general business conditions in the Philippines, which may materially reduce the revenues, profitability and cash flows of the Company. Moreover, there is no assurance that current or future government policies would continue to be conducive to sustaining economic growth.

Political instability or acts of terrorism in the Philippines

The Philippines has, from time to time, experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two (2) former presidents, the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of officials of the Philippine government are currently under investigation on corruption charges stemming from allegations of misuse of public funds. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the business, operations, and financial condition of SMC.

The Philippines has also been subject to a number of terrorist attacks since 2000, and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in September 2013, a faction of the Moro National Liberation Front allegedly led by Nur Misuari, a former governor of the Autonomous Region of Muslim Mindanao, staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations and renewed tension between the Philippine Armed Forces and the Moro National Liberation Front in the southern part of the country. In an operation to capture wanted international terrorist Zulkifli Bin Hir alias Marwan on January 25, 2015, 44 police commandos were killed in a 12-hour fire fight with two (2) Muslim rebel groups: Moro Islamic Liberation Front and Bangsamoro Islamic Freedom Fighters in the Southern Philippines. An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy.

Natural catastrophes

The Philippines has experienced a number of major natural catastrophes over the past years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may materially disrupt and adversely affect the business, operations, and financial condition of SMC. There is no assurance that the insurance coverage SMC maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes.

Downgrade of Philippine credit rating

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as SMC. There is no assurance that Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including SMC, to raise additional financing, and will increase borrowing and other costs.

Foreign exchange controls

Generally, the Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. However, the Monetary Board of the Bangko Sentral ng Pilipinas ("BSP") has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange; (ii) require licensing of foreign exchange transactions; or (iii) require the delivery of foreign exchange to the BSP or its designee banks for the issuance and guarantee of foreign currency-denominated borrowings. The Philippine government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

SMC purchases certain critical key inputs from abroad and requires foreign currency to make these purchases. There is no assurance that the Philippine government will not impose economic restrictions or regulatory controls that may restrict free access to foreign currency. Any such restrictions could severely curtail the ability of SMC to pay for certain key inputs or to meet its foreign currency payment obligations, which could materially and adversely affect its financial condition and results of operations.

Management of risks related to the Philippines

SMC has been able to survive major economic and political crises brought about by domestic and international developments through the implementation of its core strategies, including least cost formulations, efficiencies improvement, market leadership, innovation and regional diversification. Constant monitoring of market allows the Company to detect risk exposures and react to the external environment appropriately. Although there is no assurance that the Company will be able to fully overcome the adverse effects of any or all crisis, it has in place a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives.

Risks Related to the Offer Shares

The Offer Shares may not be a suitable investment for all investors

Each potential investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Offer Shares, the merits and risks of investing in the Offer Shares and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for principal or dividend payments is different from the currency of the potential investor;
- understand thoroughly the terms of the Offer Shares and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

Redemption at the option of the Issuer

The Offer Shares are perpetual and have no fixed final maturity date. Holders have no right to require the Company to redeem the Offer Shares at any time and they can only be disposed of by sale in the secondary market. Holders who wish to sell their Offer Shares may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Offer Shares. Therefore, holders of the Offer Shares should be aware that they may be required to bear the financial risks of an investment in the Offer Shares for an indefinite period of time.

The sale of the Offer Shares or any rights thereto prior to the listing of the Offer Shares cannot be made through the PSE. The Company has filed an application for the listing of the Offer Shares on the PSE.

Prior to the listing of the Offer Shares to the PSE, the sale of subscription rights to the Offer Shares may be treated as sale of shares and subject to documentary stamp tax, capital gains tax (on any gain derived from the sale thereof) or donor's tax (in case of donation or sale of the subscription rights to the Offer Shares for a price below the fair market value of the subscription rights).

Volatility of market price of the Offer Shares

The market price of the Offer Shares could be affected by various factors, including:

- general market, political and economic conditions;
- changes in earnings estimates and recommendations by financial analysts;
- changes in market valuations of listed stocks, in general, and stocks of other conglomerates;
- changes to government policy, legislation or regulations, and
- general operational and business risks.

In addition, many of the risks described within this section could materially and adversely affect the market price of the Offer Shares.

Additional Taxes

The sale, exchange or disposition of the Offer Shares after the Offer Period, if made outside the facilities of the PSE is subject to capital gains tax and documentary stamp tax, and if made through the facilities of the PSE (except for a dealer in securities) is subject to stock transaction tax. Changes in laws, rules and regulations may result in additional taxes on the acquisition, disposition, or transfer of the Offer Shares. For a discussion on the taxes currently imposed by the Bureau of Internal Revenues of the Philippines ("BIR"), please refer to the section on "Taxation" on pages 232 of the Prospectus.

Deferral of dividend payment

Dividends on the Offer Shares may not be paid or may pay less than full dividends, under the terms and conditions governing the Offer Shares. Holders of the Offer Shares will not receive dividends on a Dividend Payment Date or for any period during which the Company does not have retained earnings out of which to pay dividends.

Subordination to other indebtedness of the Company

The obligations of SMC under the Offer Shares are unsecured and are subordinated obligations to all of the indebtedness of the Company. The rights and claims of holders of the Offer Shares will (subject to the extent permitted by law) rank senior to the holders of the Common Shares of the Company and *pari passu* with the other preferred shares.

In the event of the winding-up of the Company, the Offer Shares rank junior in right of payment to all indebtedness of the Company and junior in right of payment to securities of, or claims against, the Company which rank or are expressed to rank senior to the Offer Shares. The Offer Shares, however, rank in *pari passu* with the Series "1" Preferred Shares and the other subseries of the Series "2" Preferred Shares. There is a substantial risk that an investor in the Offer Shares will not receive any return of the principal amount or any unpaid amounts due under the terms of the Offer unless SMC can satisfy in full all of its other obligations ranking senior to the Offer Shares.

There are no terms in the Offer Shares that limit the ability of SMC to incur additional indebtedness, including indebtedness that ranks senior to or *pari passu* with the Offer Shares.

Insufficient distributions upon liquidation

Upon any voluntary or involuntary dissolution, liquidation or winding up of SMC, holders of Offer Shares will be entitled only to the available assets of the Company remaining after the indebtedness of SMC is satisfied. If any such assets are insufficient to pay the amounts due on the Offer Shares, then the holders of the Offer Shares shall share ratably in any such distribution of assets in proportion to the full distributions to which they would otherwise be respectively entitled.

Subordination of payments to the Holders of the Offer Shares

SMC has and will continue to have a certain amount of outstanding indebtedness. The current terms of the financing agreements of SMC contain provisions that could limit the ability of the Company to make payments to the holders of the Offer Shares. Also, SMC may in the future, directly or indirectly through its subsidiaries, enter into other financing agreements which may restrict or prohibit the ability of the Company to make payments on the Offer Shares. There can be no assurance that existing or future financing arrangements will not adversely affect the ability of SMC to make payments on the Offer Shares.

Liquidity of the securities market

The Philippine securities markets are substantially less liquid and more volatile than major securities markets in other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The Company cannot guarantee that the market for the Offer Shares will always be active or liquid upon their listing on the PSE.

In addition, the Company and the Joint Lead Underwriters are not obligated to create a trading market for the Offer Shares and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice. Accordingly, the Company cannot predict whether an active or liquid trading market for the Offer Shares will develop or if such a market develops, if it can be sustained. Consequently, a shareholder may be required to hold his Offer Shares for an indefinite period of time or sell them for an amount less than the Offer Price.

Effect of non-payment of dividends

If dividends on the Offer Shares are not paid in full, or at all, the Offer Shares may trade at a lower price than they might otherwise have traded if dividends had been paid. The sale of Offer Shares during such a period by a holder of Offer Shares may result in such holder receiving lower returns on the investment than a holder who continues to hold the Offer Shares until dividend payments resume. In addition, because of the dividend limitations, the market price for the Offer Shares may be more volatile than that of other securities that do not have these limitations.

Inability to reinvest at a similar return on investment upon redemption

On the Optional Redemption Date or at any time redemption occurs, SMC may redeem the Offer Shares at the Redemption Price, as described in “Description of the Series “2” Preferred Shares”. At the time of redemption, interest rates may be lower than at the time of the issuance of the Offer Shares and, consequently, the holders of the Offer Shares may not be able to reinvest the proceeds at a comparable interest rate or purchase securities otherwise comparable to the Offer Shares.

Limited voting rights

Holders of Offer Shares will not be entitled to elect the Board of Directors of the Company. Except as specifically set forth in the Amended Articles of Incorporation and as provided by Philippine law, holders of Offer Shares will have no voting rights (see “Description of the Series “2” Preferred Shares” on page 39).

Use of Proceeds

The Company intends to use the net proceeds of this Offer to partially fund the redemption of the outstanding Subseries “2-A” Preferred Shares.

The Company plans to exercise the early redemption option on the existing Subseries “2-A” Preferred Shares amounting to ₱54.08 billion which will commence on September 21, 2015 and every Dividend Payment Date thereafter. The total amount to be redeemed is based on the outstanding Subseries “2-A” Preferred Shares of the Company. The Subseries “2-A” Preferred Shares will be redeemed at a redemption price of ₱75.00 per share, equivalent to their offer price. The difference between the balance of the redemption price for the Subseries “2-A” Preferred Shares and net proceeds of this Offer shall be paid for using the available cash of the Company.

The Company estimates that the net proceeds from this Offer after deducting expenses payable by the Company, will be approximately estimated as follows:

Particulars	Total
Estimated proceeds from the Offer.....	₱33,500,025,000.00
Less: Estimated fees, commissions and expenses	
<i>Gross Underwriting Fees for the Offer Shares being sold by the Company.....</i>	<i>252,150,726.00</i>
<i>Documentary Stamp Taxes to be paid by the Company.....</i>	<i>11,166,675.00</i>
<i>SEC filing and legal research fee.....</i>	<i>9,026,882.00</i>
<i>PSE listing and processing fee (excluding 12.0% VAT).....</i>	<i>33,500,025.00</i>
<i>Legal and other professional fees.....</i>	<i>7,000,000.00</i>
<i>Other expenses.....</i>	<i>5,000,000.00</i>
Total estimated fees, commissions and expenses	₱ 317,894,308.00
Estimated net proceeds.....	₱ 33,182,130,692.00

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

Except for the underwriting fees, issue management fees and expenses related to the Offer, no amount of the proceeds will be utilized to pay any outstanding financial obligations to the Joint Lead Underwriters and Bookrunners.

In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC, PSE and the holders of the Offer Shares in writing at least 30 days before such deviation, adjustment or reallocation is implemented. Any material or substantial adjustments in the use of proceeds, as indicated above, should be approved by the Board and disclosed to the PSE. In addition, the Company shall submit via the Electronic Disclosure Generation Technology (EDGE) of the PSE, the following disclosures to ensure transparency in the use of proceeds:

- (i) any disbursements made in connection with the planned use of proceeds from the Offer;
- (ii) quarterly progress report on the application of the proceeds from the Offer on or before the first 15 days of the following quarter;
- (iii) annual summary of the application of the proceeds on or before January 31 of the following year; and
- (iv) approval by the Board of any reallocation on the planned use of proceeds. The actual disbursement or implementation of such reallocation must be disclosed by the Company at least 30 days prior to the said actual disbursement or implementation.

The Company shall submit a certification by the Treasurer of the Company and external auditor on the accuracy of the information reported by the Company to the PSE, as well as a detailed explanation for any

material variances between the actual disbursements and the planned use of proceeds in the Prospectus, if any, in the quarterly and annual reports of the Company as required in items (ii) and (iii) above. Such detailed explanation will state the approval of the Board as required in item (iv) above.

Determination of Offer Price

The Offer Price of ₱75.00 is at a premium to the par value of the Offer Shares, which is ₱5.00 per share. The Offer Price was arrived at by dividing the desired gross proceeds of ₱33,500,025,000.00 by the amount of Offer Shares allocated for the Offer.

Prior to the Offer, there has been no public market for the Offer Shares.

Dilution

The Offer Shares will not have any dilutive effect on the rights of the holders of the common shares of the Company as the Offer Shares are non-voting, non-convertible and non-participating. With respect to the outstanding preferred shares, namely, the Series “1” Preferred Shares, and after the redemption of the Series “2” Preferred Shares – Subseries “2-A”, the Series “2” Preferred Shares – Subseries “2-B” and “2-C” (the “Outstanding Preferred Shares”), the issuance of the Offer Shares will result in the dilution of the percentage ownership of the holders of the Outstanding Preferred Shares in relation to the total outstanding capital stock of the Company. The Offer Shares rank in *pari passu* with the rights of the holders of the Outstanding Preferred Shares of the Company.

Plan of Distribution

SMC plans to issue the Offer Shares to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Lead Underwriters and Bookrunners. The Offer does not include an international offering.

Joint Lead Underwriters and Bookrunners

BDO Capital & Investment Corporation, BPI Capital Corporation, China Banking Corporation, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Manila Branch, PNB Capital and Investment Corporation, RCBC Capital Corporation, SB Capital Investment Corporation, and Standard Chartered Bank, the “Joint Lead Underwriters and Bookrunners”) have agreed to distribute and sell the Offer Shares at the Offer Price, pursuant to an Underwriting Agreement with SMC dated August 19, 2015 (the “Underwriting Agreement”). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Lead Underwriters and Bookrunners have committed to underwrite the following amounts on a firm basis:

Joint Lead Underwriters and Bookrunners	Underwriting Commitment	Number of Shares Underwritten
BDO Capital & Investment Corporation	3,722,220,000.00	49,629,600
BPI Capital Corporation	3,722,220,000.00	49,629,600
China Banking Corporation	3,722,220,000.00	49,629,600
The Hongkong and Shanghai Banking Corporation Limited	3,722,220,000.00	49,629,600
ING Bank N.V., Manila Branch	3,722,220,000.00	49,629,600
PNB Capital and Investment Corporation	3,722,220,000.00	49,629,600
RCBC Capital Corporation	3,722,265,000.00	49,630,200
SB Capital Investment Corporation	3,722,220,000.00	49,629,600
Standard Chartered Bank	3,722,220,000.00	49,629,600
Total	₱ 33,500,025,000.00	446,667,000

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to SMC of the net proceeds of the Offer Shares.

The underwriting and any selling fees to be paid by the Company in relation to the Offer shall be equivalent to 0.70% of the gross proceeds of the Offer. This shall be inclusive of fees to be paid to the Joint Lead Underwriters and Bookrunners, Co-Lead Managers and Co-Managers, if any and any commissions to be paid to the Selling Agents, which shall be equivalent to 0.15% of the total proceeds of the sale of Offer Shares by such trading participant.

The Joint Lead Underwriters and Bookrunners are duly licensed by the SEC to engage in the underwriting or distribution of the Offer Shares. The Joint Lead Underwriters and Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business, for SMC or any of its subsidiaries.

The Joint Lead Underwriters and Bookrunners have no direct relations with SMC in terms of ownership by either of their respective major shareholder/s and have no right to designate or nominate any member of the Board of Directors of SMC.

The Joint Lead Underwriters and Bookrunners have no contract or other arrangement with SMC by which it may return to SMC any unsold Offer Shares.

BDO Capital & Investment Corporation ("BDO Capital") was incorporated in the Philippines in December 1998. It is duly licensed by the SEC to operate as an investment house and was licensed by the SEC to engage in underwriting or distribution of securities to the public. As of December 31, 2014, it had ₱3.04 billion and ₱2.26 billion in consolidated resources and capital, respectively. It has an authorized capital stock of ₱400 million, of which approximately ₱300 million represents its paid-up capital.

BPI Capital Corporation ("BPI Capital") offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placements, project finance and loan syndication. Founded in December of 1994, BPI Capital Corporation is duly licensed by the SEC to engage in the underwriting and distribution of securities. As of December 31, 2014, BPI Capital had total assets of ₱5.36 billion and total capital funds of ₱5.17 billion. The firm operates as a wholly-owned subsidiary of the Bank of the Philippine Islands.

China Banking Corporation ("CBC") has been in the business for over 90 years and has extensive operations in lending, treasury, trust, investment banking, investment advisory services and insurance. It has significant presence across corporate, commercial, middle and retail markets, and has a strong niche in the Chinese-Filipino commercial sector. CBC is a key player in major capital market transactions across various industries in the Philippines. CBC, through its Investment Banking Group, offers a wide array of advisory and capital-raising services to institutional clients. CBC's dedicated team of seasoned investment bankers develops tailor-made funding structures and liability management solutions for all types of corporations, and carries out placements for the entire range of capital markets products.

The Hongkong Shanghai Banking Corporation Limited ("HSBC") is one of the world's largest banking and financial services organizations. We serve around 51 million customers through four Global Businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 73 countries and territories in Europe, Asia, the Middle East and Africa, North America and Latin America. With more than 6,100 offices worldwide, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfill their hopes and realize their ambitions. Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings Plc. are held by about 216,000 shareholders in 127 countries and territories. HSBC has been doing business in the Philippines for 140 years. The bank has 15 branches (including 8 branches of the locally incorporated HSBC Savings Bank) located in Metro Manila, Cebu and Davao. Its Debt Capital Markets team has been a recipient of the "Best Debt House in the Philippines" award by The Asset for six out of seven years from 2008 to 2014.

ING Bank N.V., Manila Branch ("ING") is the Philippine branch of ING Bank N.V. which is part of ING Group, a global financial institution operating in more than 40 countries in Europe, North America, South America, Middle East, Asia and Australia. ING Commercial Banking is present and active in 13 major economies in Asia. In the Philippines, ING is a banking corporation duly organized and existing by virtue of the laws of The Kingdom of The Netherlands and authorized to operate as a universal bank by the BSP. Over its 25-year presence in the Philippines, ING had advised on the largest and most prominent mergers and acquisitions deals in the country and had arranged many landmark local debt capital market transactions. With a strong track record of providing clients with sound financial solutions, the Philippine franchise is a recognized top investment bank, consistently awarded for overall execution and structuring expertise.

PNB Capital and Investment Corporation ("PNB Capital"), an investment house with a non-bank, non-quasi-banking license, was incorporated on July 30, 1997 and commenced operations on October 8, 1997. It is a wholly-owned subsidiary of the Philippine National Bank (PNB). As of December 31, 2014, it had an authorized and paid-up capital of ₱350.0 million. Its principal business is providing investment banking services, namely: debt underwriting (bonds, commercial papers), equity underwriting, private placements, loan syndications and financial advisory services. PNB Capital is authorized to buy and sell for its own account, securities issued by private corporations and the government of the Philippines. As of December 31, 2014, total assets of PNB Capital was ₱556.2 million while total capital was ₱549.5 million.

RCBC Capital Corporation ("RCBC Capital") is a licensed investment house providing a complete range of capital-raising and financial advisory services. Established in 1974, RCBC Capital has over 40 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of

the Rizal Commercial Banking Corporation and a part of the Yuchengco Group of Companies, one of the country's largest fully integrated financial services conglomerates. As of December 31, 2014, RCBC Capital's total assets were ₱4.14 billion while total capital was ₱3.72 billion.

SB Capital Investment Corporation ("SB Capital") is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally.

Standard Chartered Bank ("SCB") is a banking corporation duly organized and incorporated in England with limited liability by Royal Charter in 1853, and licensed to act as a banking institution under and by virtue of the laws of the Republic of the Philippines through its Branch Office, with principal offices in Makati City. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90% of its profits in Asia, Africa, and Middle East. Operating in the Philippines since 1872, SCB is a universal bank and is the longest established foreign bank in the country. The principal banking products include deposits, lending and related services, treasury and capital market operations, trade services, payments and cash management, credit cards, and custodial services. The bank also provides capital raising solutions such as local currency and G3 currency fixed income and loan syndications.

Sale and Distribution

The distribution and sale of the Offer Shares shall be undertaken by the Joint Lead Underwriters and Bookrunners who shall sell and distribute the Offer Shares to third party buyers/investors. The Joint Lead Underwriters and Bookrunners are authorized to organize a syndicate of underwriters, soliciting dealers and/or Selling Agents for the purpose of the Offer. In connection with the foregoing, the Joint Lead Underwriters and Bookrunners may enter into agreements, participation agreements, or like agreements with other Co-Lead Managers and Co-Managers (who may be named or have been named herein), and/or Selling Agents, as necessary. There is nothing in such agreements that allow the Joint Lead Underwriters and Bookrunners to return to SMC any unsold Offer Shares.

Of the 446,667,000 Series "2" Preferred Shares to be offered, 80% or 357,333,600 Offer Shares are being offered through the Joint Lead Underwriters and Bookrunners for subscription and sale to Qualified Institutional Buyers and the general public. The Company plans to make 20% or 89,333,400 Offer Shares for distribution to respective clients of the 132 trading participants of the PSE, acting as Selling Agents. Each trading participant shall be allocated 676,700 Preferred Shares (computed by dividing the Preferred Shares allocated to the trading participants by 132), subject to reallocation as may be determined by the Joint Lead Underwriters and Bookrunners. Trading participants may undertake to purchase more than their allocation of 676,700 Shares. Any requests for Shares in excess of 676,700 Shares may be satisfied via the reallocation of any Offer Shares not taken up by other trading participants.

The Company will not allocate any Offer Shares for Local Small Investors. As defined in the PSE Revised Listing Rules, a Local Small Investor is a share subscriber whose subscription does not exceed ₱25,000.00. The Offer will have a minimum subscription amount of ₱37,500.00, which is beyond the prescribed maximum subscription amount for Local Small Investors.

Prior to close of the Offer Period, any Offer Shares not taken up by the trading participants shall be distributed by the Joint Lead Underwriters and Bookrunners directly to their clients and general public. All Offer Shares not taken up by the trading participants, general public, and the Joint Lead Underwriters' and Bookrunners' clients shall be purchased by the Joint Lead Underwriters and Bookrunners pursuant to the terms and conditions of the Underwriting Agreement.

Term of Appointment

The engagement of the Joint Lead Underwriters and Bookrunners shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement.

Manner of Distribution

The Joint Lead Underwriters and Bookrunners shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, the Offer Shares shall be solicited, with the primary sale of the Offer Shares to be effected only through the Joint Lead Underwriters and Bookrunners. The Joint Lead Underwriters and Bookrunners may appoint other entities, including trading participants, to sell on their behalf.

Offer Period

The Offer Period shall commence at 9:00 a.m., Manila time on August 24, 2015 and end at 12:00 noon, Manila time on September 11, 2015, or such other date as may be mutually agreed between the Company and the Joint Lead Underwriters and Bookrunners subject to the approval of the PSE and SEC. Trading Participants are required to submit their firm orders and commitments on August 27, 2015.

Application to Purchase

The requirements to purchase the Offer Shares are discussed under the "Terms of the Offer" on page 28.

All applications to purchase the Offer Shares shall be evidenced by a duly completed and signed application to purchase, together with two (2) fully executed signature cards authenticated by the Corporate Secretary with respect to corporate and institutional investors, and shall be accompanied by the payment in full of the corresponding purchase price of the Offer Shares applied for, by check or by the appropriate payment instruction, and the required documents which must be submitted to the Joint Lead Underwriters and Bookrunners (which may be through other Co-Lead Managers and Co-Managers) and Selling Agents.

Corporate and institutional purchasers must also submit the following:

- (a) a copy of the SEC Certificate of Registration, Articles of Incorporation and By-laws, or such other relevant organizational or charter documents, all of which are duly certified by the Corporate Secretary of such corporate or institutional purchasers, and
- (b) an original, notarized Secretary's Certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the Offer Shares, and designating the authorized signatory/ies therefore.

Individual applicants must also submit a photocopy of any one of the following identification cards ("ID"): passport/driver's license, company ID, SSS/Government Service Insurance System ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the Registrar and Paying Agent.

An applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates shall, in addition, must submit the following requirements to the relevant Joint Lead Underwriter and Bookrunner (which may be through other Co-Lead Managers and Co-Managers) and Selling Agents (together with their applications) who shall then forward the same to the Registrar and Paying Agent, subject to acceptance by the Company as being sufficient in form and substance:

- (a) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the applicant as certified by its duly authorized officer,
- (b) with respect to tax treaty relief, proofs to support applicability of reduced treaty rates, consularized proof of tax domicile issued by the relevant tax authority of the Preferred Shareholder, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines,

- (c) an original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Company and the Registrar and Paying Agent of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Company, the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax, and
- (d) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

The Joint Lead Underwriters Bookrunners shall be responsible for accepting or rejecting any application or scaling down the amount of Offer Shares applied for. The application, once accepted, shall constitute the duly executed purchase agreement covering the amount of Offer Shares so accepted and shall be valid and binding on the Company and the applicant. On the Banking Day following the Closing Date, the Joint Lead Underwriters and Bookrunners shall advise all the Co-Lead Managers and Co-Managers and Selling Agents of any Applications that were rejected and/or scaled down, with copy to the Company.

Minimum Purchase

A minimum purchase of 500 shares shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of 100 shares.

Payment of the Offer Shares

The Offer Price of the Offer Shares must be paid in full upon submission of the Application.

Payment shall be in the form of either:

- (a) a Metro Manila clearing cashier's/manager's or corporate check or personal check drawn against a bank account with a BSP-authorized agent bank located in Metro Manila and dated as of the date of submission of the Application to Purchase covering the entire number of the Offer Shares covered by the same Application. Checks should be made payable to "SMC Preferred Shares Offer"; or
- (b) for applicants submitting their Application to Purchase to any of the Joint Lead Underwriters and Bookrunners or selling agents:
 - (i) through the Real Time Gross Settlement facility of the BSP to the Joint Lead Underwriter and Bookrunner or selling agent to whom such Application was submitted, or
 - (ii) via direct debit from their deposit account maintained with the Bookrunner or selling agent, or
 - (iii) with respect to applicants that are holders of Subseries "2-A" Preferred Shares, via application of proceeds from the redemption ("Redemption Proceeds") to be received in relation to the redemption thereof to the subscription amount of the Offer Shares to be subscribed to, by giving the Issuer the authority to apply the Redemption Proceeds as payment of the subscription price of the Offer Shares, provided that:
 - If the subscription amount for the Offer Shares subscribed is less than the Redemption Proceeds, the authority to the Issuer to apply the Redemption Proceeds shall only be to the extent of the subscription amount
 - If the subscription amount for the Offer Shares subscribed is more than the Redemption Proceeds, the subscriber shall pay the balance of the subscription amount through the payment modes referred to in items (a), (b)(i), and (b)(ii) above.

Refunds

In the event an Application is rejected or the amount of Offer Shares applied for is scaled down, the Joint Lead Underwriters and Bookrunners or the Selling Agents, upon receipt of such rejected or scaled down Applications, shall notify the applicant concerned that his Application has been rejected or the amount of Offer Shares applied for is scaled down, and refund the amount paid by the applicant with no interest thereon. With respect to an applicant whose Application was rejected, refund shall be made by the Joint Lead Underwriters and Bookrunners or the Selling Agent by making the check payment of the applicant

concerned available for his retrieval. With respect to an applicant whose Application has been scaled down, refund shall be made by the issuance by the concerned Joint Lead Underwriter and Bookrunner or Selling Agent of its own check payable to the order of the applicant and crossed "Payees' Account Only" corresponding to the amount in excess of the accepted Application. All checks shall be made available for pick up by the applicants concerned at the office of the Joint Lead Underwriter and Bookrunner or Selling Agent to whom the rejected or scaled down Application was submitted within five (5) Banking Days after the last day of the Offer Period. The Company shall not be liable in any manner to the applicant for any check payment corresponding to any rejected or scaled-down Application which is not returned by the relevant Joint Lead Underwriter and Bookrunner; in which case, the relevant Joint Lead Underwriter and Bookrunner or Selling Agent shall be responsible directly to the applicant for the return of the check or otherwise the refund of the payment.

Secondary Market

SMC may purchase the Offer Shares at any time without any obligation to make pro rata purchases of Offer Shares from all Shareholders.

Registry of Shareholders

The Offer Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and lodged with PDTC as Depository Agent on Listing Date through PSE trading participants nominated by the applicants. Applicants shall indicate in the proper space provided for in the Application Form the name of the PSE trading participant under whose name their Offer Shares will be registered.

Legal title to the Offer Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Offer Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The Registrar shall send (at the cost of the Company) at least once every quarter a Statement of Account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of Offer Shares held by each shareholder on record in the Registry of Shareholders. Such Statement of Account shall serve as evidence of ownership of the relevant shareholder as of a given date thereof. Any request by the Shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Shareholder.

Expenses

All out-of-pocket expenses, including but not limited to, registration with the SEC, printing, publication, communication and signing expenses incurred by the Joint Lead Underwriters and Bookrunners in the negotiation and execution of the transaction will be for the account of SMC irrespective of whether the transaction contemplated herein is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account. See "Use of Proceeds" on page 64 for details of expenses.

The Company

Overview

SMC is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales of about 6.2% of the Philippine gross domestic product in 2014. Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverages, food and packaging business with a globally recognized beer brand, into a large and diversified conglomerate with additional market-leading businesses and investments in the fuel and oil, energy, infrastructure, telecommunications and banking industries. SMC has a portfolio of companies that is interwoven into the economic fabric of the Philippines, benefiting from, as well as contributing to, the development and economic progress of the Philippines. As of March 31, 2015, SMC had a market capitalization of ₱160,430 million, with a common share price of ₱67.45. The consolidated sales and recurring EBITDA of SMC in 2014 were ₱782,434 million and ₱88,096 million, respectively.

Corporate Transformation of SMC

Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverage, food and packaging business with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses and investments in the fuel and oil, energy, infrastructure, telecommunications and banking industries. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefiting from and contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now The Philippine Stock Exchange, Inc.

In 2007, in light of the opportunities presented by the global financial crisis, the ongoing program of asset and industry privatization of the Philippine government, the strong cash position of SMC enhanced by recent divestments and the strong cash flow generated by its established businesses, SMC adopted an aggressive business diversification program. The program channeled the resources of SMC into what it believes were attractive growth sectors, aligned with the development and growth of the Philippine economy. SMC believes this strategy will achieve a more diverse mix of sales and operating income, and better position SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles.

Since January 2008, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure, telecommunications and banking industries. A summary of these transactions is set forth below.

- **Fuel and Oil:** SMC completed on December 15, 2010 to exercise its option to acquire equity in Sea Refinery Corporation, which has interest in Petron which made SMC owning approximately 68.26% of the outstanding and issued shares of Petron. On March 30 2012, an affiliate of SMC, Petron Oil & Gas International Sdn Bhd, completed the acquisition of 65.0% (currently 73.4%) of Esso Malaysia Berhad, a publicly listed company in Malaysia, 100.0% of ExxonMobil Malaysia Sdn Bhd, and 100.0% of ExxonMobil Borneo Sdn Bhd.
- **Energy:** SMC was awarded administration rights for three (3) power plants in Sual, Ilijan and San Roque under IPPA agreements which commenced on November 6, 2009, January 26, 2010 and June 26, 2010, respectively, and which will expire on October 24, 2024, June 4, 2022 and May 26, 2028, respectively. The Company also started operating the 140-MW coal Co-generation power plant in Limay, Bataan in 2014. In addition, SMC also owns 60.0% interest in the AHEPP.

SMC, through SMEC, acquired a 100.0% interest in the concession holders of the Daguma, Bonanza Energy, and Sultan Energy coal deposits on January 29, 2010, January 29, 2010 and May 13, 2010, respectively.

- **Infrastructure:** SMC acquired a 35.0% interest in PIDC, which is developing the 88.85 km Tarlac-Pangasinan-La Union expressway, on September 11, 2009, which currently stands at 45.0%. SMC also acquired a 93.0% interest in TADHC (formerly known as Caticlan International Airport Development Corporation) on April 29, 2010, which currently stands at 99.77%. The Company also has a 51.0% interest in Universal LRT, the concession holder for the MRT-7 Rail and Road Project, since November 8, 2010. SMHC has acquired 46.53% stake in AAI, a company which has an 80.0% stake in SLTC (which holds a 30-year concession (valid until 2035) to operate the 36.1 km SLEX, one of the three (3) major expressways that links Metro Manila to key southern provinces); an 87.84% stake in CMMTC, concession holder of the Skyway Stages 1 and 2; and an 80.0% in CCEC, concession holder of the Skyway Stage 3 Project. As of March 5, 2015, SMHC holds 95.0% interest in AAIBV. In 2013, SMHC acquired equity interest in SIDC which holds the concession over the STAR Tollway, through its 58.31% membership interest in Sleep Coop and 50.0% shares in Wiselink. Sleep Coop and Wiselink owns 40.0% and 60.0% of CTCII, respectively which owns 100.0% of SIDC. With the acquisition of Sleep Coop and Wiselink, SMHC effectively owns 53.32% of CTCII. As such, CTCII became a majority-owned subsidiary and is controlled by SMHC effective June 28, 2013.
- **Telecom:** SMC through its subsidiary, Vega, acquired 41.48% of Liberty Telecom in 2010, which interest now stands at 45.58%. SMC acquired 100.0% of BellTel, a full-service telecommunications company which is licensed to provide a range of services throughout the Philippines. In addition, SMC, through Vega, acquired 100.0% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40.0% of Eastern Telecom, inclusive of the existing businesses, investments and telecommunications service facilities of Eastern Telecom. On October 20, 2011, the Parent Company through its wholly-owned subsidiary, SMESI, acquired an additional 37.7% of the outstanding and issued shares of stock of Eastern Telecom bringing its total indirect equity interest in Eastern Telecom to 77.7%.
- **Banking:** SMC through SMPI acquired a 30.0% interest in BOC in October 2007, which interest is now at 39.93%.

The Businesses of SMC

SMC is one of the largest and most diversified conglomerates in the Philippines. Its portfolio comprises of the following businesses, which are market leaders in their respective industries:

Beverages

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, liquor and non-alcoholic beverages. SMB sells the dominant beer brands in the Philippines, with a total market share by volumes of more than 90% in 2012, according to the Canadean data, with no significant change in 2013. Its products include *San Miguel Pale Pilsen*, which is the flagship beer of SMB and is sold throughout the world, *San Miguel Super Dry*, *San Mig Light*, *San Mig Strong Ice* and *San Miguel Premium All-Malt*. Other SMB beer brands include *Cerveza Negra*, *Red Horse*, *Gold Eagle*, *Oktoberfest Brew*, *San Miguel Flavored Beer*, *San Mig Zero* and *Alcoholic Malt Beverage*. In addition to its Philippine beer operations, SMB has brewery and sales operations in China, Hong Kong, Thailand, Vietnam and Indonesia and exports to 30 countries. SMB recently added in its portfolio the non-alcoholic beverage business, which produces non-carbonated, ready-to-drink tea, fruit juice products and water, primarily under the Magnolia brand. Ginebra is the largest gin producer by volume in the world with some of the most recognizable brands in the Philippine liquor market, including *Ginebra San Miguel*, *GSM Blue*, *GSM Blue Light*, *Primera Light* and *Vino Kulafu*.

Food

The food business holds various market leading positions in the Philippine food industry, offering a broad range of high-quality food products and services to both household and food service customers. The business is organized into business clusters: Agro-Industrial (poultry, feeds and fresh meats); Value-Added Meats (processed meats); Milling (flour and flour products); and DSO (dairy products, spreads, oils), ice cream, coffee, food service, retail and miscellaneous businesses. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *B-Meg* for animal feeds and *La Pacita* for biscuits. In addition to its Philippine operations, the food business has operations in Indonesia and Vietnam.

Packaging

The packaging business has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. The Packaging Group has international operations located in China (glass, plastic and paperboard), Vietnam (glass and metal), Malaysia (flexibles, plastic films, woven bags, industrial laminates and a packaging research center), Australia (glass, trading, wine closures and bottle caps) and New Zealand (plastics and trading).

Properties

SMPI was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.68% owned by SMC. SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

Fuel and Oil

SMC operates its fuel and oil business through Petron in which it holds a 68.26% interest. Petron is the number one integrated oil refining and marketing company in the Philippines, supplying almost 40.0% of the refined oil requirements of the country and is the largest LPG distributor, with a 35.4% market share as of December 2014 (based on industry data of the DOE). The core business of Petron involves the refining of crude oil and the marketing and distribution of refined petroleum products, mainly for the Philippine market. Petron possesses the most extensive oil distribution infrastructure in the country with more than 30 depots, terminals and airport installations and approximately 2,200 service stations in the Philippines. Petron also exports various petroleum products and petrochemical feedstock, including high sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

In March 2012, Petron increased its regional presence when it acquired an integrated refining, distribution, and marketing business in Malaysia. Petron Malaysia operates an 88,000 barrel-per-day refinery, seven (7) storage facilities and a network of 560 service stations. Petron holds a 16.6% share of the retail market as of March 2015, based on company estimates and information from Metrix Research Sdn. Bhd., the market research consultant appointed by Malaysian retail market participants to compile industry data.

Energy

The energy business is one of the leaders in the Philippine power generation industry in terms of installed capacity. SMC administers three (3) power plants, located in Sual, Pangasinan (coal), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric), pursuant to IPPA agreements with PSALM and NPC, and owns the Co-generation power plant in Limay, Bataan. In addition, SMC also owns 60.0% interest in the AHEPP plant in Bulacan. This brings total capacity to 2,903 MW. SMC is one (1) of the largest power companies in the Philippines and holds a 22.2% market share of the total installed power generation capacity for the Luzon power grid and a 16.5% market share of the national grid as of April 2015. SMC, through SMEC, likewise owns three (3) mining companies which are concession holders of coal deposits in Southern Mindanao.

Infrastructure

The infrastructure business, through SMHC, consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Current operating tollroads include the TPLEX, SLEX, Skyway Stage 1 and 2 and the STAR Tollways and ongoing tollroad projects are the NAIAX and the Skyway Stage 3. It also operates and is currently expanding Boracay Airport. In addition, it has the concession right to construct, operate and maintain the MRT-7.

Telecom

SMC has made investments in the telecommunications sector in the Philippines through acquisitions of stakes in Liberty Telecom, BellTel and Eastern Telecom.

Liberty Telecom

In 2010, SMC through its subsidiary, Vega, acquired a 41.48% stake in Liberty Telecom, a telecommunications carrier listed in the PSE, offering data communications and data connectivity services. Vega increased its ownership from 41.48% to 45.05% in April 2014 and to 45.58% in December 2014.

BellTel

Also, in 2010, Vega subscribed to shares of stock equivalent to 100.0% of Two Cassandra-CCI Conglomerates, Inc., Power Smart Capital Limited, and Perchpoint Holdings, Corp. that collectively own 100.0% of BellTel. In December 2014, Vega made a direct additional investment to BellTel by subscribing to its unissued shares.

Eastern Telecom

In 2010, SMC, through Vega, acquired 100.0% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40.0% of Eastern Telecom, inclusive of the existing businesses, investments and telecommunications service facilities of Eastern Telecom. On October 20, 2011, the Company through its wholly-owned subsidiary, SMESI, acquired an additional 37.7% of the outstanding and issued shares of stock of Eastern Telecom bringing its total indirect equity interest in Eastern Telecom to 77.7%.

The following table sets forth the contribution of each of the businesses of SMC to its revenues for the periods indicated:

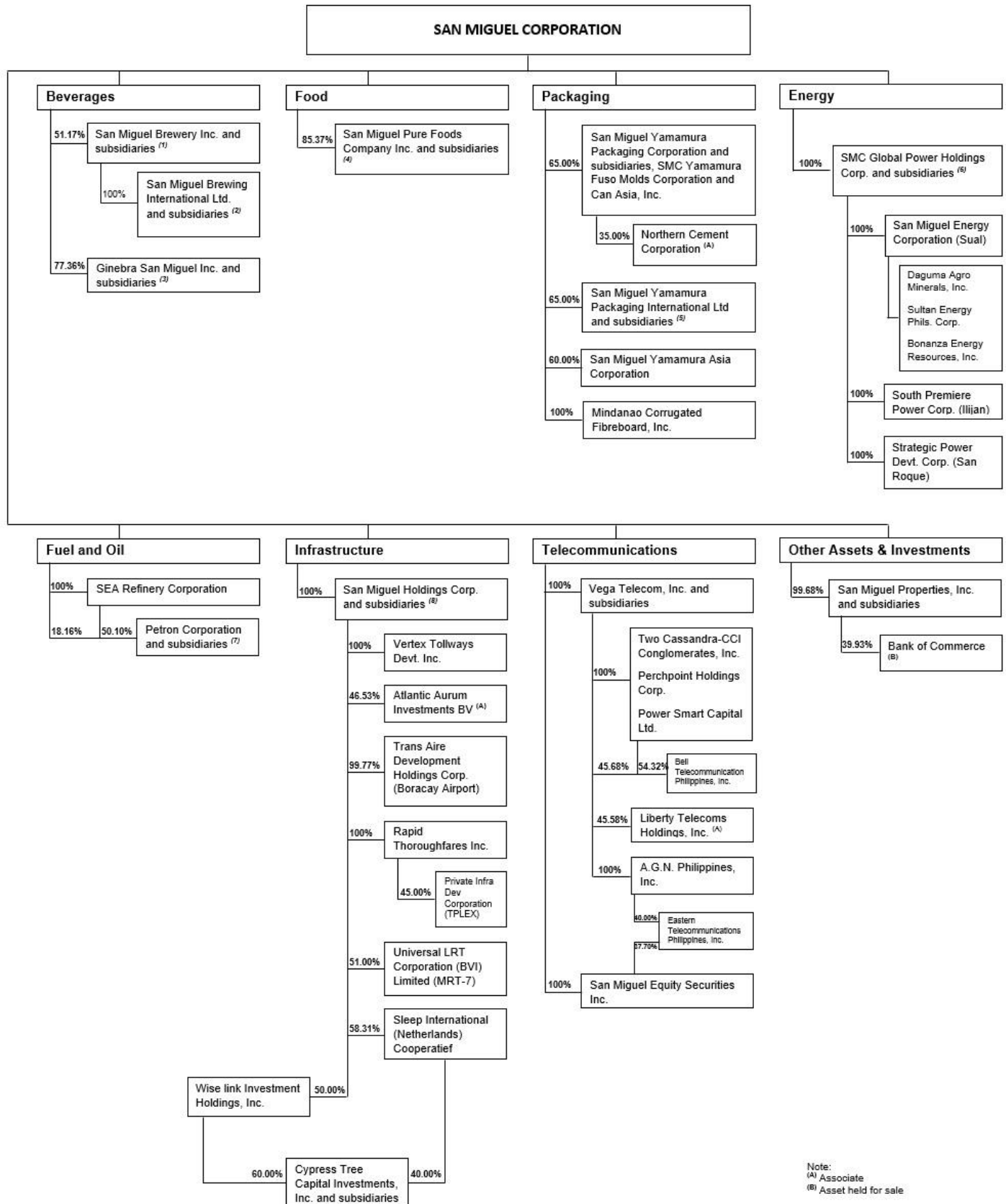
	2012		2013		2014		2015 First Quarter	
	Revenues	%	Revenues	%	Revenues	%	Revenues	%
	(in millions)		(in millions)		(in millions)		(in millions)	
Beverages	₱ 89,603	12.8%	₱ 89,452	12.0%	₱ 94,516	12.1%	₱ 22,550	14.2%
Food	95,787	13.7%	99,773	13.3%	103,000	13.2%	25,091	15.8%
Packaging.....	24,460	3.5%	25,187	3.4%	24,226	3.1%	5,811	3.6%
Energy	74,656	10.7%	74,044	9.9%	84,293	10.8%	19,757	12.4%
Fuel and Oil	424,795	60.7%	463,638	61.9%	482,535	61.7%	86,744	54.5%
Infrastructure	134	0.0%	6,473	0.9%	9,657	1.2%	2,887	1.8%
Other Operations, Investments and Eliminations	(9,519)	(1.4%)	(10,326)	(1.4%)	(15,793)	(-2.0%)	(3,669)	(2.3%)
Total	₱ 699,916	100.0%	₱ 748,421	100.0%	₱782,434	100.0%	₱ 159,171	100.0%

The foreign operations of the SMC Group in 2014 contributed about 26.7% of consolidated sales and 3.1% of consolidated net income. Foreign sales are broken down by market as follows:

	(%) to Consolidated Sales		
Market	2012	2013	2014
Malaysia.....	20.7	24.9	23.6
Indonesia.....	1.0	1.0	0.9
China.....	0.9	0.9	0.9
Vietnam.....	0.5	0.4	0.4
Others.....	0.5	1.8	0.9

Corporate Organization

Set forth below is the corporate organizational chart of SMC as of March 31, 2015.



Subsidiaries:

- ⁽¹⁾ San Miguel Brewery Inc. subsidiaries also include Iconic Beverages, Inc. and Brewery Properties Inc.
- ⁽²⁾ San Miguel Brewing International, Ltd. subsidiaries include San Miguel Brewery Hong Kong Limited and subsidiaries, PT Delta Jakarta Tbk and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand)
- ⁽³⁾ Ginebra San Miguel Inc. subsidiaries include Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International Ltd., GSM International Holdings Limited, Global Beverage Holdings Ltd. and Siam Holdings Ltd.
- ⁽⁴⁾ San Miguel Pure Foods Company Inc. subsidiaries include: San Miguel Foods, Inc., San Miguel Mills, Inc. and subsidiaries, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia, San Miguel Pure Foods International Limited and subsidiary and San Miguel Hormel (Vn) Co., Ltd.
- ⁽⁵⁾ San Miguel Yamamura Packaging International Limited subsidiaries include: San Miguel Yamamura Phu Tho Packaging Company Limited, Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty. Ltd. and subsidiaries and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary
- ⁽⁶⁾ SMC Global Power Holdings Corp., subsidiaries also include: San Miguel Electric Corp., SMC PowerGen Inc., PowerOne Ventures Energy Inc., Albay Power and Energy Corp., SMC Consolidated Power Corporation and San Miguel Consolidated Power Corporation
- ⁽⁷⁾ Petron Corporation subsidiaries include: Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation, Petron Singapore Trading Pte., Ltd., New Ventures Realty Corporation and subsidiaries, Petron Global Limited, Petron Oil & Gas International Sdn. Bhd., including Petron Fuel International Sdb. Bhd., Petron Oil (M) Sdn. Bhd. And Petron Malaysia Refining & Marketing Berhad (collectively Petron Malaysia), Petron Finance (Labuan) Limited, Limay Energen Corporation and Petrochemical Asia (HK) Limited and subsidiaries
- ⁽⁸⁾ San Miguel Holdings Corp. subsidiaries also include: Optimal Infrastructure Development, Inc., Terramino Holdings, Inc. and subsidiary and Alloy Manila Toll Expressways Inc.

None of the SMC Group companies is involved in any bankruptcy or receivership proceedings. Except as disclosed in this Prospectus, none of the SMC Group companies is involved in any reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business which has a material effect on SMC.

Strengths of SMC

SMC believes that its principal strengths include the following:

Diversified platform with broad exposure to the Philippine economy

The Philippines has become one of the fastest growing economies in Asia, with consecutive annual positive gross domestic product growth since 1999. According to the ASEAN Briefing, the Philippines announced a gross domestic product growth of 6.1% in 2014, the second highest in the Asia-Pacific region. According to the IMF, the Philippines is expected to experience strong gross domestic product growth at the rate of 6.2% and 6.5% for 2015 and 2016, respectively. In addition, the Philippine population is young, comparably literate and growing, which provides the Philippine economy with favorable demographics for further growth.

As one of the largest conglomerates in the Philippines by revenues and total assets, with sales of about 6.2% of the Philippine gross domestic product in 2014, the SMC Group is broadly exposed to the Philippine economy through its diverse range of businesses spanning the beverage, food, packaging, fuel and oil, energy, telecommunication, infrastructure, property and banking industries. The diversified portfolio aligns SMC to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

Market leading positions in key Philippine industries

Many of the businesses of SMC are leaders in their domestic markets.

Beverages: The domestic beer business of SMC has consistently dominated the Philippine beer market, with a market share of over 90% by volume in 2012, according to Canadean data, with no significant change in 2013. SMB has held this position since 1999. SMC also produces some of the

most recognizable liquor brands in the Philippines. It also has a growing non-alcoholic beverage business which produces non-carbonated ready to drink tea, fruit juices and water.

Food: San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key food categories and offers a broad range of high-quality food products and services to household, institutional and food service customers. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38.0% for poultry, 43.0% for animal feeds, 16.0% for flour and 40.0% for fresh meats (based on volume for large commercial farms), in each case as of December 2014. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 64.3% for hotdogs sold in Philippine supermarkets, 87.4% in the chicken nugget product category, and market shares of 40.0% for butter, 97.7% for refrigerated margarine, in each case based on value as of December 2014. According to Nielsen, San Miguel Pure Foods has a 97.3% market share for non-refrigerated margarine and 19.8% market share for cheese as of December 2014. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted marketing and promotional campaigns.

Packaging: The packaging business is one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies its products to major multinational corporations in the Philippines and customers across the Asia-Pacific region, the United States, Africa, Australia and the Middle East.

Fuel and oil: Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron is the number one integrated oil refining and marketing company, with an overall market share of 35.4% of the Philippine oil market in terms of sales volume based on industry data from the DOE as of December 2014. Petron had a 16.6% share of the Malaysian retail market as of March 2015, according to Metrix Research estimates, the market research consultant appointed by Malaysian retail market participants to compile industry data.

Energy: SMC Global Power is one of the largest power companies in the Philippines, holding a 22.2% market share of the total installed capacity of the Luzon power grid and 16.5% market share of the national grid as of April 2015, according to the ERC. SMC Global Power administers three (3) power plants, located in Sual, Pangasinan (coal-fired), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric), pursuant to the IPPA agreement with PSALM and NPC, and owns the power plant in Limay, Bataan (Co-generation). In addition, SMC also owns 60.0% interest in the AHEPP located in Bulacan. This brings total combined installed capacity of SMC Global Power to 2,903 MW.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in tollroads, an airport and mass rail transit system. SMHC currently operates TPLEX, SLEX, Skyway Stages 1 and 2 and STAR tollways, which comprise 52.7% of total tollroads in the country. Ongoing projects include NAIAX and Skyway Stage 3. SMHC also operates the Boracay Airport, which is currently undergoing improvement and expansion activities that will take advantage of the growing number of tourists in the area. In addition, SMC also holds the concession to construct, operate and maintain the MRT-7 project.

Experienced management team

SMC has an extensive pool of experienced managers, who have been with SMC for more than 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage SMC through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience. The new businesses of SMC, comprising of Petron, SMC Global Power and SMHC, have provided significant contribution to the performance of SMC for the past three (3) years. In 2014, sales from these new businesses accounted for 71.7% of the total consolidated sales of SMC. Likewise, in 2014 the EBITDA contribution was 56.1%.

Operating businesses provide sustainable stream of income and cash flows

The beverage, food and packaging businesses provide SMC with a sustainable stream of income with low capital expenditure requirements. These businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its diversification strategy. In 2014, the core businesses of beverage, food and packaging businesses provided 28.3% of consolidated sales and 43.9% of total EBITDA of SMC.

In 2014, SMC generated ₱88,096 million of EBITDA and ₱14,692 million of net income attributable to the parent company with ₱38,951 million of capital expenditure. In 2013, it generated ₱77,283 million of EBITDA and ₱38,053 million of net income attributable to the parent company with ₱65,865 million of capital expenditure. In 2012, it generated ₱76,626 million of EBITDA and ₱26,806 million of net income attributable to the parent company with ₱52,917 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The established businesses in beverage, food and packaging continue to provide stable cash flow, while its new businesses have enabled the Company to expand its ability to generate higher returns.

Beverage: The beverage business is well-positioned to benefit from the increasing affluence and population growth in the Philippines, which the Company believes are significant opportunities in the premium beer market. Additionally, the international beer business of SMC is experiencing increased sales through increasing brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, US and Asia-Pacific region. SMC is expanding its liquor business throughout the Philippines. SMC plans to create rapid deployment task forces, particularly in the southern Philippines, where market penetration is low and where there is no existing dealership system. With the transfer of the non-alcoholic beverage business from Ginebra to SMB, SMC believes that the strong distribution infrastructure of SMB will be able to increase margins and improve profitability of the beverage business as a whole. The beverage business continues to introduce new products and new package formats to increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.

Food: The food business aims to become the least-cost producer through its vertically-integrated meats business model, which allows it to secure stable raw material supply and develop cheaper alternative raw materials. San Miguel Pure Foods is also streamlining its operations to improve the profitability of its established business segments, such as poultry, feeds, meat and flour, maximize synergies across operations, and improve margins by shifting to stable-priced and value-added products.

Packaging: The packaging business aims to provide a total packaging solution to be able to serve a wide spectrum of customers thereby increasing its potential for higher growth. It also aims to benefit from trade liberalization and globalization in the ASEAN region as it further expands its exports market. The rising environmental awareness also provides opportunities for the production of more environmentally friendly products such as heavy metal free paint glass and recycled PET resin. The packaging plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.

Fuel and oil: Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, which it believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an automatic pricing mechanism that provides stable returns to fuel retailers.

Petron owns refineries in both the Philippines and Malaysia capable of producing finished petroleum products. Petron believes it has the competitive advantage against other oil players that only import finished petroleum products. Petron plans to continue its service station network expansion and seek growth in complementary non-fuel businesses. Petron also plans to increase the production of higher margin products mainly from the benefits of RMP-2. The RMP-2 is the second phase of a refinery expansion project, which includes further enhancements to the operational efficiencies of the refinery, increase in conversion capability and reduction of production of lower-value fuel oils. In addition to RMP-2 and the expansion of the service station network, Petron is operating the new coal Co-

generation power plant to supply the power requirements of the Limay Refinery that replaced some of the existing turbo and steam generators. The new coal Co-generation power plant is utilizing more efficient technology and generating power at lower costs.

Energy: SMC Global Power is expanding its power generating capacity over the next five (5) years, and believes its energy business will benefit from both growing demand for electricity in the Philippines, which is forecasted to exceed the growth rates of the Philippine gross domestic product, and shortage in electricity supply, with the industry constrained by aging power generation assets and minimal additional capacities. Also, if spot electricity rates move higher as a result of increased demand, the margins of SMC Global Power are expected to increase.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. In addition, SMC believes its operating licenses will provide strong and stable long-term income streams, as well as serve as a barrier to entry of new players to the business.

Telecommunications: SMC believes its investments in the telecommunications industry provide it with exposure to an industry that is expecting high growth as the Philippine population becomes more affluent and spends more on higher margin services. In particular, SMC is currently refining its telecom business strategy, where it plans to take advantage of opportunities in the digitization of businesses, the emergence of mobile platforms for businesses and the provision of services to consumers. Moreover, the companies acquired by SMC have a wide bandwidth of spectrum that would enable SMC to be competitive in both current (2G/3G/4G) and future technologies.

Synergies across businesses

SMC believes there are significant opportunities to develop and increase synergies across many of its businesses, including:

Ancillary business opportunities: SMC believes it has opportunities within its existing businesses to secure growth in its new businesses by using the relevant areas to conduct business and activities. Potential initiatives of this type include installing SMC Group advertisements and building service stations, retail outlets, rest stops and kiosks along toll roads.

Immediate distribution channel: The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of Petron service stations provides an immediate distribution channel for retail sales for the beverage and food products of SMC.

Economies of scale: SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.

Integration: SMC plans to continue pursuing vertical integration across the established and strategic businesses, such as supplying the fuel and oil and power requirements of its businesses internally.

Business Strategies of SMC

The principal strategies of SMC include the following:

Enhance value of established businesses

SMC aims to enhance the value of its established businesses by pursuing operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

Continue to diversify into industries that underpin the development and growth of the Philippine economy

In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

Identify and pursue synergies across businesses through vertical integration, platform matching and channel management

SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.

Invest in and develop businesses with leading market positions

SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include constructing new power plants and expanding its power generation portfolio, building additional service and micro-filling stations and expanding food distribution networks. SMC believes its strong domestic market position and brand recognition provide an effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses it believes have the potential to gain leading positions in their respective markets.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders, such as Kirin for beer, Hormel Foods Corporation for processed meats and NYG for packaging products. These partnerships provide marketing and expansion opportunities.

Recent Developments

Vinocor Worldwide Direct Pty. Ltd. (Vinocor)

Effective January 1, 2015, Cospak NZ Ltd. (New Zealand) and Premier Plastic Ltd. (New Zealand), both subsidiaries of SMYA, were merged to form the new company, Cospak Limited.

Additionally, on January 9, 2015, SMYA incorporated and registered in Australia a new entity, SMYV Pty Ltd. which acquired 100.0% of the wine closure and customized wine bottle business of Vinocor on February 27, 2015 for AU\$14.3 million or ₱531 million.

Consolidation of AAIBV

On March 5, 2015, a notarial deed of transfer of shares in accordance with the requirements of the laws of the Netherlands was executed whereby Padma transferred to SMHC the following: (i) 44.0% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the relevant option agreement. The total consideration for the additional 48.47% equity interest amounted to US\$224 million or ₱9,893 million. With the purchase of additional 48.47% equity interest, SMHC has 95.0% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is consolidated by SMHC effective March 5, 2015.

Tender offer for purchase of up to US\$400 million of the US\$800 million 4.875% Notes due 2023

On March 19, 2015, the Company announced in the Singapore Stock Exchange Securities Trading Limited the tender offer for the purchase of up to US\$400 million of the US\$800 million Notes due in 2023. The Notes were issued in April 2013 with an interest rate of 4.875% per annum. The Tender Offer commenced on March 19, 2015 and was concluded on April 1, 2015. A total of US\$284 million in principal amount of the Notes have been validly tendered and accepted by the Company for purchase on April 10, 2015. The price at which the Company purchased the Notes validly tendered and accepted for purchase is 95.0%. The Company paid an aggregate cash amount of US\$273 million for all such Notes accepted for purchase based on the final aggregate purchase amount, the clearing price, the early tender premium and the accrued interest payment.

Re-issuance and private placement of Series “1” Preferred Shares of the Parent Company

The closing conditions under the subscription agreements related to the private placement of Series “1” Preferred Shares of the Parent Company between the Parent Company and certain subscribers have been satisfied on April 14, 2015, and the Parent Company received the consideration for the Series “1” Preferred Shares, subject of the agreements. As such, the Parent Company, on April 14, 2015, issued 279,406,667 Series “1” Preferred Shares. On June 10, 2015, the PSE lifted the suspension of the trading of the Series “1” Preferred Shares and consequently, the outstanding Series “1” Preferred Shares became tradeable at the opening of the trading of the PSE on the said date. Notice of Exemption of the private placement was filed with the SEC on April 14, 2015.

Transfer of NAB business to SMB from Ginebra

In April 2015, SMB acquired the assets of Ginebra used in its NAB business, comprising of machinery, vehicles, coolers, chillers and other equipment, finished goods inventories and other inventories consisting of containers (bottles, shells/crates and pallets) on hand, packaging materials, goods in process and raw materials. Total amount paid was ₱398 million (VAT exclusive).

SLTC Fixed Peso Rate Bonds

In May 2015, SLTC entered a fund raising exercise through an offer for subscription and bond issuance to raise gross proceeds with an aggregate principal amount of ₱7.3 billion with net proceeds estimated to be at least ₱7.2 billion after deduction of fees, taxes, commissions and expenses relating to the Bonds. The net proceeds of this offer was used primarily to prepay its outstanding Peso denominated Corporate Notes.

The Bonds were issued in three (3) Series. Series A Bonds, Series B Bonds and Series C Bonds with terms of five (5) years and three (3) months, seven (7) years and ten (10) years, and with rates of 4.9925% p.a, 5.5796% p.a and 6.4872%, respectively.

SLTC issued the Bonds to institutional and retail investors through a general public offering. The Bonds were listed in Philippine Dealing System Holdings Corp. & Subsidiaries. It also received the highest credit grade, PRS Aaa, from the Philippine Rating Services Corp.

Additional investments in the telecommunications business

Liberty Telecom

On July 16, 2015, Vega signed definitive agreements with Qtel West Bay Holdings S.P.C., Wi-Tribe Asia Limited, and White Dawn Solution Holdings, Inc. (collectively the “Sellers”) for the sale and purchase of the stake of the Sellers in Liberty Telecom. The acquisition of Vega of the Liberty Telecom shares shall be subject to closing conditions, inclusive of the conduct and completion by Vega of a tender offer.

On July 21, 2015, Vega filed its application with the SEC for the tender offer of Liberty Telecom shares held by the public.

Express Telecommunications Company Inc. and High Frequency Telecommunications, Inc.

Vega acquired 100.0% equity interest in (i) MultiTech Holdings, Inc. which holds the total outstanding capital stock of High Frequency Telecommunications, Inc and (ii) Trans Digital Excel, Inc. which holds 78.45% equity interest in the total outstanding capital stock of Extelcom, respectively.

Compliance with environmental laws

The SMC Group is in compliance with environmental laws, except where such non-compliance will not have a material adverse effect on the business of SMC. On an annual basis, operating expenses incurred by the SMC Group to comply with environmental laws are not significant or material relative to the total costs and revenues of the SMC Group.

Employees

As of March 31, 2015, the SMC Group has 19,838 employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. As of March 31, 2015, the approximate number of employees in each of the businesses is set forth below:

Number of Employees

Beverages.....	5,623
Food.....	3,275
Packaging.....	3,481
Energy.....	123
Fuel and Oil.....	2,990
Infrastructure.....	1,078
Other Operations and Investment.....	<u>3,268</u>
Total.....	19,838

As of March 31, 2015, approximately 20.0% of the employees are parties to various collective bargaining agreements. Employees of SMC are not members of any labor unions. On the other hand, a total of 32 labor unions represent the employees of the subsidiaries of SMC. Since 1995, the SMC Group has not experienced any strikes or work stoppages. The SMC Group considers its relationship with its employees to be good.

In addition to the statutory benefits, SMC initiates benefits to provide for the increased security of its employees in the following areas: health care, leaves, miscellaneous benefits, loans and financial assistance applicable to a variety of uses, retirement benefits, and survivor security and death benefits.

Within the ensuing 12 months, SMC may require additional hiring of employees to support its business expansion, the number of which cannot be determined.

Beverage Business

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, liquor and non-alcoholic beverages. SMC conducts its beverage business through its majority-owned subsidiaries: SMB for beer and non-alcoholic beverages, which is 51.17%-owned, and Ginebra for liquor, which is 77.36%-owned.

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

The beverages business of SMC had sales of ₱94,516 million and ₱22,551 in 2014 and the first quarter of 2015, respectively. The following table sets forth certain information with respect to the beer, liquor and non-alcoholic beverage sales of SMC in 2014 and the first quarter of 2015:

	2014		First Quarter 2015	
	Actual (in ₱ Million)	%	Actual (in ₱ Million)	%
Beer.....	79,005	83.6%	18,883	83.7%
Liquor.....	14,921	15.8%	3,594	16.0%
Non-Alcoholic Beverage.....	590	0.6%	74	0.3%
Total.....	94,516	100.0%	22,551	100.0%

Beer Business

SMB is the largest producer of beer in the Philippines, with a total market share of over 90% by volume in 2012, according to Canadean data, with no significant change in 2013. It has five (5) breweries and one (1) bottling plant strategically located across the Philippines and a highly developed distribution system with a network of close to 500 dealers and serving approximately 450,000 on-premise and off-premise outlets nationwide. In addition to its Philippine beer operations, SMB has one (1) brewery each and sales operations in Hong Kong, Indonesia, Thailand and Vietnam, and two (2) breweries in China through its wholly-owned

subsidiary, San Miguel Brewing International Ltd. ("SMBIL"). SMBIL also exports its beer products to over 30 countries and territories worldwide in North America, Africa, the Middle East, Australia and the rest of Asia. The exports of SMBIL are primarily sold under various beer brands as well as under private labels.

In 2014, SMB was the largest contributor to the beverages business of SMC, which accounted for 83.6% of sales of the beverages business. SMB markets its beer primarily under the *San Miguel* brand. San Miguel branded beer products include *San Miguel Pale Pilsen*, which is the flagship beer of SMB, as well as *Red Horse*, *San Mig Light*, *San Miguel Super Dry*, *Cerveza Negra*, *Gold Eagle*, *San Miguel Premium All-Malt*, *San Miguel Flavored Beer*, *San Mig Zero*, *Oktoberfest Brew* (seasonal beer) and *Cali*, the only malt-based non-alcoholic drink in the country.

On December 5, 2014, the Board of Directors of Ginebra authorized the sale and transfer to SMB of certain non-alcoholic beverage assets consisting of machinery and equipment as of December 31, 2014, and inventories as of March 31, 2015. The non-alcoholic beverage segment stands to benefit from the distribution and marketing expertise of SMB and further strengthen the growth potential of SMB as it taps new sources of growth in the beverage industry.

Philippine Beer Industry

The Philippines is the third (3rd) largest beer market in Southeast Asia (Vietnam, Thailand, the Philippines, Indonesia, Malaysia and Singapore) and the sixth (6th) largest beer market in greater Asia by sales volume. In 2013, sales volume for beer in the Philippines was 14.7 million hectoliters, per Canadean.

Sales of beer are closely tied to the purchasing power and disposable income levels of consumers. Consumer income has been improving in recent years supported by favourable Philippine economic performance. SMB believes there is a positive correlation between per capita gross domestic product and beer consumption in the Philippines. In 2014, gross domestic product per capita in the Philippines was ₱71,726 while beer consumption per capita was 14.7 liters per person.

The beer market in the Philippines is highly concentrated, with SMB continuing to consolidate its leadership locally. SMB recorded a high market share of over 90% by volume in 2012, according to Canadean data, with no significant change in 2013 as a result of its extensive distribution network and strong brand portfolio. Key brands include *San Miguel Pale Pilsen*, *Red Horse* and *San Mig Light*.

The other key local player is Asia Brewery Inc. ("ABI"), which was established in 1981. The market share of ABI was estimated at 10% in 2012. Imported beer comprises a small proportion of the market and its distribution is normally limited to upscale hotels, bars, restaurants and supermarkets in Metro Manila.

The Philippines is composed of over 7,100 islands which makes distribution highly complex and expensive and represents a significant barrier to market entry for new brewers looking to distribute nationally. Following recovery in 2014, the beer market is seen to sustain its growth momentum at 1.0-2.0% growth rate in the medium term.

Strengths

SMB believes that its principal strengths include the following:

Dominant market share and brand leadership

From a single product produced in a single brewery in 1890, San Miguel beer has, 125 years later, grown into an array of popular beer products catering to the distinct tastes and preferences of beer drinkers across all segments and markets in the Philippines. *San Miguel Pale Pilsen*, the flagship brand of SMB, has been an iconic Philippine brand for most of the 20th century and up to today. After considering the evolving preferences of the Filipino beer drinker, other brands and products have been introduced, and these have been very successful. Today, SMB offers a portfolio of 11 strong and popular local brands: *San Miguel Pale Pilsen*, *Red Horse*, *San Mig Light*, *San Miguel Super Dry*, *Cerveza Negra*, *Gold Eagle*, *San Miguel Premium All-Malt*, *San Miguel Flavored Beer*, *San Mig Zero*, *Oktoberfest Brew* (a seasonal beer), and *Cali*, the only malt-based non-alcoholic drink. SMB also imports and distributes *Kirin Ichiban* under a distribution agreement with Kirin. The various products carry distinct attributes that cater to the various segments of the Philippine beer market. The products of SMB have been internationally recognized for quality, garnering 80 gold, silver and bronze medals as well as more than ten (10) trophies and awards from the Monde Selection International since 2000.

Strong brand equity

The products of SMB have consistently dominated the market for beer in the Philippines, the largest alcoholic beverage segment in the country. Based on Canadean data, products of SMB captured a high market share of 90% in 2012, with no significant change in 2013. The top four (4) beer brands in the country are all produced by SMB. Despite the entry of local competition in 1981 and the introduction of a few locally brewed versions of foreign brands, SMB has maintained an extremely strong market position supported by the popular acceptance and widespread availability of the products of SMB. Imported brands account for only 0.2% of the market, based on Canadean data, with distribution primarily in upscale bars, hotels and modern trade channels. The size and scale of the operations of SMB provide significant economies of scale in production, research and development, distribution, and managerial and marketing functions over a diversified product portfolio and geographic base. Its size also results in substantial leverage and significant bargaining power with suppliers and retailers.

Efficient manufacturing process

Proximity of Production Facilities to Consumer Markets

To ensure product availability and freshness, as well as to minimize distribution costs, SMB maintains a network of six (6) production facilities that are strategically located in the three (3) main islands of the Philippines: Luzon, Visayas and Mindanao. SMB has facilities in each of Valenzuela City in Metro Manila, Sta. Rosa City in Laguna, San Fernando City in Pampanga, Mandaue City in Cebu, Bacolod City in Negros Occidental and Davao del Sur, with a total annual production capacity of approximately 17.0 million hectoliters. The facilities are equipped with automated equipment capable of brewing and packaging the products of SMB in a variety of sizes and formats, including bottles, cans, and kegs. The strategic location of the production facilities of SMB reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists SMB in ensuring that the beer is freshly delivered to dealers and retailers at an optimal cost. The archipelagic nature of Philippine geography and the relative difficulty of transporting products to the substantial rural population make these dispersed production facilities particularly valuable.

Cost leadership

SMB maintains a strong cost leadership position through high productivity and efficiency, as well as cost control measures, which facilitate pricing flexibility and greater profit growth by maintaining its margins. Product quality initiatives, process enhancements, and improvement programs for plant operations and facilities management are all expected to be sustained. SMB continuously implements process optimization efforts and technology enhancements to generate cost savings.

Extensive distribution system and wide dealership network

SMB has a far-reaching and efficient distribution system in the Philippines. Its 51 sales offices, contracted logistics service providers and transportation assets including hauling trucks, routing trucks, pre-sell vans and service pickups and its network of close to 500 dealers across the Philippines enable it to maintain optimum stock levels in terms of quality and quantity in approximately 450,000 on-premise and off-premise outlets nationwide. The products of SMB from any one of its six (6) production facilities reach sales offices or dealer warehouses within five (5) days from production date. The sales office or dealer then delivers the beer to the wholesaler or retailer promptly afterward, ensuring ample stock and quality wherever and whenever the products of SMB are needed.

Returnable glass bottle system

The returnable glass bottle system of SMB helps keep the price of its beer products affordable. SMB is able to achieve more than 90.0% retrieval rate for its bottles, maximizing bottle usage and substantially reducing its packaging costs.

Positioned in strategic growth markets in Asia-Pacific

SMB through its subsidiary, SMBIL, has business operations in five (5) countries which are major beer markets in Asia and offer attractive growth prospects in the medium-term (i.e., China, Hong Kong, Vietnam,

Indonesia and Thailand). SMBIL has a broad portfolio of strong international and local brands, with the premium brand *San Miguel* growing in most of its international markets while local brands *Blue Star* in Baoding in northern China and *Anker* in Indonesia remain as major brands in their respective markets. SMBIL also employs focused sales and distribution systems and owns six (6) breweries which have a total production capacity of approximately 7.1 million hectoliters to support its operations. The footprint of SMB in the global beer market is also backed by the export operations of SMBIL which cover over 30 markets worldwide.

Financial strength

SMB has consistently shown a strong financial position with attractive growth prospects. Sales growth and cost efficiencies have resulted in consistently high EBITDA margins. SMB continues to exhibit strong cash flows due to efficient working capital management and prudent capital expenditure programs.

Business Strategies

Domestic Operations

The principal strategy of SMB is to sustain volume expansion and strengthen leadership in the alcoholic beverage market by focusing on demand-generating and value creating initiatives. It plans to achieve this through the following:

Assert market leadership

SMB intends to fortify its market leadership in the beer and alcoholic industry by ensuring that its products offer relevant and compelling value proposition to consumers. Volume-generating and brand-building programs consisting of thematic campaigns, visibility initiatives and below-the-line activities will be pursued in an integrated manner, complemented by enhanced trade efficiencies via intensified outlet penetration, availability programs, price campaigns and other trade initiatives. Furthermore, it plans to execute targeted sales and marketing initiatives in the regions and localities where the market share of SMB is relatively lower than national average and where competition is aggressive. In the broader alcoholic industry, SMB intends to reinforce its leadership by further strengthening consumer preference for beer and intensifying defense programs against competition from other alcoholic products.

Expand the beer market

SMB also plans to increase its sales volume by expanding the total market for beer sales. Its primary strategies to achieve this include:

Segmented pricing strategy

SMB intends to keep its products affordable for the middle and lower socio-economic sectors by maintaining a moderate pricing strategy for its products in the Popular and Economy markets, where sales are highly price elastic. For the more upscale, or Upper Popular market, where sales are less price elastic, SMB plans to sustain the higher price positioning of its specialty brands, supported by image-building activities to strengthen their premium positioning and improve their profitability. In the medium term, SMB intends to sustain the different price points among segments to ensure coverage of all market segments while sustaining a healthy brand mix.

Enhancing the value proposition of its products

SMB intends to enhance the value proposition of its products via relevant brand-building initiatives backed by on-ground activations. These will enable SMB to strengthen patronage for its products as well as take advantage of segment-specific growth opportunities and shifts in consumer profile and patterns. Programs and initiatives to protect its core customers and strengthen preference of new and younger drinkers for the brands of SMB will be pursued. SMB expects to further grow its main brands *San Miguel Pale Pilsen*, *Red Horse* and *San Mig Light* through the brand-building initiatives, demand-generating programs, on-ground and digital activations as well as special events aligned with the respective positioning of these brands in the market. Examples of brand-building activities previously implemented include advertising campaigns for *San Miguel Pale Pilsen* using famous endorsers such as Vic Sotto, Kris Aquino and Allan Pineda (a.k.a. apl.de.ap) under the *Walang Katulad* ("Beer like no other"), *Ito ang Beer* ("This is the Standard of Beers") and

Homecoming campaigns while demand-generating programs include beerhouse and bar tours and various consumer promotions.

Increase size of the upscale segment and tap emerging consumer segments and channels

The Upper Premium and Premium markets for beer in the Philippines are relatively small segments, but they play important roles in brand-building and overall market development. The segments offer promising prospects, underpinned by rising consumer incomes, increasing consumer sophistication, rapidly changing drinker habits and preferences, as well as increasing urbanization. SMB intends to support programs that develop the upscale segment of the beer industry through higher-priced and higher-margin specialty products. For example, specialty brands of SMB, including *San Miguel Premium All-Malt*, *Cerveza Negra* and *San Miguel Super Dry* are promoted by highlighting their premium ingredients and numerous awards for superior quality via visibility programs and consumer promotions. With this strategy, SMB aims to take advantage of opportunities in segmenting the market as well as pre-empting the incursion of foreign brands. Relative to other Asian countries, the Philippine beer market offers greater potential with regard to premium pricing of brands given the current relatively narrow price gap between the Premium and Upper Popular brands. In addition to the upscale segment, SMB intends to continuously tap new growth segments such as the business process outsourcing sector, overseas Filipino workers, tourism sector and gaming industry through initiatives tailor-fit for these segments and utilization of channels which cater to these markets. SMB also recognizes the importance of fast-growing modern trade channels such as large supermarket chains, hypermarkets and modern convenience stores in marketing and carrying its products to consumers, especially in urban areas. Accordingly, SMB is implementing sales and marketing programs in these emerging segments which offer growth potential.

Intensify trade execution and innovation

SMB intends to expand its trade reach and increase the visibility and availability of its products to support volume growth. In pursuing this strategy, SMB will focus on improving trade efficiencies and creating new markets for volume expansion while enhancing dealer operations and trade partnerships. Furthermore, SMB will likewise implement programs to improve outlet servicing, strengthen channel management as well as enhance sourcing and distribution schemes to ensure availability of its products in specific channels and locations including remote areas. In addition, SMB will sustain presence in growing modern retail formats while optimizing growth in tertiary outlets and other channels to effectively reach consumers.

Increase sales through special events and promotions

SMB intends to pursue volume-generating initiatives such as innovative consumer promotions and campaigns, on-ground activations as well as occasion-creation programs and special events. Examples of these activities include the dominance of SMB in town fiestas and conduct of trademark events, such as *San Miguel Beer Oktoberfest*, *Red Horse Muziklaban*, *San Mig Light Party All Night*, *Sarap Mag Babad* summer program activations as well as the National Beer Drinking Contest that aim to make the beer drinking experience more relevant and closer to the consumers.

Develop new products and packaging innovations

SMB will continue to explore the introduction of new products and innovative package formats. SMB believes this strategy can tap new consumer segments as well as address the needs of an increasingly fragmenting market. For example, to entice the entry point drinkers, SMB introduced *San Miguel Flavored Beer* in lemon and apple flavors in late 2010, the first flavored alcoholic beer in the market. The brand was received favorably in the market and continued to display strong performance. To capitalize on the rapid growth momentum of the brand, SMB launched canned variants in 2014 for both apple and lemon flavors. Meanwhile, *San Miguel Pale Pilsen* in 330ml long neck bottle with paper label packaging was released in 2011 in selected on-premise outlets to contemporize the brand and further boost its awareness and consumption. To capitalize on the health and wellness trend, SMB introduced *San Mig Zero* in 2013 which was formulated to offer the lowest calorie, lowest carbohydrate and zero sugar proposition to health-conscious individuals. SMB likewise intends to pursue packaging innovations to capitalize on the market trends toward convenience packaging as well as increasing sophistication of consumers.

Improve resource allocation and value creation in the supply chain

SMB aims to improve resource allocation and cost management towards programs that would create more value for SMB as well as ensure appropriate mix of advertising and promotions that would generate higher sales for SMB. In support of value creation in the supply chain, SMB intends to broaden its base for suppliers and materials to drive down costs without sacrificing quality. Third party service providers will also be managed more effectively, anchored on stronger partnership and shared objectives. Process and productivity improvements will be vigorously pursued in the different stages and areas of production, distribution and promotions to deliver products of superior quality while protecting profitability.

Strategy for International Operations

In the international beer business, the overall objective of SMBIL is to achieve strong volume and profit growth trend following the improvement in its performance. This will be achieved through market-specific programs that cater to local tastes and preferences while pursuing an integrated and consistent campaign for San Miguel beer brands in the region. In particular, key strategies include the following:

Strengthening the portfolio of local and international brands

SMBIL intends to further push the appropriate combination of local and international brands in its operating units to capitalize on the varied preferences of consumers in the international markets and pursue a healthy and profitable brand mix.

Accelerating the expansion of San Miguel brand

SMBIL aims to accelerate growth of San Miguel beer brands mainly *San Miguel Pale Pilsen* and *San Mig Light*, consistent with the thrust of SMB to promote *San Miguel* as the lead brand in the portfolio in the international markets. This will be done primarily through consumer and trade promotions events as well as development of new advertising campaigns and creative merchandising materials. SMBIL will continue to support growth of *Red Horse* through trade coverage expansion as well as conduct of brand building and volume generating programs. SMBIL is also working on expanding its portfolio in selected markets through the launch of other San Miguel brands such as *Cerveza Negra* and *San Miguel Premium All-Malt* as well as the introduction of draught variant for its *San Mig Light*, *Red Horse*, *Cerveza Negra* brands.

Improving sales and distribution management

Supporting the thrust on volume expansion and appropriate brand mix is the objective of improving the efficiency of sales and distribution. This involves strengthening the management of dealers/wholesalers, outlet and channel-specific programs such as bar games, sports viewing parties and promotions aligned with the respective positioning of brands. SMBIL also aims to strengthen its position in its core markets through increasing outlet penetration in existing areas as well as geographic expansion to new territories. SMBIL will also grow volumes in markets beyond Asia and the Middle East.

Cost reduction and efficiency improvements

To increase the cost competitiveness of SMBIL, efficiency improvement programs and cost containment measures will be implemented in the different aspects of the business such as logistics, manufacturing, sales, procurement and marketing. Processes are regularly evaluated for optimization, capability-building and development of potential synergies, where applicable, among the different units. SMBIL intends to reduce freight and distribution costs through improvements in sourcing and ordering of stocks as well as implementation of packaging improvements, lower cost formulation and procurement of materials on a regional scale, among others.

Selected operating metrics for the beer business of SMB for 2012, 2013, 2014 and the first quarter of 2015 are set forth in the table below:

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	75,580	75,053	79,005	17,561	18,883
Gross profit.....	37,550	35,648	36,211	7,739	8,642
Gross profit margin ⁽¹⁾	49.7%	47.5%	45.8%	44.1%	45.8%
EBITDA ⁽²⁾	25,736	24,614	25,106	5,340	5,791
EBITDA margin ⁽³⁾	34.1%	32.8%	31.8%	30.4%	30.7%
Net income before tax	20,938	17,851	19,595	3,828	4,606
Net income before tax margin ⁽⁴⁾	27.7%	23.8%	24.8%	21.8%	24.4%

Notes:

(1) Calculated as gross profit divided by revenues

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues

(4) Calculated as net income before income tax divided by revenues

Domestic Beer Sales

In the Philippines, SMB markets its beer primarily under the following brands: *San Miguel Pale Pilsen*, which is the flagship brand of SMB, *San Miguel Super Dry*, *San Mig Light*, *San Miguel Premium All-Malt*, *Cerveza Negra*, *Red Horse*, *San Miguel Flavored Beer*, *San Mig Zero*, *Oktoberfest Brew* and *Gold Eagle*. In 2013, *San Mig Zero* was introduced to target health conscious individuals. *Kirin Ichiban* is also distributed by SMB in the Philippines under an agreement with Kirin. SMB also sells *Cali*, the only malt-based non-alcoholic drink in the country. *Cali* is available in three (3) variants: *Cali Classic Sparkling Pineapple Drink*, *Cali Ice Apple* and *Cali Light* (low calorie).

Over the years, beer products of SMB have been consistent recipient of numerous international awards for product quality and excellence, including the Monde Selection awards. Monde Selection, founded in 1961, is an international and independent quality institute based in Belgium that evaluates the quality of various products including alcoholic beverages. SMB considers Monde Selection awards as an advertising asset which highlights the quality of products to consumers. The latest awards in 2014 gave SMB a total of 80 gold, silver and bronze medals, as well as more than ten (10) trophies and awards since 2000.

SMB beer products compete in the Premium/Upper Premium, Upper Popular, Popular and Economy market segments in the Philippines. The share of upscale brand sales of SMB (which includes the Premium/Upper Premium and Upper Popular market segments) to total SMB sales has been steadily increasing from 2.0% in 2000 to 12.0% in 2014. These trends primarily reflect shifts in consumer preferences given improvements in income, increased urbanization and changes in lifestyle.

International Beer Sales

SMB has brewery operations in Hong Kong, China, Vietnam, Thailand, and Indonesia through SMBIL. These breweries have a combined annual capacity of approximately 7.1 million hectoliters and sell their products locally as well as in various export markets.

In addition, SMB exports its beer products to over 30 countries, with key markets in Asia, the Middle East, Africa, North America and Australia. Exports of SMB are primarily sold under various San Miguel brands as well as under private labels.

Grupo Mahou San Miguel of Madrid, Spain has the rights to the *San Miguel* brand for beer in Europe, and is not affiliated with either SMB or SMC.

Production and Raw Materials

Due to the high cost of shipping within the Philippines relative to product cost as well as the importance of maintaining freshness and other distribution considerations, SMB maintains a system of regional breweries rather than a central consolidated brewing facility. SMB currently owns and operates five (5) breweries and one (1) bottling plant in the Philippines. These facilities are located in the three (3) main island groups of Luzon, Visayas and Mindanao in the Philippines, and are located close to the intended end-markets in order to reduce transportation costs.

In 2014, the five (5) breweries and one (1) bottling plant of SMB had a total production capacity of approximately 17 million hectolitres, with overall utilization rate of close to 80.0%.

The Polo Brewery is located north of Metro Manila and serves the Metro Manila and Southern Luzon markets. Established in 1947, it is the oldest operating brewery of SMC. The Polo Brewery underwent a modernization program during the 1990s to upgrade its brew house facilities. The San Fernando Brewery is located in Pampanga province north of Metro Manila and serves Central and Northern Luzon. It was built in 1981 and was expanded and upgraded in the late 1980s up to mid-1990s. The Mandaue Brewery, located on the island of Cebu, serves part of the Visayas region and Mindanao. This brewery was built in 1968 and its facilities were expanded and modernized in the early 1990s. The Bacolod Brewery was built in 1990 on the island of Negros which serves Negros and the island of Panay, and was modernized in 2005-2006. The Davao Brewery was built in 1995 and serves the Mindanao market. While production at each brewery is typically targeted to serve the geographical area around it, the distribution system can shift production from one (1) brewery to other regions if operational issues or demand changes require. SMB transports finished beer from the Polo Brewery for bottling into the Sta. Rosa plant which was established in 2011.

SMB employs state-of-the-art brewing equipment and technology which are sourced from leading manufacturers in Germany, United States, Japan and Italy. These include the cylindro-conical beer fermentation and maturation tanks, modern filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the breweries of SMB is equipped with automated facilities capable of manufacturing products in a variety of packages to meet market preferences, including bottles, cans and kegs.

Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe, China and South America, and adjuncts, which are generally sourced domestically.

SMB enters into supply contracts with key raw material suppliers with terms ranging from approximately one (1) year to five (5) years. Each of these contracts typically provide for a pre-determined fixed and formula price for the duration of the contract. In addition, depending on considerations such as price trends and the quality of raw materials, SMB also makes spot purchases on the open market. To ensure the quality of its products, SMB closely monitors the quality of its raw materials.

All water supply used by SMB in its production is provided by company-owned and operated deep wells, except for water used at the Polo Brewery, which is supplied by the Maynilad Water Services, Inc., a privatized water company serving parts of Metro Manila. While for the international operations, water is supplied by company-owned deep wells or by water utility service providers.

The packaging materials of SMB are primarily sourced from the San Miguel Packaging Group. All of the breweries of SMB are compliant with the requirements of the International Organization for Standardization ("ISO") ISO 9001:2008 and ISO 14001:2004, as assessed by its pool of technical assessors. All of the breweries are also certified by the Food Development Center as compliant to food safety requirements of current Good Manufacturing Practices (cGMP) – Hazard Analysis of Critical Control Points (HACCP).

Packaging costs are also a significant factor in the manufacture of beer. SMB mostly sells its products in returnable glass bottles of varying sizes and shapes, as well as in aluminum cans and kegs. As of December 31, 2014, over 90.0% of the glass bottles used by SMB were returned bottles. The returnable glass bottle is by far the most important and popular package for beer in the Philippines, accounting for more than 95.0% of the sales of SMB for 2014. These returnable glass bottles are used for over 50 cycles typically over a span of approximately ten (10) years. Retail outlets selling the products of SMB collect deposits on these bottles when customers buy the beer and return the deposit when the bottles are returned. New glass bottles are purchased from time to time to support accelerating sales and to replace broken and scuffed bottles.

Cans are less popular mainly because they are more expensive, although the volume of cans has been increasing in recent years with greater availability. Kegs or draft beers, which come in 15, 30 and 50 liter sizes, have minimal share and are present in key on-premise outlets.

Research and Development

SMB employs state-of-the-art brewing technology. Its highly experienced brewmasters and quality assurance practitioners provide technical leadership and direction to continuously improve and maintain high standards in product quality, process efficiency, cost effectiveness and manpower competence. Brewing technology and processes are constantly updated and new product development is ensured through continuing research and development. Research and development activities are conducted in a technical center and pilot plant located in the Polo Brewery.

SMB also has a central analytical laboratory, or “CenLab,” located in the technical center building of the Polo Brewery. The laboratory is equipped with modern equipment necessary for strategic raw materials analysis and validation, beer product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyzer, and laboratory scale mashing/milling system for malt analysis. Analytical methods and validation procedures are constantly enhanced and standardized across all the beer laboratories of SMB. It runs proficiency tests for brewery laboratories and malted barley suppliers to ascertain continuous reliability and quality of analytical test results. CenLab is also tasked with ensuring compliance of all systems with international standards, specifically ISO 17025-2005.

To promote technical manpower development, SMB runs the San Miguel School of Brewing, which offers various programs spanning all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school included those highly advanced classes necessary to qualify the most senior of its technical personnel known as brewmasters. Each of the more than 35 brewmasters has extensive advanced coursework and over ten (10) years of on-the-job-training experience with SMB.

Sales and Distribution

SMB markets, sells and distributes its beer products principally in the Philippines. SMB believes it maintains an extensive distribution network, which has five (5) breweries and one (1) bottling plant strategically located production facilities across the country, a broad network of sales offices and warehouses and effective management of dealership and third party service providers.

The strategic location of the production facilities of SMB in the Philippines reduces overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country. This also assists SMB in ensuring that the beer is freshly delivered to customers at an optimal cost. Products are delivered from any one of the six (6) production facilities by contract haulers and, in certain circumstances, by a fleet of boats contracted by SMB, to a sales office or dealer warehouse generally within five (5) days from production in the breweries. From the sales office or dealer, beer is then promptly delivered to the retailer or wholesaler, ensuring the quality and sufficient stocks wherever and whenever San Miguel beer products are needed. As of December 31, 2014, beer products are distributed and sold at approximately 450,000 outlets, including off-premise outlets such as supermarkets, grocery stores, sari-sari stores, and convenience stores, as well as on-premise outlets such as bars, restaurants, hotels and beer gardens. SMB also manages 51 sales offices and partners with close to 500 dealers throughout the Philippines.

Dealers provide their own warehouse facilities and trucks, considerably reducing investment requirements for SMB. To improve distribution efficiency, SMB has gradually reduced the number of its dealers, which resulted in increased volume sales. SMB has also increased the support that it provides to its dealers, including software support with respect to streamlining logistics, promotional support and financial management training. SMB enters into written distribution agreements with its dealers that specify the territory in which the dealer is permitted to sell the products of SMB, the brands that the dealer is permitted to sell, the performance standards applicable to the dealer, procedures to be followed by the dealer in connection with the distribution rights and circumstances upon which distribution rights may be terminated. The sales force of SMB designs and awards strategic sales territories to dealers based on research of the specific territory covered. Distribution rights, performance standards and sales procedures are developed by SMB and implemented in tandem with dealers to ensure high quality of services. As dealers are given

exclusivity over defined geographic areas that SMB actively monitors and enforces, and based on performance, these franchises are heavily sought after by potential dealers.

SMB formed a business development group to handle accounts management and business building of the modern trade accounts such as hypermarkets, convenience stores and high visibility on-premise outlets. Field sales operations, on the other hand, are responsible for the servicing requirements of these accounts.

Marketing Activities

SMB actively pursues marketing initiatives to promote new and existing products, as well as to maintain and enhance brand awareness of its existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, conducting various consumer and trade promotions and other merchandising activities. SMB taps various channels such as television, radio, print and digital space to reach targeted segments while deploying outdoor billboards and posters that can be placed on the walls of retail outlets and restaurants, bars and other on-premise outlets. SMB operates a beer delivery service in Metro Manila and selected key cities via its “632-BEER” (632-2337) hotline delivery program wherein customers can place their orders by calling, text messaging or online ordering (www.smbdelivers.com). The delivery service enables SMB to tap emerging segments such as the home market and online consumers. Advertising and promotion expenses of SMB were ₱2,544 million in 2014.

SMB holds trademark special events. San Miguel Beer *Oktoberfest* has been its flagship event of the brand for over three (3) decades. This beer festival takes places at numerous locations across the Philippines and offers beer, popular bands and celebrities, games and raffle promos to entertain the crowds. The National Beer Drinking Contest is also organized by SMB, consisting of beer drinking competitions in various locations across the country and culminating in one grand national competition to gather the best beer drinkers in the country. SMB also holds *San Miguel Pale Pilsen's* nationwide *Sarap Mag Babad* summer program, which is an annual get-together involving games, concerts and parties at the country's popular summer destinations. In addition to *San Miguel Pale Pilsen*, *Red Horse* is also strongly associated with rock concerts and has its own *Muziklaban*, the biggest annual rock challenge in the country. For *San Mig Light*, SMB conducts music party initiatives such as *Party All Night* and club music events. SMB also conducts beer tasting bar tours in upscale outlets for its specialty brands *San Miguel Premium All-Malt*, *San Miguel Super Dry* and *Cerveza Negra*.

Competition

SMB faces competition from another domestic producer, ABI, which sells both its own brand and foreign brands it produces under license from foreign brewers. ABI is the largest competitor of SMB in the Philippine market and operates two (2) breweries. It also holds the license for *Colt 45* and is the exclusive distributor of *Asahi Super Dry* in the country. ABI competes mainly through *Beer na Beer* and *Colt 45*, as well as its alcopop brand, *Tanduay Ice*. Specifically, *Colt 45* competes with the high-alcohol beer of SMB, *Red Horse*, while also targeting *San Mig Light* and *San Miguel Flavored Beer* with *Tanduay Ice* variants. In 2014, ABI launched *Brew Kettle*, a locally manufactured beer positioned in the upscale segment and expanded its alcoholic product portfolio to include *Ultimo Craft*, a wine and brandy mix, and *Red Oak Sangria*, an alcomix beverage.

Competition from imported beers is minimal. Imported beer comprises a small proportion of the market as these products are primarily found in upscale hotels, bars, restaurants and supermarkets in Metro Manila.

SMB also competes with producers of other alcoholic beverages, primarily gin, rum, brandy, and recently, alcopops which are close substitutes to beer. In the beer industry — and more generally the alcoholic beverage industry — competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. SMB believes that its market leadership, size and scale of operations, and extensive distribution network in the Philippines create high entry barriers and provide SMB with a competitive advantage in the Philippines.

In its main international markets, SMB contends with both foreign and local beer brands, such as *Blue Girl* (Hong Kong), *Carlsberg* (Hong Kong, Thailand), *Heineken* (Hong Kong, South China, Thailand, Vietnam and Indonesia), *Tsingtao* (Hong Kong, China), *Yanjing* (China), *Tiger* (Thailand, Vietnam and Indonesia), *Guinness* (Hong Kong and Indonesia), *Bintang* (Indonesia), *Budweiser* and *Snow* (China, Hongkong), *Singha* and *Asahi* (Thailand), and *Saigon Beer* (Vietnam).

Liquor Business

In 2014, the liquor operations of SMC had sales of ₱14,921 million, accounting for 15.8% and 1.9% of the beverages sales and total consolidated sales of SMC, respectively. The liquor operations of SMC is conducted through its 77.36%-owned subsidiary, Ginebra San Miguel Inc.

Ginebra San Miguel was first produced in 1834 in a distillery owned by prominent Spanish clans. In 1924, the distillery was acquired by a Filipino-Chinese mestizo who owned La Tondeña Incorporada. Ginebra was acquired by SMC in 1987 to form La Tondeña Distillers, Inc. and was listed in the PSE in 1995. In 2003, it adopted the name Ginebra San Miguel, its core brand, after it was fully acquired by SMC. It trades under the symbol "GSML".

Among its subsidiaries is Distileria Bago, Inc. ("DBI"), an entity with a distillery located at Bago City, Negros Occidental that converts sugar cane molasses into alcohol, which became a wholly owned subsidiary of Ginebra in 1996.

To support its entry into the regional markets, Ginebra entered into a share purchase agreement with the Thai Life Group of Companies covering shares in Thai San Miguel Liquor Co., Ltd., and owned 44.9% of such company as of December 31, 2014.

In 2012, Ginebra acquired its toll manufacturer, East Pacific Star Bottlers Philippines Inc., which operates bottling plants in Cauayan, Isabela and Ligao City, Albay.

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

Philippine Liquor Industry

The majority of domestic sales of liquor are made to those segments of the population seeking economy products. While quality and drinkability of liquor are important, popular pricing strategies are essential, especially for new products. Local manufacturers enjoy a competitive advantage in terms of price as demand is highly price sensitive. The performance of the liquor industry is highly dependent on the economy, especially for imported brands.

Domestic brands, namely *Ginebra*, *Tanduay*, and *Emperador* continue to dominate the market, accounting for about 98.0% share of total industry volume sales in 2014, according to an internal Retail Trade Audit Report. The products sold consist mainly of gin, brandy and rum.

Competitive Strengths

Ginebra believes that its principal strengths include the following:

Market leading brands

Ginebra has market leading brands in *Ginebra San Miguel Gin and Vino Kulafu*. In January 2015, Ginebra launched a new light brandy product, *Primera Light*, to capture the growing brandy market and create an appeal to a younger consumer segment.

Streamlined distribution network

Ginebra has a streamlined distribution network with direct shipments to a diversified base of large dealers assigned to specific geographic areas.

Strong Cost Leadership

Ginebra has established and led the establishment of a diversified raw material base.

Business Strategies

The principal strategies of Ginebra include the following:

Expand distribution

Ginebra is expanding its distributors and setting up direct selling operations particularly in the Greater Manila Area and Southern Philippines. Ginebra reinforces its distribution network through wholesalers, extending its reach in underserved areas of Luzon and Visayas.

Wholesaler development programs continue to be implemented to support and boost productivity of dealers.

Protect and expand the Gin market

Ginebra is focusing its strategy on its core gin products. Thematic campaigns, such as the “*Ganado sa Buhay*”, strengthen the dominance of its flagship brand, *Ginebra San Miguel*, in the gin category. Purposive product launches allow Ginebra to capture new markets, particularly in Eastern Visayas. Ginebra is also introducing new product offerings to serve the dynamic consumer market in key areas in Northern Philippines, such as the offering of lower proof alcohol products through the re-launch of *GSM Blue*.

Secure raw material sources

Ginebra has embarked on initiatives to search for alternative raw materials to complement molasses, which is under threat from increasing prices and decreasing availability as it is used as a raw material for the clean fuel program of the Philippine government. Cassava has proven to be a reliable substitute for molasses and Ginebra, through its subsidiary DBI, has installed capability. Ginebra will also import more crude alcohol as an alternative if proven to be more cost efficient at certain points in time.

Sustain cost improvement programs

Increased use of second-hand bottles, better distillery and bottling efficiencies has yielded reduced production spending for Ginebra. Fixed costs are being kept in check with more prudent spending, particularly with advertising and promotion.

Selected operating data for the liquor business of Ginebra are set forth in the table below for the periods indicated:

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	13,340	13,677	14,921	3,462	3,594
Gross profit.....	3,236	2,942	3,973	905	1,027
Gross profit margin ⁽¹⁾	24.3%	21.5%	26.6%	25.1%	28.6%
EBITDA ⁽²⁾	83	(124)	1,009	198	257
EBITDA margin ⁽³⁾	0.6%	-0.9%	6.8%	5.7%	7.2%
Net income before tax	(987)	(1,334)	(54)	(70)	42
Net income before tax margin ⁽⁴⁾	-7.4%	-9.8%	-0.4%	2.0%	1.2%

Notes:

- (1) Calculated as gross profit divided by revenues
- (2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.
- (3) Calculated as EBITDA divided by revenues
- (4) Calculated as net income before income tax divided by revenues

Ginebra Sales

Ginebra is one of the leaders in the Philippine liquor market, and produces, markets and sells some of the most recognizable brands in the Philippine liquor market, including *Ginebra San Miguel*, *GSM Blue*, *Antonov Vodka* and *Vino Kulafu*.

Ginebra offers a range of liquor in the Premium, Popular and Economy market segments, including gin, brandy, chinese wine, vodka, tequila and whisky.

The quality of the products of Ginebra has been recognized by a number of organizations, including the Monde Selection of Belgium which has awarded quality medals to various Ginebra brands in past years.

Consumer preferences in the Philippine liquor market vary largely by geographical region. Consumers in Northern Philippines prefer gin and brandy, while consumers in Southern Philippines prefer rum. Through the years, brandy has become popular in both Northern and Southern Philippines.

With the strength of Ginebra in the gin category, it is further expanding the market, particularly in the Southern Philippines.

Exports and Overseas Operations

The primary export markets of Ginebra are Thailand, Taiwan, Korea, Japan, China, Middle East, North and South America, Canada, Hong Kong, Malaysia, Singapore, India, Bahrain, Vietnam, UAE and UK. Competition in the export markets is intense. The competitors of Ginebra include a number of international liquor producers, some of which may have greater production, marketing, financial and other resources than Ginebra.

In addition to exports of liquor, Ginebra also sells and distributes liquor in Thailand through its joint venture with Thai Life Group of Companies via Thai San Miguel Liquor Co., Ltd.

Raw Materials and Production

Alcohol is the main raw material used in the production of liquor. Ginebra produces most of its alcohol at its distillery plant in Bago City, Negros Occidental. Alcohol is produced primarily from molasses, which is purchased from a variety of third-party suppliers pursuant to supply contracts as well as on the open market. Recently, as the price for molasses has increased, Ginebra has been considering alternative raw materials such as cassava starch milk. Ginebra has constructed a cassava starch milk plant in the Philippines to enable it to use this alternative raw material for the production of alcohol.

Ginebra owns one (1) distillery, five (5) liquor bottling plants and one (1) cassava starch milk plant strategically located throughout the Philippines and one (1) bottling and distillery plant in Thailand.

The liquor products of Ginebra are packaged in glass bottles which are sourced from the packaging business of SMC. In addition to using new glass bottles, Ginebra maintains a network of bottle suppliers in the Philippines that recycles second-hand bottles back to the plants of Ginebra. Even with the additional cost of maintaining a quality control system for the safety of recycled bottles, the cost of recycled bottles is approximately half of the cost of new bottles. As a result, bottling costs for any particular product are generally expected to decrease over time with the increased use of recycled bottles.

Distribution

Ginebra distributes its products by shipping directly to dealers. Ginebra has recently streamlined its distribution network by reorganizing its network of dealers by assigned geographic areas. The reorganization was designed to enhance the efficiency of the distribution network by having fewer but larger dealers. Ginebra had 78 dealers for its liquor products. Ginebra utilizes third party services in the warehousing and delivery of its products.

Recently, Ginebra has embarked on a program to increase its distributor base throughout the country, including Southern Philippines. It also maintains an organization for direct selling operations to gain better control of market operations. The sales force of Ginebra has a Key Accounts Group which handles the modern trade and on-premise outlets in key cities.

Marketing and Competition

Ginebra markets its products through a variety of channels, including television, radio, billboard and print advertisements, as well as special event sponsorships, consumer promotions and trade promotions. Ginebra

targets the Popular and Economy market segments. The major competitors of Ginebra in these segments include Emperador Distillers Inc. and Tanduay Distillers Inc.

In the Premium market segment, the major competitors of Ginebra include *Gilbey's* and *Absolut*. As Ginebra endeavors to create a niche in the Premium market segment with the introduction of premium brand names, Ginebra will continue to rely on its competitive advantages including price, quality and extensive distribution network.

Food Business

SMC operates its food business through San Miguel Pure Foods and its subsidiaries and is a leading player in the Philippine food industry, offering a broad range of high-quality food products and services to both household and food service customers. The performance of San Miguel Pure Foods is closely correlated to domestic economic growth, as well as trends and developments in each segment within the industry. San Miguel Pure Foods has been listed on the PSE since 1971.

San Miguel Pure Foods was formed in 2001 through the operational integration of two (2) leading Philippine food groups - the food businesses of SMC and Pure Foods Corporation. SMC currently owns 85.37% of the common shares of San Miguel Pure Foods.

San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream, and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *B-Meg* for animal feeds and *La Pacita* for biscuits.

San Miguel Pure Foods organizes its operations into four (4) business segments: agro-industrial, value-added meats, milling, and others. The agro-industrial business segment includes the animal feeds, poultry and fresh meats businesses; the value-added meats business segment includes the production of refrigerated processed meats and canned meats; the milling business segment includes the production of flour, customized and premixes, other flour-based products and grain terminal operations; and others include the dairy, spreads and oils, coffee, biscuits, foodservice and franchising businesses and international operations.

In 2014 and for the period ended March 31, 2015, the contribution of each business segment to the revenues of San Miguel Pure Foods was as follows:

	Year Ended December 31, 2014		Period Ended March 31, 2015	
	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues
	(in millions, except %)			
Agro-industrial.....	68,181	66.2	16,997	67.7
Value-added meats.....	15,033	14.6	3,286	13.1
Milling	8,854	8.6	2,445	9.7
Others.....	10,931	10.6	2,363	9.4
Total	102,999	100.0	25,091	100.0

Notes:

(1) Represents the external revenues of each segment and excludes inter-segment revenues.

The contribution of the international operations of San Miguel Pure Foods to its total revenues was 1.7% in 2014 and 0.9% for the period ended March 31, 2015.

The following table sets forth the operating results of San Miguel Pure Foods by business segment for the periods indicated⁽¹⁾:

	Year Ended December 31, 2014		Period Ended March 31, 2015	
	Operating Results ₱	% of Total Operating Results (in millions, except %)	Operating Results ₱	% of Total Operating Results
Agro-industrial.....	2,579	39.9	485	33.0
Value-added meats.....	964	14.9	120	8.2
Milling.....	2,338	36.2	648	44.1
Others.....	581	9.0	215	14.6
Eliminations ⁽²⁾	1	0.0	-	0.0
Total.....	<u>6,463</u>	<u>100.0</u>	<u>1,468</u>	<u>100.0</u>

Notes:

(1) Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenue for each segment, see Note 2 to the March 2015 Unaudited condensed consolidated interim financial statements and Note 6 to the 2014 audited consolidated financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the value-added meats segment, (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment, and (iv) service revenue of the grain terminal operations of the milling business from the agro-industrial segment.

(2) Represents mainly the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.

Philippine Food and Agriculture Industry

According to the Philippine Statistical Authority, there was a general upward movement in food prices in the Philippines in 2014, as a result of typhoons.

In mid-2014, Typhoon Glenda resulted in a tight supply of chicken meat which caused meat prices to go up by 3.8% nationwide. Due to higher demand, the increase in meat prices was more pronounced in the NCR at 4.6% vs. 1.8% in 2013 compared to Areas Outside NCR where meat prices rose by 4.3% vs. 2.2% in 2013.

Meanwhile, a decline in chicken layers lowered the production of eggs thereby limiting supplies in the markets. Thus, the nationwide milk, cheese and eggs price index increased by 3.5% in 2014 from 2.1% in 2013. NCR registered a 4.8% increase in the index in 2014 from 2.0% in 2013 while Areas Outside NCR posted a 3.2% increase from 2.0% in 2013.

Strengths

San Miguel Pure Foods believes that it has the following competitive strengths:

Portfolio of leading and highly recognized brands known for quality

San Miguel Pure Foods has successfully developed a strong portfolio of well-recognized brands known for quality in the Philippines, including *Magnolia* for chicken, ice cream and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *B-Meg* for animal feeds and *La Pacita* for biscuits. As a testament to the strength of its brands in the Philippines, San Miguel Pure Foods has established market-leading positions in several segments and product categories. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38.0% for poultry, 43.0% for animal feeds, 16.0% for flour and 40.0% for fresh meats (based on volume for large commercial farms), in each case as of December 2014. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 64.3% for hotdogs sold in Philippine supermarkets, 87.4% in the chicken nugget product category, and market shares of 40.0% for butter, 97.7% for refrigerated margarine, in each case based on value as of December 2014. According to Nielsen, San

Miguel Pure Foods has a 97.3% market share for non-refrigerated margarine and 19.8% market share for cheese as of December 2014. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted marketing and promotional campaigns.

Through these efforts, San Miguel Pure Foods has not only developed leading brands for traditionally branded food segments, but has also established successful branding for traditionally commoditized product segments such as *Magnolia* for poultry, *Monterey* for fresh meats, *B-Meg* for animal feeds, *Emperor*, *King and Queen* for flour. San Miguel Pure Foods believes that its well-recognized brands have allowed it to develop strong customer loyalty resulting in repeat purchases that provide it with greater pricing power relative to its competitors. In addition, the multi-brand strategy of San Miguel Pure Foods allows it to broaden its product reach to customers more easily than its competitors given its significant brand recognition and reputation for quality.

San Miguel Pure Foods and its products have won a number of industry and consumer awards. The *Magnolia* chicken and *Monterey* brands were recipients of the *Gold and Platinum Reader's Digest Philippines Trusted Brands* awards from 2010 to 2014. The *Magnolia* chicken brand was also awarded the 2011 *Asian Livestock Industry Award* by Asian Agribusiness Media Pte Ltd.

Highly diversified product portfolio catering to a broad spectrum of customers

San Miguel Pure Foods offers one of the widest arrays of food products in the Philippines. San Miguel Pure Foods produces food products for household, institutional and foodservice customers and derives its revenues from different product segments, including poultry, fresh meats, refrigerated processed meats and canned meats, basic flour and flour premixes, dairy, spreads and oils, coffee and biscuits. San Miguel Pure Foods also produces animal and aquatic feeds.

The product diversity of San Miguel Pure Foods reduces its dependence on any single product segment and makes it more resilient to changes in competitive dynamics or raw material price fluctuations that may impact one (1) product segment more than the others. Its diverse product portfolio also provides marketing and product synergies across segments, as products can complement each other and provide an integrated, one-stop solution for everyday food needs of the customers. For example, *Monterey Meatshops* also carry value-added meats, flour premixes and dairy products, as well as other complementary products such as vegetables, eggs and condiments, allowing San Miguel Pure Foods to leverage on its wide array of products and offer creative food solutions to its customers.

In addition, San Miguel Pure Foods believes that its presence in multiple segments provides different avenues for future growth, both within and across several product categories. San Miguel Pure Foods believes that, it is only present in more than one-third of the total packaged food industry (measured by value), thus presenting ample opportunity for San Miguel Pure Foods to expand into other packaged food categories that are adjacent and complementary to its existing categories.

Strong commitment to product innovation

San Miguel Pure Foods continues to introduce new and innovative products and is very mindful of growing trends for more convenient and healthy foods.

Since 2013, San Miguel Pure Foods introduced more than 50 new products. More convenient options were offered to the market such as *Purefoods Resto Style Fried Chicken* products which are all fully cooked and ready-to-eat products that only takes a few minutes to heat and serve. San Miguel Pure Foods also introduced *Purefoods Tocino* and *Purefoods Longanisa* in pork and chicken variants. These products not only allow San Miguel Pure Foods to be a player in the huge native line segment of the semi-processed meats category but also maximize brand and supply synergies with *Magnolia* chicken and *Monterey* fresh meats. San Miguel Pure Foods also introduced a health and wellness line with the launch of *Purefoods Sexy Chix*, a ready-to-eat canned chicken line made with *Magnolia Fresh Chicken*. *Purefoods Thick Cut Bacon* in Honeycured, Honey Roast and Spicy BBQ flavors were also introduced to the market to expand usage occasion beyond breakfast. New flavors which strengthened the *Best of the Philippines* ice cream line were also launched featuring local delicacies such as Sili Con Tsokolate, Mango Mangoesteem, Strawberry Red Velvet Otap and Caramel Sans Rival. The *Magnolia All-Purpose Cream Original* was also re-launched to widen the dairy products offering of San Miguel Pure Foods. These new products contributed a significant

portion of the incremental revenues of San Miguel Pure Foods and its projects that its innovation platform and entry into new categories will continue to drive the growth of its value-added segment.

Extensive market penetration through multi-channel distribution network

The Philippines is the second (2nd) largest archipelago in the world, with a population widely distributed over 7,100 islands, presenting significant logistical challenges for food and beverage companies trying to reach consumers nationwide and a barrier to entry for new players. San Miguel Pure Foods operates and manages one of the most extensive distribution networks across the Philippines, with its products available in every major city, and it believes that this provides a significant competitive advantage.

To maximize market penetration, San Miguel Pure Foods has a multi-channel distribution network that supplies its products to supermarkets and traditional retail outlets, trade, foodservice channels and franchised stores. For the value-added meats business, San Miguel Pure Foods centrally manages sales and distribution through San Miguel Integrated Sales (“SMIS”) which is responsible for selling its value-added products to both modern trade, such as major supermarket chains, hypermarkets, groceries, convenience stores, and general trade, such as market traders and “*sari-sari*” stores (small neighborhood stores). For its animal feeds, poultry, fresh meats and flour businesses, San Miguel Pure Foods also maintains business-specific sales forces to service trade channels and manage its distributors and dealers. Great Food Solutions of San Miguel Pure Foods, on the other hand, manages sales to key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains.

San Miguel Pure Foods believes that its multi-channel distribution platform allows it to maximize customer reach and is one of the key factors to its success in building and developing its market-leading positions.

Vertically-integrated meats business model allowing for higher efficiency, profitability and operational synergies

San Miguel Pure Foods operates a fully integrated business model for its meats operations to achieve competitive advantage by offering the least production cost. This starts at the plantations level, where San Miguel Pure Foods works with farmers to ensure availability of raw materials. These raw materials are then mixed in the feed milling facilities wherein approximately 50.0% of the output is for external customers and the remaining balance is for the internal requirements of the poultry and fresh meats businesses.

San Miguel Pure Foods imports breeder animals from leading global suppliers to produce stock for raising broilers and hogs. These animals are raised by contract growers, who are paid fees based on set standards such as harvest recovery, average live weight and feed conversion ratio. At harvest, these animals are processed (dressed and slaughtered) for both retail and institutional sales, while some are further processed and converted into higher-margin, value-added products, such as hotdogs, chicken nuggets, luncheon meats, etc.

San Miguel Pure Foods controls the branding and marketing of products to ensure the highest brand recognition and loyalty from customers for all brands. These are then distributed through all channels, namely, the modern trade, general trade via exclusive distributors, foodservice and the own franchised stores of San Miguel Pure Foods.

Extensive distribution network

San Miguel Pure Foods has access to all distribution channels which allows it to significantly expand customer reach.

Revenues are obtained through modern trade channels (such as hypermarkets, supermarkets and convenience stores), general trade (such as wet markets, “*sari-sari*” stores, small groceries and dealers) and through foodservice and institutional clients (such as bakeries, foodservice clients and hotels).

In addition, San Miguel Pure Foods has demonstrated the ability for innovation in distribution through the development of franchised channels such as *Monterey Meatshops* and *Magnolia Chicken Stations*. As of March 31, 2015, there are over 650 *Monterey Meatshops* and over 1,000 *Magnolia Chicken Stations*. In 2012, the *Kambal Pandesal* bakery outlets were launched to complement and expand the distribution reach of its flour business, which as of March 31, 2015, has more than 500 outlets.

Business Strategies

San Miguel Pure Foods plans to maintain its market-leading position and expand its business operations by implementing the following three-pronged business strategy:

Enhance product offering and distribution

Focus on increasing stable-priced and value-added product offerings

San Miguel Pure Foods categorizes its product portfolio into three (3) groups: (i) value-added products, (ii) stable-priced products, and (iii) basic food products. Value-added products include processed meats, dairy, bread spreads, oils, ice cream, coffee and biscuits. These products are typically branded and command higher selling prices than stable-priced and basic food products. Stable-priced products include flour premixes and bakery ingredients and poultry and fresh meats products that are distributed through differentiated stable-priced sales channels. These products include (i) minimally processed branded products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, (ii) branded products that have undergone further processing, such as marinated meats, ready-to-cook and ready-to-eat products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, and (iii) non-branded customized products sold to foodservice clients. Basic food products include (i) animal feeds, (ii) live chickens and hogs, (iii) fresh-chilled and frozen whole chicken, and chicken, pork and beef cuts sold through wet markets and supermarkets, and (iv) basic flour products.

San Miguel Pure Foods has limited pricing power for its basic food products due to the lack of product differentiation, while it believes that its stable-priced and value-added products are able to command higher and more stable prices and margins due to (i) strong brand equity with customers, (ii) processing or customization to cater to specific needs or tastes, and/or (iii) sale through its branded distribution outlets (such as *Monterey Meatshops* and *Magnolia Chicken Stations*), where cleanliness, convenience and quality assurance allow for premium pricing and higher margins. San Miguel Pure Foods has made a concerted effort to improve its product mix by shifting away from basic food products, which generally have lower and more volatile margins, and into value-added and stable-priced products, which it believes have higher and more consistent margins.

San Miguel Pure Foods has successfully implemented several initiatives to improve its product mix towards a higher percentage of stable-priced and value-added products. New initiatives are in place to further improve its product mix. Some of these initiatives include (i) the introduction of new and more innovative products, such as chicken nuggets and ready-to-cook and ready-to-eat offerings to take advantage of growing need of consumers for convenience, (ii) concentration on selling its fresh meats and poultry products through its branded distribution outlets, and (iii) expansion of its foodservice business by providing food solutions, which include menu analysis and planning, food safety training and recipe and product development.

Through these initiatives, San Miguel Pure Foods has significantly increased the proportion of value-added and stable-priced products in its product offerings over the past ten (10) years. In 2014, the contribution of value-added and stable-priced products accounted for more than half of the total revenues of San Miguel Pure Foods as compared to approximately one-fourth in 2000.

Continuous investment in brand equity

San Miguel Pure Foods aims to continue building its brand equity through advertising and promotional activities. San Miguel Pure Foods advertises on television, radio and billboards, as well as in print and on the web. This year, San Miguel Pure Foods advertised through a television commercial which showcases *Tender Juicy* as an established, well-loved and versatile brand. San Miguel Pure Foods also has strategic alliances with institutions, such as theme parks, event venues and schools, participates in fiestas and food fairs and is active in merchandising activities in supermarkets, wet markets and foodservice accounts, to further build on the brand equity of *Tender Juicy* being omnipresent across all consumer touch points.

As part of its brand-building activities, San Miguel Pure Foods maintains a professional basketball team in the Philippine Basketball Association, the premiere basketball league in the country. In the past, the team carried the banners of *Purefoods Tender Juicy*, *B-Meg Llamados* and *San Mig Super Coffee Mixers*, among others. Currently, the team is called *Purefoods Star Hotshots* and the brand will benefit from the franchise's

mass market appeal and the team's physical attributes to strengthen the "*Angat ka with Purefoods Star Hotdogs*" brand position.

Improve profitability through cost leadership

San Miguel Pure Foods believes that it can increase its margins by adopting a multi-faceted approach of managing input costs with respect to its raw materials and optimizing its production efficiency.

Continue sourcing alternative raw materials

The use of alternative raw materials, from grains and by-products used for animal feed ingredients, to alternative protein sources and flavors for processed meats, is critical for cost management given the volatile nature of global commodity supply and prices.

San Miguel Pure Foods expects to continue to expand its raw material supply base and identify alternative raw materials that are critical to cost management given the volatility of the global commodity market. One key breakthrough is the use of cassava as a substitute for corn, a key feed ingredient. San Miguel Pure Foods has implemented a program to encourage farmers to plant cassava and other crops that can be used as animal feed ingredients. In 2014, San Miguel Pure Foods encouraged local farmers to develop approximately 58,000 hectares of cassava plantations, which satisfied the cassava requirements of San Miguel Pure Foods during the year. San Miguel Pure Foods will continue to focus on developing alternative raw materials to manage its cost base. Based on certain internal assumptions and calculations, San Miguel Pure Foods estimates that it realized cost avoidance of approximately ₱272 million in 2014, computed based on the cost differential between actual 2014 cassava costs and estimated 2014 corn costs, from the use of cassava as a substitute for corn. San Miguel Pure Foods is currently using and expects to increase usage of local cassava as a lower cost alternative to corn.

The strong research and development team of San Miguel Pure Foods is responsible for the continued effort in identifying cost improvements while maintaining product quality standards.

Focus on efficiency improvements

San Miguel Pure Foods has been focused on improving efficiency of existing operations and implementing targeted initiatives in its businesses. For example, the adoption of climate-controlled housing systems for its poultry and hog farms has increased production cycles per farm per year, improved feeds-consumed-to-weight-gained ratio and resulted in better harvest recovery. During the last quarter of 2013, Golden Bay Grain Terminal in Mabini, Batangas started operations, which allowed San Miguel Pure Foods to ship grains through panamax vessels, consequently lowering freight costs and addressing grain handling requirements for the animal feeds and flour operations.

In addition, San Miguel Pure Foods intends to continuously review its product portfolio to rationalize unprofitable products. Consistent with this, San Miguel Pure Foods aims to enhance the price stability of its revenue streams and margins by increasing the percentage of sales of products that have historically performed well and which it believes will continue to do so.

Continue harvesting synergies through further integration of the businesses

San Miguel Pure Foods continues to maximize its vertically-integrated meats business model, simplify its organizational structure and standardize its business processes to achieve operational synergies and prepare for future growth. An example is the establishment of a shared service delivery center for finance, which is able to serve all of the business segments of San Miguel Pure Foods and perform transaction processing activities, reducing administrative expenses. It also continues to strive to have a world class supply chain that will reduce inventory days' level and improve service levels.

Explore additional growth opportunities

San Miguel Pure Foods believes the Philippine market is still underserved in certain product categories and there are growth opportunities to improve its distribution network, particularly in remote areas in the Visayas and Mindanao. It also intends to enter into new product categories and expand its existing production capabilities to support its growing range of product offerings to meet the changing consumer needs.

San Miguel Pure Foods continues to source potential acquisition targets in food or food-related businesses, including strategic acquisitions in fast-growing emerging Asian countries, as part of its growth strategy. In February 2015, San Miguel Pure Foods acquired the trademarks, formulations, recipes and other intangible properties (IP rights) relating to *La Pacita* biscuit and flour-based snack business from Felicísimo Martínez & Co. Inc. (“FMC”), which initiated the entry of San Miguel Pure Foods into the biscuit segment.

San Miguel Pure Foods produces a wide range of food products. It believes its brands include some of the most recognizable and well-regarded brands in the Philippines, such as *Magnolia*, *Monterey*, *Purefoods*, *Purefoods Tender Juicy*, *Purefoods Star*, *Star*, *Dari Crème*, *San Mig Super Coffee*, *B-Meg* and *La Pacita*. Its business is organized into the following segments: agro-industrial, value-added meats, milling and others.

The table below sets forth the major products and services of each business segment.

Business segment	Major Products and Services
Agro-industrial	
Feeds.....	Hog, poultry, aquatic and other customized animal feeds are primarily sold under the <i>B-Meg</i> , <i>B-Meg Premium</i> , <i>Integra</i> , <i>Expert</i> , <i>Dynamix</i> , <i>Essential</i> , <i>Pureblend</i> , <i>Bonanza</i> , and <i>Jumbo</i> brands
Poultry.....	Branded products are sold under the <i>Magnolia Fresh Chicken</i> label and include fresh-chilled and frozen whole and cut-up chicken, easy to prepare chicken products, customized products for foodservice and export customers, supermarket house-brands and live chicken
Fresh Meats.....	Branded fresh meats are sold under the <i>Monterey</i> brand and include pork and beef carcasses and cuts, lamb products, marinated meats and live hogs
Value-added meats	Refrigerated processed meats, including hotdogs, nuggets, cold cuts, hams, bacon, and other ready-to-heat meal products, as well as canned meats, including corned beef and luncheon meats, sausages, spreads, sauces and viands are primarily sold under the <i>Purefoods</i> , <i>Purefoods Tender Juicy</i> , and <i>Purefoods Star</i> brands
Milling.....	A full range of basic, specialty and customized flour and flour premixes are primarily sold under the <i>Emperor</i> , <i>King</i> and <i>Queen</i> , <i>Baron</i> , <i>Prince</i> and <i>Princess</i> brands. The grain terminal operations is also under the <i>Milling</i> business segment.
Others	
Dairy, Spreads and Oils.....	Bread spreads, cheese, milk, ice cream, jelly-based snacks and cooking oils are primarily sold under the <i>Magnolia</i> , <i>Star</i> and <i>Dari Crème</i> brands
Coffee	Coffee sold under the <i>San Mig Super Coffee</i> brand
Biscuits	Biscuits sold under the <i>La Pacita</i> brand
International Operations	Processed meats in Indonesia are sold under the <i>Farmhouse</i> and <i>Vida</i> brands, while processed meats in Vietnam are sold under the <i>Le Gourmet</i> brand. In addition, Vietnam is also licensed to engage in live hog farming and the production of feeds.
Other Businesses	Foodservice and franchising businesses

The products of San Miguel Pure Foods are produced using both company-owned and tolled facilities. As of December 31, 2014, San Miguel Pure Foods owns over 30 production facilities and has contracts with close to 2,000 tolled facilities and contract farms.

Selected operating data for the business of San Miguel Pure Foods are set forth in the table below for the periods indicated:

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales.....	95,787	99,773	102,999	24,229	25,091
Gross profit.....	17,838	20,188	20,450	4,559	5,030
Gross profit margin ⁽¹⁾	18.7%	20.2%	19.8%	18.8%	20.0%
EBITDA ⁽²⁾	8,415	8,581	8,801	2,048	2,100
EBITDA margin ⁽³⁾	8.8%	8.6%	8.5%	8.4%	8.4%
Net income before tax.....	5,808	5,596	5,676	1,277	1,328
Net income before tax margin ⁽⁴⁾	6.1%	5.6%	5.5%	5.3%	5.3%

Notes:

(1) Calculated as gross profit divided by revenues

(2) Calculated as net income plus the following: income tax expense, net financing charges (interest expense and other financing charges net of interest income), foreign exchange losses (gains), equity in net losses (earnings) of an associate and cash dividends (including property dividends already sold and converted to cash) from an associate, depreciation and amortization

(3) Calculated as EBITDA divided by revenues

(4) Calculated as net income before income tax divided by revenues

Agro-industrial Business Segment

The agro-industrial business segment of San Miguel Pure Foods includes its animal feeds, poultry and fresh meats businesses.

Feeds

The commercial feed products include hog feeds, layer feeds, poultry feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These animal feeds are sold and marketed under various brands including *B-Meg*, *B-Meg Premium*, *Integra*, *Expert*, *Dynamix*, *Essential*, *Pureblend*, *Bonanza* and *Jumbo*.

The Philippine feeds industry comprises three (3) segments of animal feed users: (i) the commercial segment, which comprises of small farms that purchase animal feeds from retail outlets supplied by commercial feed manufacturers as well as medium-to-large farms that purchase directly from these manufacturers, (ii) the intra-segment, which comprises of large, integrated livestock and poultry farms that operate their own feedmills, and (iii) the homemix segment, which comprises of small-to-medium farms producing their own animal feeds for self-use.

The Philippine feeds industry derives its sales mainly from hog and broiler producers. Many of these feed millers have evolved from merely selling feed products to offering total value service packages to customers, such as technical services and after-harvest payment schemes. The feed milling industry is a commodity-based industry, with most of its major raw materials consisting of commodities, such as corn, soybean meal and feed wheat. Since most feed millers use imported raw materials, the industry is affected by foreign exchange fluctuations.

Based on data from the Philippine Bureau of Agricultural Statistics Growth Forecast and certain internal assumptions and calculations, San Miguel Pure Foods believes the Philippine feeds market was approximately ₱163 billion in 2014, of which the commercial feeds segment accounted for approximately ₱48 billion.

Production and Raw Materials

Compound feeds are manufactured at seven (7) San Miguel Pure Foods-owned facilities that are operated by third parties and 33 third party-owned and operated feeds plants, located throughout the Philippines. Most

of these plants are capable of producing pelleted and crumble format feeds, and five (5) plants have extrusion capabilities to produce aquatic floating feeds. San Miguel Pure Foods also maintains tolling arrangements for six (6) rendering facilities that convert animal by-products used as raw materials in some feed types.

The largest single component of the cost of sales of San Miguel Pure Foods for animal feeds is the cost of ingredients used to prepare nutritionally balanced feed, including: corn, soybean meal, cassava, feed wheat, pollard, rice bran, copra and pork meal. San Miguel Pure Foods purchases corn locally from corn traders and occasionally from suppliers in the United States and Southeast Asia. Soybean meal is imported from Argentina, the United States and India, while other raw materials are purchased from various suppliers in North America, Asia, Europe and the Philippines. In 2014, San Miguel Pure Foods bought almost 62.0% of its total grain purchases in the domestic market and the rest from the United States, Southeast Asia and Argentina.

Raw materials used in the animal feeds business of San Miguel Pure Foods are sourced by its Business Procurement Group ("BPG"). San Miguel Pure Foods also uses as raw materials spent grain and yeast, which are by-products of SMB, and offals and feathers from the poultry dressing plants of San Miguel Pure Foods.

Sales and Distribution

San Miguel Pure Foods produces animal feeds for its own poultry and meats businesses and the commercial feeds market, which accounted for 53.0% and 47.0%, respectively, of the feeds production volumes in 2014. Feeds supplied to the poultry and fresh meats businesses are not included in the revenue or volume sold of the feeds business.

San Miguel Pure Foods sells its commercial feeds products through several distribution channels, with 80.0% of products sold through authorized distributors within a defined territory and 20.0% sold directly to hog, poultry and aquatic farm operators. The commercial feeds business has 18 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

Competition

Based on data from the Philippine Bureau of Agricultural Statistics and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer of commercial feeds in the Philippines, with an estimated market share of approximately 43.0% of the commercial feeds market by volume as of December 31, 2014, with no significant change as of March 31, 2015.

In its animal feeds business, San Miguel Pure Foods competes on quality, customer service, distribution network and price. San Miguel Pure Foods competes with major domestic producers such as Univet Nutrition and Animal Healthcare Company, Universal Robina Corporation, as well as numerous regional and local feed mills. It also faces increasing competition from foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines.

Poultry

In its poultry business, San Miguel Pure Foods breeds broilers and produces and markets chicken products, mostly for retail. The broad range of chicken products is sold under the *Magnolia Fresh Chicken* brand. These products include fresh-chilled or frozen whole and cut-up products. Through its *Magnolia Chicken Stations*, San Miguel Pure Foods offers a wide variety of fresh and easy-to-cook products. San Miguel Pure Foods also sells customized products to foodservice and export clients, supplies supermarket house brands, and sells live chickens to dealers.

The poultry business of San Miguel Pure Foods operates a vertically-integrated poultry production process that spans from breeding broilers to producing chickens and related products.

Traditionally, the Philippine poultry industry was highly fragmented and primarily a commercial industry. However, several major producers, including San Miguel Pure Foods, have been successful in introducing modern technologies and processes to the industry, allowing them to consolidate market share and achieve

economies of scale. Most of the major integrated producers employ contract-growing schemes for the production of live broilers, and also engage in contract breeding and toll dressing arrangements. The Philippine poultry industry has commodity characteristics and is subject to frequent changes in demand and supply. Based on data from the Philippine Statistics Authority and certain internal assumptions and calculations, San Miguel Pure Foods estimates the Philippine market for poultry was approximately ₱143 billion in 2014.

Production and Raw Materials

San Miguel Pure Foods primarily utilizes third party-owned facilities operated under tolling arrangements for its poultry production. Approximately 99.0% of its poultry growing output and 96.0% of its processing output come from tolled facilities, allowing San Miguel Pure Foods to outsource production at a lower cost and direct more resources toward improving its marketing, sales and distribution capabilities. Approximately 80% of these poultry growing facilities employ climate-controlled systems, which provide more comfortable and stable temperatures in growing facilities, thus, increasing efficiency and reducing mortalities. As of March 31, 2015, San Miguel Pure Foods contracted with tolled growing farms with an aggregate estimated annual capacity of 300 million birds. The vertically controlled poultry operations of San Miguel Pure Foods also includes two (2) owned and 32 processing plants operated under tolling arrangements and utilizes an extensive network of third party cold storage warehouses and distribution facilities throughout the Philippines.

The primary raw materials used in the chicken operations of San Miguel Pure Foods are live chickens raised primarily by independent contract growers. Breeder flocks (grandparents of birds that are ultimately sold) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds that are ultimately sold). Parent stocks are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the chicks are sent to the broiler farms. There, contract growers care for and raise the chicks according to the standards of San Miguel Pure Foods, with feeds supplied by the feeds business and with advice from its technical service personnel, until the chicks reach marketable weight. Grown chickens are transported to processing plants, where they are dressed and processed into finished products, which are then sent to distribution centers and sold to customers.

In 2014, feeds accounted for the majority of production costs for the poultry business, representing approximately 64.0% of the cost of growing a live chicken. All of the feeds required by the poultry business are supplied by its feeds business.

Sales and Distribution

San Miguel Pure Foods sells its poultry products through a variety of channels, including, *Magnolia Chicken Stations*, supermarkets, convenience stores, warehouse clubs, institutional accounts such as quick service restaurants and hotels, export clients, wet market, commissaries, wholesalers, distributors, and buyers of live birds.

The poultry business distributes its products to two (2) market segments through the different channels mentioned above in order to maximize market penetration throughout the Philippines:

- commodity segment (including wet markets and supermarkets), which accounted for 50.0% and 49.0% of total revenues of the poultry business in 2014 and for the period ended March 31, 2015, respectively; and
- stable-priced segment (including *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients) accounted for 50.0% and 51.0% of the total revenues of the poultry business in 2014 and for the period ended March 31, 2015, respectively.

In 2004, San Miguel Pure Foods began its “bringing the wet market to the supermarket” strategy, by introducing *Magnolia Chicken Stations* in supermarkets. These stations offer more choices of cuts and better customer service. As of March 31, 2015, approximately 42.0% of these *Magnolia Chicken Stations* are franchisee-owned and the rest are company-owned and third party-operated, with over 1,000 *Magnolia Chicken Stations* in operation. While wet markets remain the most popular source of chicken for consumers in the Philippines, San Miguel Pure Foods intends to focus on its *Magnolia Chicken Station* outlets in the

coming years, as it looks to further build on its strong brand reputation, increase the contribution of the stable-priced product segment and further protect market share.

San Miguel Pure Foods distributes some of its products from processing plants located throughout the Philippines to cold storage facilities and warehouses, which serve as a midpoint in distribution to wholesalers and local customers. Majority are distributed directly from the plants to supermarkets and foodservice operations. For its distribution infrastructure, San Miguel Pure Foods engages various third-party logistics providers for its distribution infrastructure, which includes cold-storage warehouses and facilities throughout the Philippines and a large fleet of vehicles.

Competition

Based on data from the Philippine Bureau of Animal Industry and certain internal assumptions and calculations, San Miguel Pure Foods believes that it held an approximately 38.0% market share in the Philippine broiler market as of December 2014 based on volume sold, ahead of the second and third major players, which had market shares of approximately 21.0% and 5.0%, respectively.

In its poultry business, San Miguel Pure Foods competes on quality, distribution network and customer service. The poultry business faces competition from large integrated producers such as Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp. and the Charoen Pokphand Group, as well as numerous smaller independent broiler producers. San Miguel Pure Foods also faces competition from lower-priced imports from the United States, Canada and Brazil.

Fresh Meats

The fresh meats business breeds, grows and processes hogs and cattle and produces and trades beef and pork products. Its operations include slaughtering live hogs and cattle and processing beef and pork carcasses into primal and sub-primal meat cuts, such as shoulder, leg, loin and belly, and case-ready products, such as steaks and chops. It sells a wide variety of products in the Philippines, including pork, beef and lamb retail cuts and marinated products, under the well-recognized *Monterey* brand name.

The Philippine fresh meats industry remains highly fragmented despite the attempts of larger producers to modernize the industry. Consolidation of the fresh meats industry is expected to increase in the future as larger producers continue to invest in new technologies and processes.

Production and Raw Materials

The fresh meats business raises its hogs using a two-site system, which separates breeding from nursery and growing into isolated facilities to minimize the risk of disease.

San Miguel Pure Foods believes that it pioneered the use of the vertically controlled pork and beef production system in the Philippines, controlling the entire value chain including selection of genetic stocks, growing and processing of hogs and cattle and selling, mainly through its *Monterey Meatshop* operations. Approximately 57.0% of its hog production facilities are third party-owned and operated under tolling arrangements. As of March 31, 2015, approximately 52.0% of the hog growing facilities employ climate-controlled and elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The primary raw materials for the processing plants are live hogs and cattle. In 2014, San Miguel Pure Foods sourced all of its live hogs from its contract growing farms. With respect to sourcing beef supply in 2014, San Miguel Pure Foods imported all of its feeder cattle from Australia and its boxed beef from Australia, New Zealand and Brazil.

Other primary raw materials of the fresh meats business are hog and cattle feed. All of the feeds required by the fresh meats business are supplied by the feeds business.

Sales and Distribution

The fresh meats business distributes its products through a variety of channels, including supermarket-based meat shops, *Monterey* neighbourhood meat shops, wet markets, foodservice clients, membership shopping club outlets, and to the value-added meats business. Live hogs and cattle are also sold to dealers.

San Miguel Pure Foods adopted a strategy focusing on the supermarket-based modern trade market to accelerate pork sales by introducing a *Monty's* supermarket meat shop in 1990. In 1993, the fresh meats business introduced *Monterey* stand-alone neighborhood meat shops as part of the strategy to differentiate its products from those of its competitors by branding the selling outlets. Pork, beef and lamb retail cuts and marinated products are sold in *Monterey Meatshops* through franchisees.

As of March 31, 2015, more than 650 *Monterey Meatshops* selling San Miguel Pure Foods fresh meat products were in operation across the Philippines. As of the same date, approximately 81.0% of its meat shops were franchised operations and certain functions, such as inventory monitoring and staffing, were also undertaken by third party operators and franchisees. As part of its strategy to increase sales volumes and improve profitability and customer service in these shops, the fresh meats business provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Competition

Based on data from the Philippine Swine Producers Association and certain internal assumptions and calculations, San Miguel Pure Foods believes that it holds the largest market share in the Philippine hogs industry among the large commercial farms in the Philippines.

In the fresh meats business, San Miguel Pure Foods competes on quality, distribution network and customer service. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle to live buyers, who in turn supply hog and cattle carcasses to wet markets and supermarkets. While the majority of fresh meats sales in the Philippines continue to be made in the more traditional, outdoor wet markets, San Miguel Pure Foods considers supermarkets selling their own house-brand products as its main competition.

Value-added Meats Business Segment

The value-added meats business produces both refrigerated processed meats and canned meats. Refrigerated processed meats include hotdogs, nuggets, bacon, hams, and a line of local Philippine products, which are sold under the *Purefoods*, *Purefoods Tender Juicy*, *Purefoods Star*, *Purefoods Beefies*, *Vida*, *Purefoods Fun Stuff Nuggets*, *Purefoods Crisp'n Juicy*, and *Monterey* brands. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods*, *Purefoods Star* and *Ulam King* brands.

Production and Raw Materials

San Miguel Pure Foods owns a value-added meats processing plant located in Cavite. The Cavite plant manufactures hotdogs, nuggets, hams, bacon, sausages, meat toppings, cold cuts and sauces. San Miguel Pure Foods maintains toll-manufacturing agreements for halal-accredited facilities to augment its production capacity, meet periodic volume increases, and enable exports of corned beef and hotdogs to the Middle East and predominantly Muslim countries.

The primary raw materials used in the value-added meats business are commodity-based raw materials, including chicken, beef and pork primal cuts. The value-added meats business sources most of its raw materials through its BPG, which strives to secure prices lower than prevailing market or published rates. BPG maintains a pool of San Miguel Pure Foods accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team. In 2014, the value-added meats business sourced approximately 14.0% of its raw materials from the other businesses of San Miguel Pure Foods and 86.0% from imports.

Sales and Distribution

The value-added meats products are distributed locally by the SMIS and Great Foods Solution. SMIS Sales handles product distribution to supermarkets and traditional trade markets in the Philippines, such as groceries, convenience stores, wet markets and "*sari-sari*" stores. Great Foods Solution distributes products to foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts. Domestic distribution is handled by the Supply Chain group of the branded business, which manages planning, technical logistics services, warehousing and transportation. The International Business division handles exports to Asia, North America, Middle East, and Europe, mainly to supply Filipino communities abroad.

Competition

The combined shares of its hotdog brands have positioned San Miguel Pure Foods as a market leader in the hotdogs category, with a market share of 64.3% for hotdogs sold in Philippine supermarkets. San Miguel Pure Foods also dominates the nuggets category with a market share of 87.4%. San Miguel Pure Foods also has a 73.0% market share in the premium segment of corned meats. All market shares are based on value as of December 2014 and as reported by Kantar Worldpanel.

For the entire corned beef and luncheon meats categories, San Miguel Pure Foods has market shares of approximately 15.2% and 17.7%, respectively, both based on value as of December 2014 according to Kantar Worldpanel.

In the value-added meats business, San Miguel Pure Foods competes on quality, product innovation, distribution network and customer service. In recent years, the value-added meats business of San Miguel Pure Foods has faced increased competition both from established local players, which are employing aggressive pricing and promotion schemes, and from new entrants to the market. Competitors and competing brands in the value-added or processed meats business include Foodsphere, Inc. (CDO), Virginia Foods, Inc. (*Winner* and *Champion*), Century Pacific Food Inc. (*Swift, Argentina and 555*), Meken Food Corporation (*Meken*), Frabelle Food Corp. (*Bossing*) and the distributors of *Maling*. To maintain its leadership position, San Miguel Pure Foods has responded by maintaining high product quality, continuing innovation, increasing advertising and promotions, and by enhancing consumer experience through strategic alliances with institutions such as theme parks, events venues and schools.

Milling Business Segment

San Miguel Pure Foods offers a variety of flour products, including bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix, cake mix, brownie mix, pandesal mix, and puto mix. San Miguel Pure Foods believes that it started the trend in the Philippines of using customized flours for specific applications, such as noodles and *pandesal*, a soft bread commonly eaten in the Philippines during breakfast. The flour products are sold under 17 brand names and San Miguel Pure Foods believes that it enjoys strong brand loyalty among its institutional clients and other intermediaries, such as bakeries.

In 2012, San Miguel Pure Foods launched *Kambal Pandesal* bakery outlets, which is an innovative concept in the local baking industry. San Miguel Mills, Inc. ("SMMI") simplifies bakery operations for entrepreneurs, providing its proprietary bread premixes and technical assistance such as site search and training on bakery operations and management. SMMI also provides continuous product development and marketing support, thus, helping ensure the continuous introduction of high quality and innovative bread products to consumers. As of March 31, 2015, there are more than 500 *Kambal Pandesal* bakery outlets which are all third party-owned and operated. San Miguel Pure Foods has plans of franchising *Kambal Pandesal* starting 2015.

San Miguel Pure Foods believes that while rice has traditionally been the primary source of carbohydrates in the Philippines, bread and noodles have become increasingly popular alternatives in recent years, which helped drive growth in the Philippine flour industry. In addition, while the bread market is generally still dominated by traditional neighborhood bakeries, large bakery chains are expanding rapidly in the Philippines. San Miguel Pure Foods believes these larger chains often place greater emphasis on the quality of the flour they use, providing an opportunity for flour producers to sell customized, higher-margin flour products.

Production and Raw Materials

San Miguel Pure Foods believes it owns and operates the largest flour milling facilities in the Philippines based on aggregate annual rated milling capacity. It owns two (2) flour mills, located in Mabini and Tabangao in Batangas. Its flour mills have a combined rated milling capacity of 1,660 tons per day. The milling facilities include two (2) flour blending facilities in Mabini, which allow San Miguel Pure Foods to produce customized flours. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets. Its production capabilities are augmented by its Flour Technology Center, which it believes is the first of its kind in the Philippines. The center develops customized flour blends and new flour-based products.

In the last quarter of 2013, San Miguel Pure Foods, through SMMI, inaugurated and commenced operations of the Golden Bay Grain Terminal in Mabini, Batangas which can accommodate panamax vessels. This facility has an estimated discharge rate of at least 10,000 metric tons per day. San Miguel Pure Foods believes that this new facility has provided it with a significant advantage in materials handling, as vessels can offload larger quantities of raw materials directly to the flour milling facilities, thus, minimizing intermediate handling, leakage and costs. San Miguel Pure Foods believes that there will be savings in freight costs from the use of bigger vessels. This facility is adjacent to the flour mill in Mabini, Batangas and also services the grain handling requirements of its feeds business. It expects to service external customers such as commercial grains traders in the future.

The principal raw material used by the flour business is wheat. Historically, more than 90.0% of the wheat requirements of the flour business are sourced from the United States and Canada with the remaining 10.0% sourced from various other countries. San Miguel Pure Foods monitors worldwide wheat prices daily to determine its long-term and short-term buying strategies to control costs in its flour business.

Sales and Distribution

The marketing strategy for its milling business focuses on offering the widest array of differentiated flour products in the Philippine market. The sales team, supported by baking technicians, determines the specific flour product requirements of its various customers. In addition, the baking technicians conduct field baking tests of the products and demonstrate its application. For customized products, the research and development team and the sales team work with the customers to develop formulations specific to their requirements. San Miguel Pure Foods manages a nationwide distribution network that distributes flour and other bakery ingredients to major flour users, such as Gardenia Bakeries, the Jollibee group, KFC, Monde MY San and smaller users across the Philippines.

Competition

Based on data from the Philippine Association of Flour Millers and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer, seller and distributor of flour in the Philippines, with a 16.0% market share based on volume sold in 2014.

The flour business competes on price, quality, customer service and distribution. Its main competitors are Philippine Foremost Milling Corporation, Pilimco Foods Corporation and Universal Robina Corporation. Another large flour miller, Monde Nissin, produces flour exclusively for its internal requirements. Currently, most of the competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. San Miguel Pure Foods differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours. San Miguel Pure Foods expects to face increased competition in the lower priced and lower quality segments and from international and regional flour producers in the future.

Others Business Segment

The other business segment of San Miguel Pure Foods is divided into the following businesses: dairy, spreads and oils, coffee, biscuits, foodservice, franchising and international operations.

Dairy, Spreads and Oils

The dairy, spreads and oils business manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids and cooking oils. Bread spreads make up the largest portion of the dairy, spreads and oils business and as of December 31, 2014, accounted for approximately 73.0% of revenues from this category. Bread spreads include butter, refrigerated and non-refrigerated margarines and cheeses sold primarily under its *Magnolia*, *Dari Crème*, *Star* and *Cheeze* brands. Dairy products include ready-to-drink milk, ice cream and all-purpose cream all under the *Magnolia* brand. Jelly snacks and fruit jams are under the *Magnolia Jellyace* brand while salad aids like mayonnaise and dressings are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand.

Production and Raw Materials

San Miguel Pure Foods produces bread spreads products at its own facility in Cavite, through a process that includes pasteurization, blending, chilling and packing for bread spreads and cooking, filling, pre-packing and end-packing for cheeses. Ice cream is manufactured in Santa Rosa, Laguna. Milk, jelly-based snacks and cooking oil products are manufactured in third party plants under tolling arrangements, each of which is required to meet quality standards.

All of the raw materials required by the dairy, spreads and oils business are sourced through BPG. Approximately 60.0% of dairy materials, such as cheese curds, rennet-casein and milk powders are imported from various suppliers in Oceania. Vegetable oils are sourced from various suppliers in Malaysia and in the Philippines.

Sales and Distribution

Supermarkets are the largest distribution channel for the dairy, spreads and oils business, and other channels include groceries, warehouse clubs, “*sari-sari*” stores, market stalls, bakeries, wholesale outlets and convenience stores. SMIS serves as the distribution arm of the dairy, spreads and oils business for both modern and general trade channels. Food chain and other institutional distribution channels for dairy, spreads and oils business include bakeshops, food manufacturing companies, quick service restaurants and hotels. The distribution channels of the majority of the dairy, spreads and oils business are in the Greater Manila and Luzon areas, which have seen substantial growth in consumption for these products. The dairy, spreads and oils business is further developing regional distribution channels through exports primarily to Asia, the United States and the Middle East.

Competition

According to Kantar Worldpanel, as of December 2014, San Miguel Pure Foods has a market share of 39.0% for butter, followed by Fonterra Brands Philippines Inc. and New Zealand Creamery, Inc. San Miguel Pure Foods dominates the refrigerated margarine segment with a 97.7% share of the market. New Zealand Creamery, Inc. and RFM Corporation also compete in this category.

According to Nielsen, as of December 2014, San Miguel Pure Foods has a 97.3% market share for non-refrigerated margarine with San Pablo Manufacturing and AD Gothong Manufacturing as its competitors. In the cheese category, Mondelez Philippines, Inc., is the leading player followed by Magnolia with a 19.8% market share as of December 2014. In the ice cream market, Unilever-RFM and Nestlé are the dominant players, while Magnolia ranks third with 8.7% market share as of December 2014.

Coffee

The coffee business is a joint venture with a Singaporean partner, Super Coffee Corporation Pte. Ltd., and is 70%-owned by San Miguel Pure Foods. The joint venture commenced operations in 2005 and sells coffee-mix products under the *San Mig Super Coffee* brand. As of December 2014, according to Nielsen, San Miguel Pure Foods has a 2.6% market share for coffee based on value sold. Competitors in the coffee-mix segment include Nestlé (*Nescafe*), Tridharma Marketing Corp. (*Kopiko*), URC (*Great Taste*), and Goldshine Pharmaceuticals, Inc. (*Jimm’s*). All of the procurement, manufacturing and pre-packing of the raw materials of the coffee business are handled by the partner of San Miguel Pure Foods in Singapore and Thailand and San Miguel Pure Foods manages re-packing, marketing, selling and distribution in the Philippines.

International Operations

Vietnam

The Vietnam food business primarily engages in live hog farming, feeds milling and the production and sale of processed meats, which are under the *Le Gourmet* brand. It is licensed to engage in live hog farming and the production of feeds.

In January 2015, San Miguel Pure Foods acquired the remaining 49.0% of San Miguel Pure Foods Investment (BVI) Limited, through San Miguel Pure Foods International, Limited, a wholly-owned subsidiary of San Miguel Pure Foods, to bring total ownership to 100.0%. SMPFIB is the sole investor in San Miguel

Hormel (Vn) Co., Ltd., which is engaged in the production of processed meats and owns assets in hog farming and feed milling.

Indonesia

The business in Indonesia is a joint venture with Penderyn (formed in 1995) which produces a variety of halal-certified processed meats for the Indonesian market under the brands *Farmhouse* and *Vida*. The joint venture is 75%-owned by San Miguel Pure Foods. Its share of the Indonesian chilled processed meats market was approximately 47.0% by retail value in 2014, based on sell out data for top ten (10) stores for each chain in the second quarter of 2014.

Other Businesses

Foodservice

Great Foods Solutions, the foodservice business of San Miguel Pure Foods, was established in 2002 and is one of the largest foodservice providers in the Philippines. It distributes and markets the non-branded and customized foodservice products, including value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. Great Foods Solutions receives a development fee from the subsidiaries of San Miguel Pure Foods for selling their products to foodservice institutional clients. The key strategies of the foodservice business include selling customized solutions, direct marketing to customers and focused relationship management.

Franchising

San Miguel Pure Foods has developed franchise models to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for its products. These franchise models include roast chicken and rice toppings outlets under the *Hungry Juan* franchise, and convenience store outlets under the *San Mig Food Ave* franchise, most of which are located in Petron stations.

Quality Control, Health, Safety and Environmental Matters

San Miguel Pure Foods conforms to the statutory and regulatory requirements in relation to quality assurance and food safety. Compliance to Good Manufacturing Practice is a mandatory requirement across all food businesses, based on international hygiene standards, to ensure high quality and safe food products.

San Miguel Pure Foods is subject to a number of laws and regulations relating to the protection of the environment and human health and safety, including those governing food safety, air emissions, water and wastewater discharges, and odor emissions and the management and disposal of hazardous materials.

San Miguel Pure Foods applies its quality standards uniformly across all of its production facilities, whether company-owned or contracted, including through training it provides to its third-party operators before they commence operations. San Miguel Pure Foods representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the management of third-party operators. The quality assurance personnel of San Miguel Pure Foods conducts periodic operational audits.

San Miguel Pure Foods seeks to reduce the risk of contamination of its products through strict sanitation procedures and constant monitoring and response. Consistent with the Hazard Analysis and Critical Control Points model, it has identified specific stages of processing where preventative measures such as equipment sterilization, hygiene, temperature control and regular equipment testing will greatly reduce risks and have designed its operations to reduce these risks. San Miguel Pure Foods follows Good Manufacturing Practice, which is a key factor to produce good quality, safe, and affordable products.

San Miguel Pure Foods intends to continue to strengthen its commitment to food safety standards, with the implementation of its Quality Assurance and Food Safety Management System Guidelines anchored on Hazard Analysis and Critical Control Points, Good Manufacturing Practice, ISO 22000, ISO 9001 and FSSC 22000 to comply with the Food Safety Act of the Philippines (RA 10611) and the requirements of the customers.

San Miguel Pure Foods believes it is in material compliance with applicable health, safety and environmental laws.

San Miguel Pure Foods and its subsidiaries incurred about ₱32.2 million in expenses for environmental compliance for the year 2014. On an annual basis, operating expenses incurred by San Miguel Pure Foods to comply with environment laws are not significant or material relative to the total costs and revenues.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, San Miguel Pure Foods engages in research and development to identify cost improvements and improvements that can be made to its production processes. Among others, cost reductions have been achieved through the use of alternative raw materials, from grains and by-products used in the feed products to alternative protein sources and flavors in processed meats.

San Miguel Pure Foods owns several research and development facilities that analyze average daily weight gain, feed conversion efficiency and other performance parameters. Results of these analyses are immediately applied to commercial feed formulations to minimize costs and maximize animal growth. These research facilities include a bio assay-focused research facility, a metabolizable energy-focused research facility, a research facility for tilapia, three (3) hog research farms, three (3) broiler research farms, a fry production facility and various hatching facilities for tilapia breeding.

San Miguel Pure Foods also engages in the development, reformulation and testing of new products. It believes that its continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. In recognition of the importance of ongoing product innovation, San Miguel Pure Foods regularly conducts consumer surveys and has a Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

Packaging Business

The packaging business began operations in 1938 with the establishment of a glass plant that supplied glass bottles for the beer and non-alcoholic beverage products of SMC. The packaging business of SMC is conducted through: (i) SMYPC, a joint venture of SMC and NYG, one of the largest glass and plastic packaging corporations in Japan; (ii) SMYPIL, which owns the international businesses in Malaysia, Vietnam, China, Australia and New Zealand; (iii) SMYAC, a domestic glass packaging subsidiary; and (iv) Mincorr, a paper corrugated carton manufacturer.

The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, molds, metal closures, aluminum cans, plastics and pallet/crate leasing, PET beverage packaging and filling, flexibles, paper, as well as other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies packaging products to customers in the Asia-Pacific region, the United States, South Africa, Australia, the Middle East, as well as to major multinational corporations in the Philippines, including Coca Cola Femsa, Nestle Philippines and Pepsi Cola Products Philippines. In 2014, the Packaging Business had sales of ₱24,226 million, of which approximately 85.0% were from external sales.

Philippine Packaging Industry

The usage growth rate for glass containers (which is the largest business of the Packaging Group) for beverage applications has been growing steadily. Glass bottles for beverage accounts for the largest share among the glass packaging format. Most of these are available in traditional *sari-sari* stores where carbonated soft drinks, energy drinks and ready-to-drink juices come in returnable glass bottles. Although the growth of glass containers may be tempered by the increasing popularity of lightweight, unbreakable and more affordable packaging types such as PET, the glass packaging industry will likely benefit from creation of a free trade area amongst ASEAN nations. Among the likely positive impact of the free trade area will be the ability for local glass manufacturers, such as the Packaging Group, to expand their business in the ASEAN economies.

PET bottles for beverages also recorded growth for the past five (5) years due to its aesthetic appeal, light weight and sleek design, which is very convenient for consumers. The Packaging Group has large available capacities and ready know-how to exploit future prospects in this packaging format.

Flexible packaging continues to reflect growth due to the several advantages it has, including lower cost, ease of disposing and most importantly, convenience. Flexible packaging is considered to be the most affordable pack type and is therefore used by many consumer products to capture mass markets. It is used extensively in confectionery, dried processed food and sweet and savoury snacks and has captured brand manufacturers of canned/preserved food, baby food and agri-chemical products.

Metal beverage cans saw a flat growth due to tight competition with other beverage packaging formats such as stand-up pouches, glass and rigid plastic bottles.

It is evident that the growth of the total packaging sector for food and beverages has been at par with the long-term trend of Philippine economic and population growth. As both foreign investor and Philippine consumer confidence continue to rise, the Packaging Group can expect better growth rates for the packaging business. The historical rates for the various packaging formats could be easily outpaced.

Competitive Strengths

The Packaging Group believes that its strengths include the following:

Market leader

The Packaging Group is a market leader in all its product formats in the domestic packaging industry, offering total packaging solutions to clients by providing glass, plastics, metal closures, aluminum cans, PET packaging and beverage filling, flexibles and paper.

State-of-the-art manufacturing facilities

The Packaging Group maintains state-of-the-art manufacturing facilities and best practices in manufacturing and quality procedures.

Compliance to global standards

The Packaging Group complies with global standards, recognized by key multinational and domestic customers, for Food Safety (FSSC 22000), Quality Management (ISO 9001), Environment Management (ISO 14000), various social accountability standards and other relevant standards. The Packaging Group maintains its presence to relevant organization to keep abreast with the current manufacturing standards and ensure statutory and regulatory compliance.

Synergies from partnerships with key global packaging companies

The Packaging Group gains synergies from its partnerships with global packaging players such as NYG (Japan), Fuso Machine & Mold Mfg. Co. Ltd. (Japan), and Can-Pack S.A. (Poland).

Business Strategies

The strategies of the Packaging Group include the following:

Total Packaging Solutions

The Packaging Group intends to increase adoption of the total packaging solutions approach by proactively offering solutions that range from traditional packaging products to associated graphics design, conceptualization, consultancy, toll filling, trading and logistical requirements. The Packaging Group also has put up a new can filling facility to provide tolling services to the current alcoholic and non-alcoholic customers. In February 2015, the Packaging Group acquired 100.0% of the wine closure and customized wine bottle business of Vinocor, through SMYV Pty Ltd, located in Australia. This acquisition leverages the market proposition to new and existing wine customers as a “one-stop shop” bottling solution for wine makers.

Network and Client Optimization

The Packaging Group intends to optimize and leverage on its significant regional network of facilities and alliances as a gateway to enter into new markets. It is also evaluating opportunities with its international

clientele on potentially providing packaging services to them in markets where these customers have a presence and are new to the Packaging Group. There is also a focus on entering into longer term contracts with key customers to enhance earnings visibility.

Product Diversification

The Packaging Group continuously innovates to enter new markets and market segments with new products such as slim cans and ends, down gauged crowns, high-impact resistance pallets for cements, laminated paper, and wine closures (cork).

Marketing Environmentally Friendly Products

The Packaging Group expects the future consumer trend towards environmentally friendly products and sound manufacturing systems. Hence, the Packaging Group plans to increase investments into eco-friendly facilities, processes and products such as the use of cullets in glass production, scrap laminates as fillers in pallets, toluene-free flexible packaging and accreditation with various international standards and agencies. In recent years, the Packaging Group has been improving and upgrading its manufacturing facilities to a standard higher than established government regulations. Significant investments have been spent on, for example, the Electrostatic Precipitator of the Packaging Group, a pollution-abating device that cost more than P100 million.

Selected operating data for the packaging business is provided below for the periods indicated:

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	24,460	25,187	24,226	5,809	6,325
Gross profit.....	6,567	6,687	6,673	1,447	1,514
Gross profit margin ⁽¹⁾	26.8%	26.5%	27.5%	24.9%	23.9%
EBITDA ⁽²⁾	4,131	3,435	3,700	888	981
EBITDA margin ⁽³⁾	16.9%	13.6%	15.3%	15.3%	15.5%
Net income before tax	1,495	1,233	1,614	345	448
Net income before tax margin ⁽⁴⁾	6.1%	4.9%	6.7%	5.9%	7.1%

Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

A description of the businesses of the Packaging Group is as follows:

Glass

The Packaging Group is the largest supplier in the Philippine glass packaging industry segment and serves many of the leading beverage, food and healthcare companies in the country.

Metal

The metal business is the second largest business in the Packaging Group. It manufactures metal caps, crowns, resealable caps and two-piece aluminum beverage cans for a wide spectrum of industries that include beer, soft drinks and food.

Composites/Flexible Packaging

The composites/flexible packaging business manufactures flexible packaging, such as anti-static/ESD (electrostatic discharge) bags, plastic films, industrial laminates, trademarked *EnviroTuff* radiant barrier and woven bags. Customers for this segment include companies in the food, beverages, personal care, chemical and healthcare industries.

PET

The PET business produces PET preforms and bottles, plastic caps and handles, and offers filling services, serving the beer, liquor, non-alcoholic beverages, food, pharmaceutical, personal care and industrial applications industries.

Paper

The paper business produces corrugated cartons and partition boxes. In addition, SMC also manufactures corrugated cartons and other paper-based packaging products through its wholly owned subsidiary, Mincorr. The paper business serves a broad range of beverage, food and agricultural industries.

Plastics

The plastics business produces bread and food trays, industrial containers, crates, pallets, poultry flooring, pails and tubs to companies in the beer and beverages industries as well as chicken and agricultural industries.

Production

The Packaging Group owns and operates four (4) glass plants, four (4) metal plants, one (1) plastics plant, three (3) PET packaging and filling plants, one (1) composite plant, and one (1) paper plant. The plants are strategically located throughout the Philippines. It also owns and operates 13 overseas packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and a packaging research center) and Australia (glass, trading, wine closures and bottle caps) and New Zealand (plastics and trading).

Property Business

Established in 1990 as the corporate real estate arm of SMC, SMPI is aiming to be one of the major players in the property sector through mixed-use developments. SMPI is 99.68% owned by SMC and is primarily engaged in the development, sale and lease of real property. SMPI is also engaged in leasing and managing the real estate assets of SMC.

Cavite Projects

SMPI offers a diverse portfolio of mid-range homes in General Trias, Cavite, namely Bel Aldea, Maravilla, and Asian Leaf, offering townhouse units and single attached house-and-lots, with floor areas ranging from 41.75 to 132.00 square meters.

Wedge Woods is located west of Sta. Rosa, Laguna – in Silang, Cavite, offering prime lots on a rolling terrain, with a majestic view of Mount Makiling.

Bel Aldea

Bel Aldea, located in General Trias, Cavite, is a 17-hectare development which serves the economic housing segment, offers smartly designed townhouse units, with an average floor area of 42 square meters.

Maravilla

Spanning 24 hectares, Maravilla is a mid-range residential community located at General Trias, Cavite, offering Spanish Mediterranean houses, which currently offers new house models to suit the changing needs of the market.

Asian Leaf

Launched in 2011, Asian Leaf is a seven-hectare premier residential community in the heart of General Trias, Cavite, composed of single attached house-and-lots, with floor areas ranging from 88.50 to 108.30 square meters. Fusing modern Asian architecture and vibrant landscaping, Asian Leaf is perfect for homeowners looking for a tranquil and ideal haven.

Metro Manila Projects

The first project of SMPI is the SMC Head Office Complex, now considered as a landmark, which has served as a catalyst in transforming the area now known as the Ortigas Business District.

SMPI has expanded its portfolio, serving the high-end market with its foray into townhouse developments, such as Dover Hill in San Juan, One Dover View and Two Dover View in Mandaluyong, and Emerald 88 in Pasig.

Makati Diamond Residences, a luxury serviced apartment across Greenbelt 5 in Legaspi Village, Makati City, is already operational as of 2015.

Dover Hill

A 93-unit luxury townhouse development in Addition Hills, San Juan that offers three to five-bedroom units ranging from 202 up to 355 square meters. Each multi-level unit affords ample space for family and friends. A three-car parking area located directly below each unit ensures maximum convenience. Within the Dover Hill compound is Dover Club, a five-storey amenity building which includes a fully-equipped, state-of-the-art fitness gym, and a party venue with its own kitchen and dining area good for up to 30 guests. Dover Hill also has a swimming pool and playground.

One Dover View & Two Dover View

Both located along Lee St., Mandaluyong, One Dover View and Two Dover View are exclusive and premier condominium-townhouse projects, offering three (3) and four (4) bedrooms, with only 23 and eight (8) units, respectively, with floor areas ranging from 222.80 to 327.10 square meters.

Emerald 88

Located along Dr. Sixto Avenue, Pasig City, Emerald 88 is a 14-unit townhouse development, with generous floor areas ranging from 187.48 to 216.94 square meters.

Fuel and Oil Business

SMC operates its fuel and oil business through its 68.26% ownership in Petron. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia.

In the Philippines, Petron is the number one integrated oil refining and marketing company. Petron had an overall market share of 35.4% of the Philippine oil market for the year ended December 2014 in terms of sales volume based on DOE report. The ISO 14001-certified Limay Refinery of Petron in the Philippines has a crude oil distillation capacity of 180,000 barrels per day, processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, fuel oil and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. In the fourth quarter of 2014, Petron completed Phase 2 of its RMP-2 of the Limay Refinery. The RMP-2, which was initiated in the fourth quarter of 2010, was a US\$2 billion investment project designed to enable the Limay Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase production of petrochemicals. The completion of the RMP-2 made Petron the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard fuels.

From the Limay Refinery, Petron moves its products, mainly by sea, to depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises of 11 depots and terminals in Luzon, eight (8) in the Visayas and seven (7) in Mindanao, as well as two (2) airport installations in Luzon, one (1) in the Visayas and one (1) in Mindanao. Through its network of approximately 2,200 retail service stations in the Philippines as of March 31, 2015, Petron sells gasoline, diesel, and kerosene to motorists and to the public transport sector. Petron also sells its LPG brands *Gasul* and *Fiesta Gas* to households and other consumers through its extensive dealership network. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Petron entered the Malaysian market in March 2012 through the purchase of downstream oil business of ExxonMobil in that country. Petron had a 16.6% share of the Malaysian retail market as of March 2015,

pursuant to Petron estimates based on its internal assumptions and calculations and industry data from Metrix Research, a market research consultant appointed by Malaysian retail market participants to compile industry data.

In Malaysia, Petron operates a refinery with crude distillation capacity of 88,000 barrels per day. The network of service stations and distribution infrastructure of Petron in Malaysia also facilitate the capture of a growing share of the market. The network of Petron in Malaysia includes approximately 560 service stations, 260 convenience stores, nine (9) product terminals and one (1) depot as of March 31, 2015.

Global and Regional Oil Market

According to the International Energy Agency (“IEA”), global oil demand is forecasted to grow by 0.9 million barrels per day to reach 93.4 million barrels per day in 2015. Global oil demand grew by 0.6 million barrels per day to reach 92.5 million barrels per day in 2014. This represents an annual change of 1.4%, 0.7%, and 1.0% for 2013, 2014, and 2015, respectively. Total global oil demand in 2014 marked a five-year low for growth as sharp declines in oil demand in Organization for Economic Cooperation and Development (“OECD”) Europe and OECD Asia Oceania coincided with notable slowdowns in China, the Former Soviet Union (“FSU”) and Latin America. Global growth is forecast to modestly accelerate in 2015, to 910,000 barrels per day, as macroeconomic momentum is tentatively forecasted to pick-up.¹

Growth is expected to be primarily driven by emerging markets and developing economies (non-OECD countries) such as China and India. Non-OECD demand is forecasted to grow to 47.8 million barrels per day in 2015, an increase of 2.1% year-on-year. The demand forecast, however, is relatively suppressed compared to the 2.4% growth in 2014 due to more subdued macroeconomic outlook for these countries. In comparison, OECD demand is expected to stay flat at 45.6 million barrels per day in 2015, the same level as in 2014.

The divide in growth outlook between emerging market and developing economies, compared with advanced economies, is also reflected more broadly in economic forecasts. The IMF projects real gross domestic product growth in 2015 of 3.6% and 1.2% for the United States and the Eurozone, compared with 6.8% and 6.3% for China and India, respectively.

Global Oil Demand (2013 – 2015E)²

Million barrels per day, except percentages

	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015
Americas.....	30.2	30.5	31.1	31.1	30.7	30.4	30.4	31.1	31.4	30.8	30.8	30.8	31.3	31.5	31.1
Asia-Pacific....	30.7	29.8	29.7	30.9	30.3	31.2	30.2	29.9	31.2	30.6	31.6	30.7	30.7	31.9	31.2
Europe.....	13.8	14.5	14.7	14.3	14.3	13.7	14.1	14.6	14.1	14.1	13.7	14.0	14.4	14.1	14.0
Middle East....	7.5	7.9	8.4	7.7	7.9	7.8	8.2	8.6	7.8	8.1	7.9	8.3	8.8	8.1	8.3
FSU.....	4.5	4.6	4.9	4.9	4.7	4.6	4.8	5.0	4.9	4.9	4.5	4.6	4.8	4.7	4.6
Africa.....	3.9	3.9	3.7	3.8	3.8	3.9	4.0	3.8	4.0	3.9	4.1	4.1	4.0	4.2	4.1
Global Total..	90.6	91.3	92.6	92.8	91.8	91.7	91.6	93.1	93.5	92.5	92.5	92.5	94.0	94.5	93.4
Y-Y Chg (%)...	1.2	1.7	1.7	0.9	1.4	1.2	0.3	0.5	0.7	0.7	1.0	1.0	1.0	1.0	1.0
Y-Y Chg.....	1.1	1.5	1.5	0.9	1.3	1.1	0.3	0.5	0.7	0.6	0.9	0.9	1.0	0.9	0.9

Note: Figures from third quarter of 2014 onwards are estimates.

Asian oil demand has continued to drive growth for 2014. Despite signs of its economy slowing down, China has been a key driver, although other Asian countries have also contributed towards growth. Asia-Pacific is expected to account for approximately 33.0% of expected global oil demand in 2015, and the United States is expected to account for 31.1 million barrels per day or approximately 33.0% of expected demand.

According to the IEA, “Asia will continue facing an overall supply deficit for refined products, despite new refining capacity being added, particularly in China. Asian demand growth has been largely driven by light and middle distillates, such as gasoil, gasoline and naphtha. Naphtha is still a key petrochemical feedstock in

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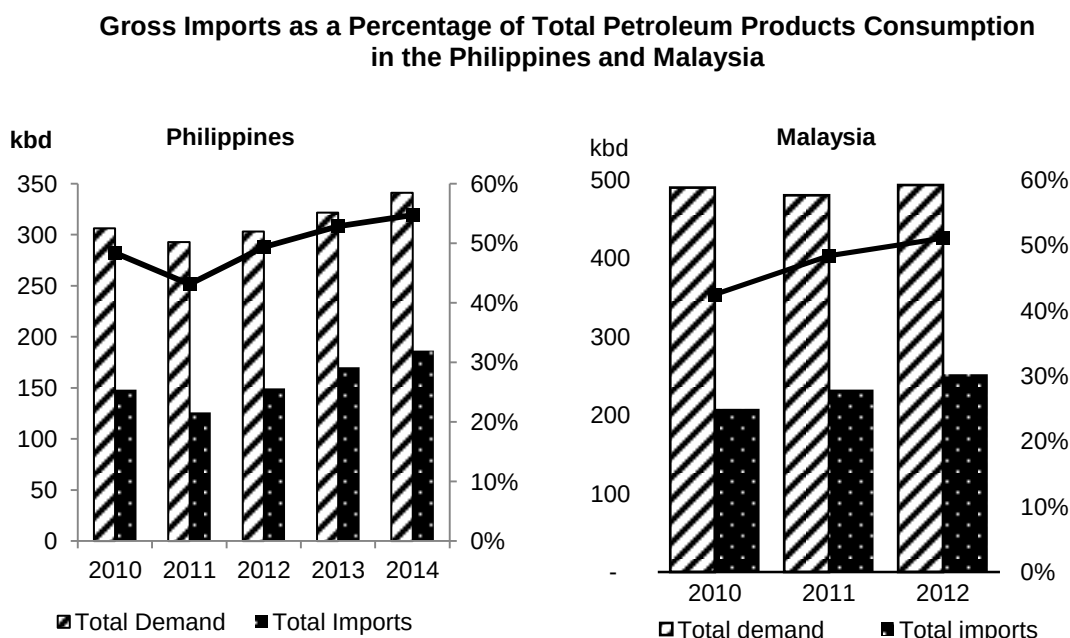
² Not from public domain. © OECD/IEA Medium-Term Oil Market Report 2015, IEA Publishing. Licence: <http://www.iea.org/t&c/>.

Asia, and the rapid growth in new ethylene capacity has firmly supported naphtha demand in the region. LPG and kerosene/jet fuel have also posted healthy demand,³ while fuel oil demand has declined, largely due to substitution with coal and natural gas in the power sector.

According to IEA, global refining activity remained exceptionally robust through 2014 year-end despite lacklustre economic and oil-demand growth. Global refinery crude throughputs surged to a new record high of 79.10 million barrels per day in December as plants returned from seasonal maintenance, with stronger than expected runs in the US and OECD Asia-Oceania. As a result, estimate of global refinery crude throughputs for the fourth quarter of 2014 has been raised to 78.1 million barrels per day. Global refinery crude runs are set to fall to 77.6 million barrels per day in the first quarter of 2015, in line with seasonally falling demand and increased refinery maintenance. Burgeoning product holdings and deteriorating margins will likely amplify the declines in mature markets, as new capacity in the non-OECD continues to ramp up. Growth will again be concentrated in non-OECD countries, extending recent trends.

The Philippine and Malaysian Oil Markets

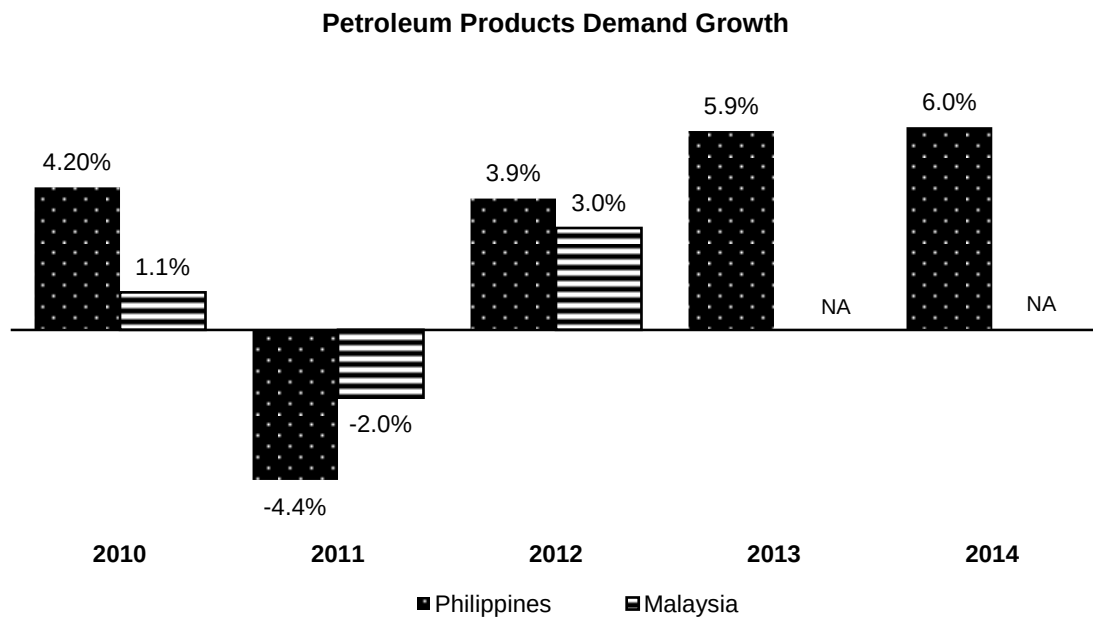
The Philippines and Malaysia are major importers of finished petroleum products, importing over 50.0% of their total consumption requirements. The charts below show demand, imports, and imports as a percentage of demand, for the periods indicated.



Source: Philippine Department of Energy, Malaysia Energy Information Hub

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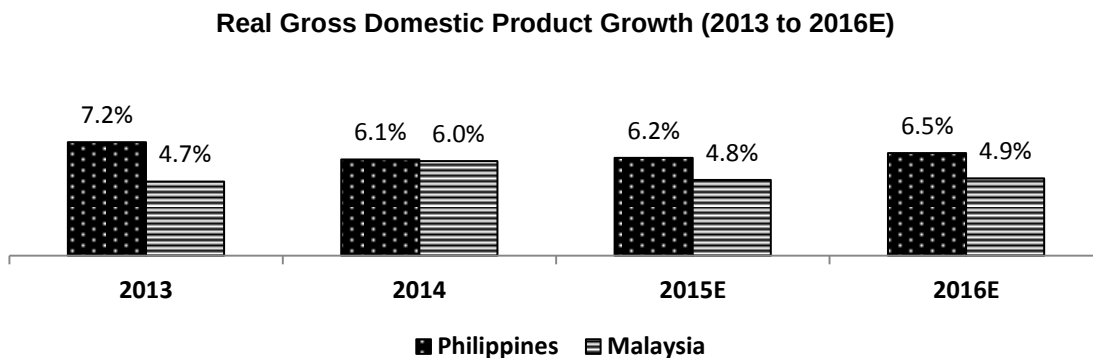
The petroleum products demand in the Philippines and Malaysia have generally experienced growth, as shown in the chart below.



Source: Philippine Department of Energy, Malaysia Energy Information Hub

Real Gross Domestic Product growth

According to the IMF, the Philippine and Malaysian economies are expected to exhibit stable real gross domestic product growth at annual rates of 5.0% to 6.0%, respectively, as indicated in the chart below. This favorable economic backdrop is expected to contribute to energy and petroleum products demand growth in these countries.



Source: International Monetary Fund as of May 2015 and July 2015 for the Philippines and Malaysia, respectively

Philippine Oil Market

Based on data from the DOE, the crude oil imports of the country reached 64.9 million barrels for the year 2014, an increase of 15.3% from 56.3 million barrels in 2013. Historically, the majority of crude oil imports to the Philippines have been from the Middle East. In 2014, approximately 75.0% of crude oil imports were from the Middle East. Saudi Arabia accounted for 57.1%, the United Arab Emirates for 9.9%, and Qatar for 8.6% of the total.

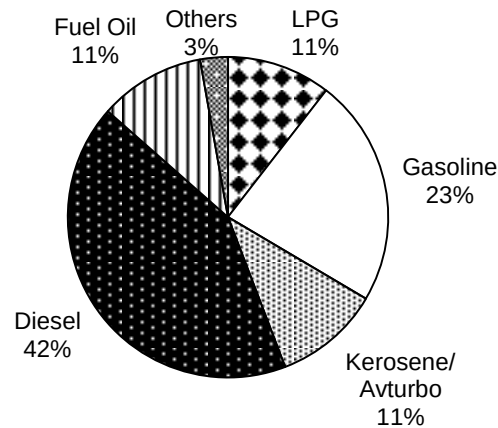
The current maximum working crude distillation capacity of the Philippines is 285,000 barrels per stream day, based on data from the DOE.

Due to the shortfall in domestic supply, the Philippines is an importer of finished products. Product imports during 2014 were at 68.1 million barrels, an increase of 9.7% from 62.1 million barrels in 2013. Imports of

diesel were up 11.5%, gasoline by 2.1%, LPG by 2.8% and fuel oil by 81.6%. However, imports of kerosene/Avturbo dropped by 12.0%.

In 2014, petroleum products demand grew by 6.0% to 124.5 million barrels from 117.5 million barrels in 2013. The chart below shows the demand mix for the 2014.

Philippine Demand Breakdown by Product (2014)

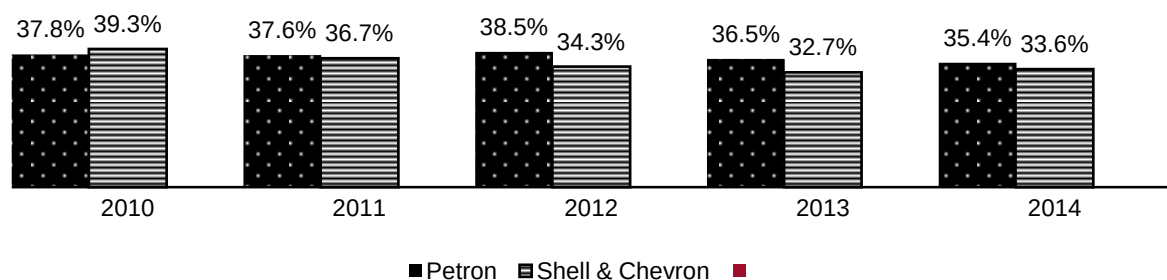


Source: Philippine Department of Energy

Petroleum product exports from the Philippines have not been historically significant. In 2014, exports were up by 10.2% from 8.6 million barrels in 2013 to 9.5 million barrels. The largest components of the export mix for 2014 were condensate (46.4%), naphtha (17.7%), fuel oil (17.0%), mixed xylene (7.3%), toluene (3.8%), pygas (2.9%), propylene (2.0%), benzene (1.8%), and reformat (1.2%). Oil refiners accounted for 50.7% of the total export mix while exports by Shell Philippines Exploration B.V., Liquegaz, and Petronas accounted for the remainder, according to the DOE.

Petron has historically maintained a leading market share in the Philippine oil industry, with an overall market share of 35.4% as of December 2014 in terms of sales volume pursuant to Petron estimates, based on its internal assumptions and calculations and industry data from the DOE. The chart below provides market share data for the Philippine oil industry for the periods indicated.

Philippine Petroleum Product Sales Market Share (2010 –2014)



Source: Philippine Department of Energy

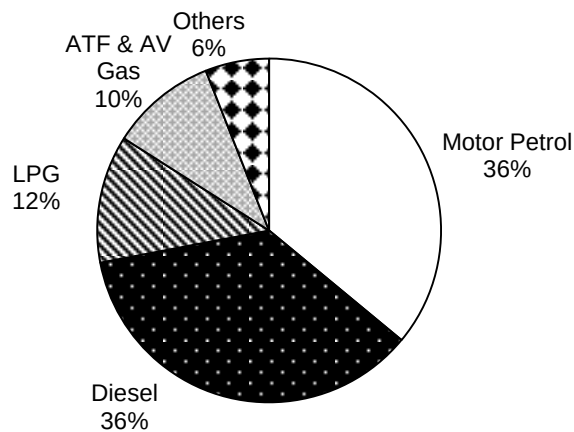
Malaysia Oil Market

Malaysia is one of the largest producers of oil and gas in Southeast Asia. According to the 2014 BP Statistical Review of World Energy, Malaysia had proven oil reserves of 3.7 billion barrels and proven gas reserves of 1.1 trillion cubic meters in 2013. The natural gas production of the country grew by 3.9%, to 69.1 billion cubic metres in 2013. The majority of crude oil in Malaysia comes from offshore fields, predominantly in the Malaya basin. The benchmark crude oil of Malaysia is the Tapis Blend, which is categorized as light and sweet.

The oil and gas and energy sectors are the largest contributors to the national gross domestic product of Malaysia. Petronas is the integrated national oil and gas of Malaysia and is the exclusive holder of ownership rights to all oil and gas exploration and production projects. Petron is also responsible for all licensing procedures in Malaysia.

According to the Malaysia Energy Statistics Handbook 2014, the final consumption of petroleum products in Malaysia grew by 3.0%, to 24,634,000 tons of oil equivalent in 2012. Motor petrol accounted for the largest consumption at 36.2%, followed by diesel at 35.5%, LPG at 11.7%, and ATF & AV gas at 10.2%. In terms of a regional breakdown, Peninsular Malaysia accounted for nearly 80.0% of petroleum product sales, with Sabah and Sarawak accounting for the remaining 20.0% in 2012, according to the 2012 National Energy Balance by the Suruhanjaya Tenaga (Energy Commission of Malaysia).

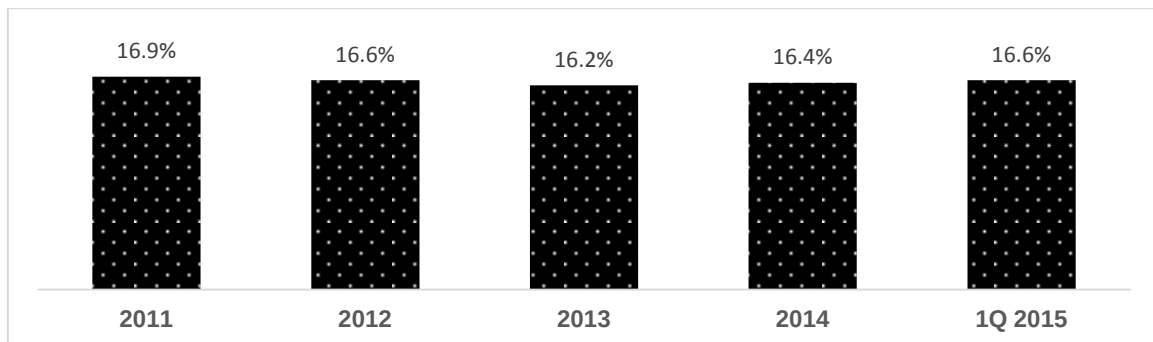
Breakdown of Consumption of Petroleum Products in Malaysia (2012)



Source: Malaysia Energy Information Hub

The Malaysian oil industry is dominated by Petronas and Shell, followed by Petron. In the retail segment, Petron had a market share of 16.6% as of March 2015 pursuant to Petron estimates based on its internal assumptions and calculations and industry data from Metrix Research. The following table shows the historical retail market share for Malaysian operations of Petron, which was acquired in March 2012.

Petron Malaysia / ExxonMobil Malaysia Historical Retail Market Share (2011 – 1Q 2015)



Source: Petron estimates based on Petron information and data from Metrix Research

Over the last decade, Malaysia has been a net importer of gasoline, with imports mainly from Singapore. It has also been a net importer of diesel and fuel oil. Conversely, Malaysia has been a net exporter of LPG, naphtha and jet fuel/kerosene. Exports have predominantly been to countries in Asia, particularly India, Japan, Singapore, South Korea and Thailand.

Global Petrochemical Market

Petrochemical Products

Petrochemicals are chemical products derived from petroleum or other hydrocarbons. Primary petrochemicals include olefins and aromatics. Olefins are unsaturated molecules of carbon and hydrogen that appear as short chains of between two (2) and four (4) carbons in length, while aromatics contain a six (6) carbon ring structure. Olefins and aromatics form the basis of a range of materials, including adhesives and solvents, and olefins form the basis for polymers, which are used, among other things, in plastics, fibers, resins and lubricants. Descriptions of certain petrochemicals are set forth below, of which propylene is an olefin while benzene, toluene and xylene are aromatics.

- (1) Propylene is the feedstock for the production of polypropylene, which is used to manufacture items such as food packaging plastics, car bumpers, computer housings, appliance parts and fibers.
- (2) Benzene is used to produce numerous compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.
- (3) Toluene is used as a solvent in paints, inks, adhesives and cleaning agents, and in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals and in the production of pharmaceuticals, dyes, and cosmetic nail products.
- (4) Xylene is used to make polyester fibers, packaging materials, bottles and films.

Refining – Petrochemical Integration

Key factors affecting petrochemical companies include access to feedstock, the cost of feedstock, proximity to demand centers, technological advances and access to talent. In particular, the integration of petrochemical operations with refineries has been a way for companies to secure access to feedstock and also to capture more value from the product streams of the refinery. This gives some flexibility in whether to maximize production of petroleum products or petrochemicals, depending on market requirements and the refinery's configuration. In addition, the integration of petrochemical facilities with refineries can provide economies of scale from the use of shared facilities and infrastructure, other overhead costs, as well as a sales channel for the products, which are used as feedstocks for petrochemical processes.

Petrochemical Outlook

The petrochemicals industry has historically been cyclical and has usually coincided with the business cycles of global and regional economies. Changes in supply and demand and resulting utilization levels are key factors that affect profitability. Periods of low industry profitability typically alternate with high profitability and result in periods of over- and under-investment. The long lead times for the construction of new facilities can result in capacity additions coinciding with, and subsequently exacerbating, weakening market conditions.

Petrochemicals demand from Asian countries is expected to be a significant contributor to overall global growth over the next few years. China and India are expected to be among the key countries contributing to this growth, driven by the manufacturing sector and the broader economy. In particular, the per capita consumption of products such as polyethylene and polypropylene in these countries is considerably lower than for instance in Europe. There have been new capacity additions in Asia-Pacific, with further facilities being built and planned. Nevertheless, in the medium term, countries in the region are generally expected to remain net importers of feedstock and petrochemical products.

Depots, terminals and airport installation in the Philippines

Through its network of approximately 2,200 retail service stations in the Philippines as of December 31, 2014, Petron sells gasoline, diesel, kerosene, and auto-LPG (in some stations) to motorists and to the public transport sector. Petron also sells its LPG brands *Gasul* and *Fiesta Gas* to households and other consumers through its extensive dealership network.

Petron also manufactures lubricants and greases through its blending plant in Pandacan in the Philippines,

and these products are sold through service stations and sales centers of Petron. Petron owns and operates a fuel additives blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, Limited (“Innospec”), a global fuel additives supplier. Regional customers of Innospec and own requirements of Petron are served from the output of the Subic plant.

In recent years, Petron has also diversified into petrochemicals, adding a mixed xylene recovery unit to the Limay Refinery complex in 2000 and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, Petron acquired a 40.0% stake in Petrochemical Asia (HK) Ltd. (PAHL), which owns Philippine Polypropylene Inc. (PPI) through a wholly owned subsidiary Robinson International Holdings Ltd. (RIHL). As of December 31, 2014, Petron had increased its stake in PAHL to 45.85%. PPI operated a polypropylene plant located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, Petron acquired the polypropylene business of PPI and took over the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations.

On March 30, 2012, Petron completed its acquisition of the integrated downstream oil business of ExxonMobil in Malaysia. With this acquisition, Petron has extended its portfolio of oil refining and marketing businesses outside the Philippines. Petron owns and operates the Port Dickson Refinery, which has a crude oil distillation capacity of 88,000 barrels per day, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and low-sulfur waxy residue (“LSWR”). As of December 31, 2014, Petron had nine (9) product terminals, one (1) depot, and a network of approximately 560 retail service stations in Malaysia.

The products of Petron are primarily sold to customers in the Philippines and Malaysia, and Petron also exports various petroleum products and petrochemical feedstocks, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. Revenues of Petron from these export sales amounted to ₱34.5 billion, or 7.0% of total sales, in 2014.

Strengths

Petron believes that its principal competitive strengths include the following:

Leader in the Philippine downstream oil sector

With an overall market share of approximately 35.4% of the Philippine oil market for the year ended December 31, 2014 in terms of sales volume pursuant to Petron estimates based on the industry data from the DOE, Petron believes it is the leader in the Philippine oil industry. Petron enjoys a strong second (2nd) position in terms of market share based on sales volumes of the three (3) major oil companies in the lubricants and greases market segment.

In the Philippines, Petron owns and operates the largest petroleum refinery complex, with a total crude oil distillation capacity of 180,000 barrels per day, which is 70,000 barrels per day higher compared to the only other operating petroleum refinery in the Philippines.

Petron has the most extensive distribution network in the Philippines, which allows it to operate and serve its customers across the Philippines. This distribution network includes more than 30 depots, terminals, and airport installations that reaches most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing the leading position of Petron in the Philippines. Since 2011, Petron has focused on expanding its distribution network to accommodate the increasing demand across the Philippines, and will continue to invest in the expansion of its distribution network. The strong participation of Petron in the different market segments such as retail, LPG and bulk industrial customer operations also plays a large role in its success in the Philippine downstream oil sector. As of March 31, 2015, Petron had approximately 2,200 service stations nationwide, more than any other market participant, and intends to grow this number to serve the increased production from RMP-2. Petron believes it is the leader in the LPG segment with more than 1,100 branch stores. Industrial sales of Petron cover approximately 1,100 direct industrial accounts as of March 31, 2015.

Established position in the Malaysian downstream oil sector

Petron has acquired an established position in the Malaysian downstream oil sector through its acquisition of the downstream oil business of ExxonMobil in Malaysia, which has a recognized health, safety and

environmental track record. This provides geographic diversification to its portfolio, an additional platform to expand its business and added stability to its operations.

JBC Energy estimates that the Malaysian market will continue to grow annually by approximately 2.6%, at its current market size of approximately 700,000 barrels per day, it is more than double the size of the Philippine market. Pursuant to Petron estimates based on its internal assumptions and calculations and industry data from Metrix Research, Petron had a 16.6% market share of the Malaysian retail segment as of March 2015.

The network of service stations and distribution infrastructure of Petron in Malaysia also facilitates the capture of a growing share of the market. The network of Petron in Malaysia includes approximately 560 service stations, 260 convenience stores, nine (9) product terminals and one (1) depot. Following the acquisition of the downstream oil business of Petron in Malaysia in March 2012, Petron rebranded ExxonMobil Esso-branded service stations to the *Petron* brand to increase the awareness of the *Petron* brand in Malaysia. As of March 31, 2015, all of the 550 Esso-branded service stations acquired had been rebranded. Concurrent with the rebranding, Petron launched a comprehensive refurbishment initiative with the goal of creating a convenient one-stop service experience for customers. This refurbishment initiative included upgrading the service stations with a modern look, brighter lights and more efficient display of products and services. Petron also has presence in the aviation segment with a 20.0% ownership of a multi-product pipeline to Kuala Lumpur International Airport ("KLIA"). Pursuant to Petron estimates based on its internal assumptions and calculation and industry data from Metrix Research, as of March 2015, Petron has 12.6% market share in terms of sales volume in the LPG segment in Malaysia.

The retail and certain selected transportation sectors in Malaysia operate under a regulated market pursuant to the automatic pricing mechanism ("APM"), which mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. This regulated environment provides stability to the Malaysian operations of Petron in such sectors.

Well-positioned for the production of high margin products

Over the years, Petron has developed and maintained a strong core base of petroleum products, and consistently made significant investments in upgrading its facilities and focused on increasing production of higher margin white products and petrochemicals while minimizing production of low margin fuel products.

Petron embarked on the RMP-2 project to upgrade the Limay Refinery. The RMP-2, which was completed in the fourth quarter of 2014, was a US\$2 billion investment project designed to enable the Limay Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase production of petrochemical feedstock. Currently, the RMP-2 is undergoing stabilization and optimization. The completion of RMP-2 has made Petron the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard fuels. The upgraded production capability already improved current refinery utilization rate to more than 80.0% compared to pre-RMP-2 operating levels of approximately 55.0% utilization rate. Subsequently, utilization rate is expected to improve to more than 90.0%.

Differentiated service experience driving retail volumes

The network of service stations of Petron in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond just a petroleum station, the service station of Petron provides a one-stop service experience to travelers on the road, offering amenities such as *Treats* convenience stores, restaurants, and specialty shops. These convenience stores, restaurants and specialty shops help generate non-fuel revenues and improve traffic in the service stations. Most recently in Malaysia, Petron rebranded all ExxonMobil Esso-branded service stations to the *Petron* brand and refurbished the stations. Approximately 260 out of the 560 Petron service stations in Malaysia have convenience stores. Petron has also partnered with the Royal Malaysia Police to set up a "Go-to Safety Points" at selected Petron stations in Malaysia.

Petron also offers loyalty programs that complement its retail business. Petron continues to upgrade existing loyalty programs and offer new and diverse programs to cater to the unique needs of the customers. Some of the benefits of the program include 24-hour free towing and roadside assistance, reward points for every purchase and complimentary annual personal accident insurance coverage. As of March 31, 2015, more than 2.3 million Petron Value Cards had been issued in the Philippines and approximately 2.0 million Petron

Miles Privilege Cards had been issued in Malaysia.

Operations in markets with favorable industry dynamics

Petron operates as an integrated oil refining and marketing Petron in the Philippines and Malaysia, both of which Petron believes have favorable oil industry dynamics. According to the IMF, the Philippines and Malaysia are expected to experience strong gross domestic product growth at the rate of 6.3% and 4.9% respectively, for 2016, significantly higher than the global average expected gross domestic product growth of 3.8% during the same period. Given the high correlation between gross domestic product per capita and fuel consumption, and relatively low fuel consumption in the Philippines and Malaysia compared to other developed countries, there is significant fuel consumption growth potential in these fast-growing markets. The strong potential demand for refined petroleum products is expected to lead to a further supply shortfall, given that both the Philippines and Malaysia are importers of finished petroleum products. Petron believes it is well-positioned to benefit from this supply shortfall with its current production capacities of 180,000 and 88,000 barrels per day in the Philippines and Malaysia, respectively, which give it a significant competitive advantage over its competitors.

Business Strategies

The principal strategies of Petron are set out below:

Further increase market share in the downstream oil markets in the Philippines and Malaysia

Petron intends to leverage on its leading market position and extensive retail and distribution network in the Philippines to maximize its revenue potential.

Petron believes that the downstream oil markets in the Philippines are still underserved and intends to grow its market position by: (i) increasing its retail outlets for fuels and LPG to capture industry growth and improve market penetration; (ii) introducing new products with differentiated and superior qualities; (iii) developing and expanding its logistical facilities, including the addition of new aviation facilities in tourist destinations; (iv) building more LPG re-filling and auto-LPG facilities; (v) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide “value conscious” customers with a one-stop full service experience; and (vi) intensifying its dealer and sales personnel training to support the retail business of Petron and continuing service station network expansion.

In Malaysia, Petron intends to increase its market share in Malaysia by expanding its existing Malaysian retail network of approximately 560 retail service stations. Petron plans to strategically increase its presence in urban areas with high traffic to make its products and services accessible to more Malaysians.

In addition, Petron seeks to maintain and further strengthen its established position in the Philippines and Malaysia by reinforcing business relationships with existing customers by providing differentiated service offerings in its retail service stations and promoting enhanced loyalty programs in both countries.

Focus on production of high margin refined petroleum products and petrochemicals

Over the years, Petron has made significant investments in upgrading its facilities and is focused on increasing production of white products and petrochemicals while minimizing production of low margin fuel products. In recent years, it has shifted production from lower margin fuel oils to higher margin products, including petrochemical feedstock such as propylene, mixed xylene, toluene and benzene. The RMP-2 aims to increase revenues and reduce costs and place the utilization of the Limay Refinery, processing and energy efficiency at par with more advanced refineries in the region and improve its competitiveness. Petron expects to continue investing in upgrading its production capability.

Continue investments to increase operational efficiency and profitability and to increase market reach

Petron has undertaken a number of strategic projects such as the RMP-2 aimed at increasing operational efficiency and profitability, and increasing market reach through the expansion of the service station network.

Petron also intends to enhance efficiency and reduce production costs through supply chain improvements

and enhancements to its existing facilities, through a range of initiatives including: (i) optimizing its crude oil mix to produce more profitable products from the existing refining configuration and expanding its crude oil supply sources in addition to its major crude oil suppliers; (ii) reducing inventory levels in the Philippines by sourcing feedstock from suppliers located near the Limay Refinery; (iii) enhancing receiving and storage facilities to attain greater sourcing flexibility and support new growth areas; (iv) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness with the spot market; and (v) reducing distribution costs through rationalization of the depot network, joint operations with other companies and optimized utilization of its marine and tank truck fleet. Petron also expects to continue utilizing operational synergies by leveraging on network, products and services of SMC.

Pursue selective synergistic acquisitions

In addition to organic growth, Petron will continue to consider selective opportunities to expand both within and outside the Philippines through strategic acquisitions consistent with its focus on the Philippine market and creation of operational synergies. For example, in March 2010, Petron acquired a 40.0% stake in PAHL, which owned PPI through a wholly owned subsidiary RIHL. As of December 31, 2014, Petron had increased its stake in PAHL to 45.85%. PPI operates a polypropylene plant located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. The polypropylene plant is owned by RIHL. On July 1, 2014, Petron acquired the polypropylene business of PPI and took over the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations. In addition, on March 30, 2012, Petron completed its acquisition of the downstream business of ExxonMobil in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.

Selected financial data for the business of Petron are set forth in the table below for the periods indicated:

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	424,795	463,638	482,535	125,174	86,744
Gross profit.....	17,997	23,159	19,435	6,314	5,816
Gross profit margin ⁽¹⁾	4.2%	5.0%	4.0%	5.0%	6.7%
EBITDA ⁽²⁾	13,908	17,217	15,260	5,430	3,401
EBITDA margin ⁽³⁾	3.3%	3.7%	3.2%	4.3%	3.9%
Net income before tax	2,239	6,942	3,813	3,035	295
Net income before tax margin ⁽⁴⁾	0.5%	1.5%	0.8%	2.4%	0.3%

Notes:

(1) Calculated as gross profit divided by revenues

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues

(4) Calculated as net income before income tax divided by revenues

Production Facilities

Philippines

Petron owns and operates a petroleum refinery complex located in Limay, Bataan, which has a crude distillation capacity of 180,000 barrels per day. Its facilities include three (3) crude oil distillation units, two (2) vacuum pipestill units, a delayed coker unit, two (2) catalytic cracking units, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, three (3) naphtha hydro-treaters, two (2) kerosene mercox treaters, three (3) gas oil hydro-treater units, a coker gas oil hydro-treater, four (4) LPG treaters, two (2) selective hydro-processing units, an isomerization unit, benzene, toluene, and mixed xylene recovery units, two (2) propylene recovery units, four (4) sulfur recovery units, a hydrogen production unit, a hydrogen recovery facility, a nitrogen plant, two (2) waste water treatment facilities, four (4) sour water facilities, a desalination facility, eight (8) steam generators, five (5) turbo generators, four (4) cooling towers, a reverse osmosis unit, flare facilities, bulk asphalt receiving facilities, six (6) crude oil storage tanks, as well as a number of refined petroleum products storage tanks. It has its own piers and other berthing facilities, one (1) of which can accommodate very large crude oil carriers, or VLCCs.

The Limay Refinery is capable of producing a broad range of petroleum products such as LPG, gasoline, jet fuel, diesel and fuel oil. In 2000, the Limay Refinery expanded into petrochemical production with the commercial operation of its mixed-xylene plant. The Limay Refinery started producing propylene in 2008 with the commissioning of its propylene recovery unit, which has a demonstrated capacity of 130,000 tons per year of polymer-grade propylene. The benzene-toluene extraction became operational in May 2009 and is designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year.

In early 2011, PPI, in which Petron currently has a 45.9% indirect interest, commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the propylene production into polypropylene in the Limay Refinery. The facility has the capacity to produce 160,000 metric tons of polypropylene resin annually. In July 2014, Petron acquired the polypropylene business of PPI to enhance efficiency. As a result of the acquisition, the operation of the polypropylene plant was integrated into the propylene production operation of the Limay Refinery.

Petron also completed a fuel additive blending plant in the Subic Freeport Zone in July 2008 with a capacity of 12,000 MT a year, which serves the fuel additive requirements of a leading global additives manufacturer in the Asia-Pacific region and operates as the exclusive blender for customers of that manufacturer.

Malaysia

In Malaysia, Petron owns a petroleum refinery complex located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 barrels per day. Its facilities include a crude oil distillation unit, a naphtha hydrotreating unit with a processing capacity of 26,000 barrels per day, two (2) semi-regeneration reformer units with a combined processing capacity of 19,000 barrels per day and a kerosene hydrotreating unit with a processing capacity of 12,000 barrels per day. The Port Dickson Refinery has waste water treatment facilities, a boiler, a cooling water plant, flare and safety relieving facilities, five (5) crude oil storage tanks with a total capacity of approximately one (1) million barrels, 20 refined petroleum products storage tanks and five (5) spheres for LPG storage with a total capacity of approximately 1.1 million barrels.

The Port Dickson Refinery produces a range of products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. With the exception of naphtha and LSWR, these products are intended to meet domestic demand in Malaysia. Petron exports its naphtha and LSWR to various customers in the Asia-Pacific region under term and spot contracts.

Crude oil for the Port Dickson Refinery (predominantly light low-sulfur crude oil) is received at the Port Dickson Refinery by means of a single buoy mooring and crude pipeline facilities that are jointly owned with Shell through an unincorporated joint venture. The single buoy mooring is operated by Shell, and Petron shares the operating costs equally with Shell. Petron also pays a levy of one-third of the overhead and administrative charges incurred by Shell in connection with the operation of the single buoy mooring.

Refining Process and Quality Improvement Initiatives

The Limay Refinery

Petron has been implementing various programs and initiatives to achieve key performance indices on reliability, efficiency and safety in its refinery. These programs include the Reliability Availability and Maintenance program and the profitability improvement program which were developed and implemented in coordination with KBC Market Services, an international consultant. The Reliability Availability and Maintenance program resulted in improved operational availability and lower maintenance cost through higher plant reliability and a longer turnaround cycle of four to five (4 - 5) years from the previous two (2) years. The Profitability Improvement Program likewise significantly improved White Products recovery, particularly diesel and LPG.

The Continuous Improvement Program of Petron was one of the finalists for the 2008 Peoples' Program of the Year award sponsored by the People Management Association of the Philippines. In 2009, the Limay Refinery achieved its Integrated Management System ("IMS") certification issued by TÜV-SÜD-PSB, an internationally recognized certification and inspection body. The IMS is an integration of three (3) management systems: (i) Quality ISO 9001:2000, (ii) Environment ISO 14001:2004, and (iii) Health and Safety OHSAS 18001:2007. The benefits of an IMS for the Limay Refinery include: standardized and more systematized quality, environmental, health and safety work procedures, instructions and practices; improved

quality, productivity, environment, health and safety performance through continual improvement and compliance with legal requirements; customer satisfaction; and hazard and injury free working environment, and environmentally friendly operations.

The Port Dickson Refinery

The Port Dickson Refinery utilizes various management systems in support of its operations. These systems include the Safety Management System, the Loss Prevention System, the Reliability Management System and additional plant optimization initiatives for improved plant efficiency. The Port Dickson Refinery adopted the loss prevention system to prevent or reduce losses and incidents using behavior-based tools and other safety management techniques. The Safety Management System provides a structured approach to the management of risks related to safety, security, health and the environment and compliance with local regulations and laws. As of December 31, 2014, the Port Dickson Refinery had accumulated more than 12 consecutive years without any lost-time injury for employees or contractors and had received numerous awards from the Malaysian Society for Occupational Safety and Health, as well as the Prime Minister Hibiscus Award for good environmental performance. To increase plant reliability, the Port Dickson Refinery adopted the reliability management system, which utilizes a risk-based equipment strategy and aims to improve mechanical efficiency through routine work planning, scheduling and execution. The Port Dickson Refinery continuously seeks improvement in the areas of process optimization, flaring, oil loss and energy conservation through the use of advanced process computer control and an integrated plant information system.

Operating Sites

Petron owns the largest integrated petroleum refinery complex in the Philippines located in Limay, Bataan and the Port Dickson Refinery complex in Port Dickson, Negeri Sembilan, Malaysia. It operates a network of terminals and depots as bulk storage and distribution points throughout the Philippines, as well as LPG plants in its Pasig terminal, San Fernando depot and Legaspi depot and a number of terminals in Malaysia. Its airport installations serve the fuel requirements of the airline industry and other aviation accounts. Petron moves its products, mainly by sea, to more than 30 depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network in the Philippines. The network comprises 11 depots and terminals in Luzon, eight (8) in Visayas and seven (7) in Mindanao, as well as two (2) airport installations in Luzon, one (1) in Visayas and one (1) in Mindanao. Depots and terminals have marine receiving facilities, multiple product storage tanks for liquid fuels and LPG, drummed products storage, and warehouses for packaged products, such as lubricants and greases.

The Malaysian distribution operation network of Petron includes nine (9) product terminals and one (1) depot located in strategic locations across Peninsular and East Malaysia. The Port Dickson terminal is located at the Port Dickson Refinery, and the other terminals are located near major fuel product market areas.

Petron entered into commercial leases with the Philippine National Oil Company ("PNOC") for parcels of land occupied by its Limay Refinery, depots, terminals and certain of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, Petron renewed its lease with PNOC (through New Ventures Realty Corporation ("NVRC")) for the continued use of the Limay Refinery land for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). Petron is currently in negotiations with PNOC for the early renewal of leases for 22 terminals, depots and sales offices and 68 service stations that will expire in August 2018. Expenses relating to the PNOC leases paid directly to PNOC and through NVRC amounted to ₱219.8 million in 2014.

Petron leases 104 parcels of land for service stations and depots from NVRC. Total expenses relating to the NVRC leases amounted to ₱267.3 million in 2014.

Petron also leases land for its service stations from third parties. As of December 31, 2014, there were leases covering 511 service stations: 384 in Luzon, 66 in the Visayas and 61 in Mindanao. Expenses under these leases amounted to ₱ 548.2 million in 2014.

In Malaysia, the land on which the retail service stations of Petron are based is either owned by Petron or leased from third parties. As of December 31, 2014, Petron owned 161 parcels of land for service stations and leased 273 additional parcels of land for its service stations from third parties. Rentals for the service station lands are either paid in advance and amortized over the lease period, or paid over the lease period pursuant to the relevant schedules. Payments under these leases amounted to approximately RM

6.5 million in 2014. The Port Dickson Refinery occupies a 604 acre site. Petron holds freehold title to 430 acres of this site and leases the remaining 174 acres pursuant to a 99-year lease that expires in 2060.

Raw Materials and Utilities

Philippine Operations

The main raw material used in the production process of Petron is crude oil. Petron acquires crude oil from foreign sources, through a combination of short-term purchase contracts and spot market purchases. . In 2014, Petron purchased approximately 86.0% of its total crude oil requirements for the Limay Refinery from Saudi Aramco. Petron has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Aramco crude. The pricing and payment mechanisms under this contract are consistent with the standard practice of Saudi Aramco for its Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is on an open account basis and secured by an irrevocable standby letter of credit. The contract is automatically renewed annually unless either Petron or Saudi Aramco elects to terminate the contract upon at least 60 days' written notice prior to its expiration date. As of March 31, 2015, neither Petron nor Saudi Aramco had terminated the contract.

The Limay Refinery is capable of processing various types of crude oil. The crude oil optimization strategy of Petron includes the utilization of various types of crude oil that are not confined to light and sweet crude, which the Limay Refinery has been processing predominantly, to provide additional value to Petron. The completion of the RMP-2 has given the Limay Refinery greater flexibility to use heavier, more sour alternative crude.

Petron also has a term contract for the supply of group I base oils (SN500, SN150 and BS150). This contract is renewable annually and pricing is calculated using a formula based on an international standard price benchmark for base oils. The group I base oils are the main feedstock of Petron for the production of automotive, industrial and marine lubricants. Petron is the sole buyer of all the ethanol produced by San Carlos Bioenergy, Inc. pursuant to a supply contract based on a formula price. The balance of the ethanol requirements of Petron is sourced from other local ethanol producers and imports. Ethanol is blended with gasoline to comply with the current requirement under the Philippine Biofuels Act of 2006 that all premium gasoline sold by every oil company in the Philippines should contain 10% bioethanol starting August 6, 2011.

Petron also imports fuel oil, aviation gas, asphalt and some gasoline blending components. These imports are necessary as Petron does not produce fuel oil, aviation gas and asphalt. Petron ceased producing fuel oil, a lower margin product, upon the completion of the RMP-2. Imports of LPG, diesel, gasoline and jet fuel may also be necessary during maintenance of the Limay Refinery. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and some gasoline blending components, or Saudi Aramco contract prices ("Saudi CP") for LPG.

The principal utilities required for the production process of Petron are water, electricity and steam. Deep wells (ground water) and sea water provide the water requirements of the Limay Refinery. The electricity and steam requirements of the Limay Refinery are sourced from the existing turbo and steam generators of the Limay Refinery as well as from the Limay Co-generation power plant in Limay, Bataan, which was sold by Petron in 2013 to SMC Powergen Inc., a subsidiary of SMC and an affiliate of Petron. Petron has a 25-year power supply agreement with SMC Powergen Inc., commencing in 2013 under which the SMC Powergen Power Plant supplies power to the Limay Refinery. Petron also has a 10-year supply agreement with SMC Powergen Inc. commencing in 2013 under which it supplies diesel, condensate and petcoke to the SMC Powergen Power Plant. In 2014, approximately 69.0% of the electricity requirements of the Limay Refinery were purchased from SMC Powergen Power Plant, which was commissioned in the second quarter of 2014.

Malaysian Operations

The main raw material used in the production process of the Port Dickson Refinery is crude oil and condensate. Petron acquires crude oil for the Port Dickson Refinery from local sources, through a combination of term purchase contracts and spot purchases. Petron has a long-term supply contract for Tapis crude oil and Terangganu condensate with EMEPMI, supplemented by other spot crude purchases. Usually approximately 70.0% of the crude and condensate volume processed in the Port Dickson Refinery is sourced from EMEPMI, while the balance of approximately 30.0% is sourced from spot purchases. Pricing is determined through a formula that is linked to international industry benchmarks.

The Port Dickson Refinery is designed to process sweet crude oil. The crude oil optimization strategy of Petron includes diversification in processing different types of sweet crude oil.

Petron buys Palm Oil Methyl Ester ("POME") from Malaysian government-approved local suppliers for its biodiesel mix. POME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia as a replacement for diesel. Petron produces a biodiesel mix initially comprising 5.0% POME and 95.0% diesel. Subsequently, the Malaysian Biofuel Industry Act of 2007 changed the mix to 7.0% POME and 93.0% diesel. In October 2014, the Malaysian government announced the implementation of the B7 programme (blending of 7.0% POME and 93.0% diesel) for the subsidized sector. The B7 programme is being implemented in stages throughout Malaysia. The first stage, which covers Peninsular Malaysia, was completed in the fourth quarter of 2014. The second stage, which covers the states of Sabah, Sarawak and Wilayah Persekutuan Labuan, is ongoing.

Petron also imports LPG, diesel, gasoline and some gasoline blending components. These imports, which Petron purchases through term purchase contracts and in the spot market, are necessary as Petron does not produce enough refined products to meet domestic demand in Malaysia. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and some gasoline blending components, or Saudi CP for LPG.

The clean water requirements of the Port Dickson Refinery for the process units are sourced from the local municipal cooling water source. Water for fire-fighting purposes is sourced from a natural lagoon located within the Port Dickson Refinery complex. The electricity requirements of the Port Dickson Refinery are purchased from Tenaga Nasional Berhad, the Malaysian national electricity provider, while the fired and waste heat boilers of the Port Dickson Refinery supply the steam requirements of the process units of the refinery.

Sales and Marketing

The Philippines

In the retail market, Petron has approximately 2,200 retail service stations throughout the Philippines as of March 31, 2015, representing about 30.0% of the total gasoline station count in the country of around 7,300 according to internal estimates. Most of these stations are located in Luzon, where demand is heaviest.

Petron employs two (2) types of service station operating structures in the Philippines, namely: company-owned-dealer-operated service stations ("CODO") and dealer-owned-dealer-operated service stations ("DODO"). For CODOs, Petron buys or leases the land and owns the service station structures and equipment, but third party dealers operate the CODOs. For DODOs, third party dealers buy or lease the land, build service station structures according to Company specifications, lease the service station equipment from Petron, and operate the DODOs. As of December 31, 2014, approximately 27.0% of retail service stations of Petron in the Philippines were CODOs, and approximately 73.0% were DODOs.

Petron believes it is the leading supplier to the Philippine industrial sector, which includes major manufacturing, aviation, marine, and power accounts. Petron had more than 1,100 direct industrial account customers as of December 31, 2014. Petron is the leading market participant in the Philippine LPG market in terms of market share. It had set up more than 1,100 branch stores through its *Gasul* and *Fiesta Gas* LPG dealers as of December 31, 2014. It has also gained market share in the field of alternative fuels through its auto-LPG program, *Petron Xtend*, and auto-LPG facilities have been installed in 19 service stations throughout the Philippines. In 2011, Petron started supplying the LPG requirements of SMC plants. Petron commissioned ten (10) mini-refilling plants in the Philippines as of December 31, 2014 to broaden the reach of the LPG products of Petron and make them accessible to more Filipinos.

To augment lubricants and greases sales, Petron had a network of approximately 27 Car Care Centers, 18 Lube Centers, and 15 Motorcycle Centers throughout the Philippines as of December 31, 2014. Petron capitalizes on its expanded LPG-outlet network by utilizing its LPG branch stores as outlets for lubricants and specialty products. Petron has expanded into blending and export of fuel additives, leveraging on its technology partnership with Innospec, a global fuel additives supplier. Petron also provides technical services to its customers, and is able to tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands.

In line with its efforts to increase its presence in the regional market, Petron also exports various petroleum products and petrochemical feedstocks, including high-sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. These products are sold through accredited

traders and to end-users under term or spot contracts.

Polypropylene is sold mostly to companies engaged in the manufacture of packaging materials.

Malaysia

The fuels marketing business of Petron in Malaysia is divided into retail business and commercial sales.

The retail business markets fuel and other retail products through a dealer network comprising approximately 560 retail service stations located throughout Peninsular and East Malaysia. In Malaysia, Petron uses the CODO and DODO operating structures for its retail service stations. As of December 31, 2014, approximately 73.0% and 27.0% of the 560 retail service stations of Petron were CODOs and DODOs, respectively. Approximately 260 of the service station sites had convenience stores, which generate non-fuel revenues and improve traffic in the service stations.

Since acquiring its Malaysian operations in March 2012, Petron has been actively pursuing initiatives to improve customer service and promote customer loyalty at its Malaysian retail service stations. Petron has rebranded its loyalty card programs to Petron Miles Privilege Cards, as part of the general rebranding of its Malaysian retail service station network. As of March 2015, loyalty card program of Petron in Malaysia comprised approximately 2.0 million cardholders.

The commercial sales of Petron are divided into three (3) segments: industrial and wholesale fuels, LPG and lubricants and specialties.

The industrial and wholesale segment sells diesel and gasoline to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. Sales to the mini-stations are priced according to the APM. Many power plants in Malaysia run on natural gas and use diesel as alternative fuel when there are gas curtailments. Petron sells diesel to such power plants on an ad-hoc basis at spot prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Sales of diesel to the manufacturing, plantation and construction sectors are not regulated by the Malaysian government, and the pricing of these sales is subject to market supply and demand. Sales of diesel to selected transportation sectors are priced according to the APM. Since sales to these transportation sectors are subject to a quota system in Malaysia, the sales of Petron to these transportation sectors are subject to volume limits. Sales in excess of the approved quotas are not entitled to subsidies. Accordingly, when the government-mandated prices are lower than the built-up costs of Petron, Petron has to manage its sales of subsidized products to ensure that such sales do not exceed the amount permitted under the approved quotas.

Petron is also one of the three (3) major jet fuel suppliers in Malaysia and sells jet fuel at the KLIA and KLIA2 pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System, the operator of the storage and hydrant facility of KLIA.

Petron markets LPG in 12-kg and 14-kg cylinders for domestic use through redistribution centers, stockists and dealers. LPG redistribution centers are owned by Petron and distribute bottled LPG to dealers. Stockists are dealer-owned and distribute cylinders to other dealers. Dealers generally collect bottled LPG directly from redistribution centers and stockists for onward sale to domestic consumers. Sales of LPG in 14-kg cylinders or less are subsidized under the APM.

Petron established a lubricants and specialties segment in April 2012 to introduce Petron lubricants and greases into the Malaysian market. These products are marketed through a network of appointed distributors in both West and East Malaysia to various industry segments, namely, car and motorcycle workshops, transport and fleet operators, manufacturing and industrial accounts. The wide range of automotive lubricants of Petron is sold through its extensive network of service stations in Malaysia.

Petron exports surplus intermediate products LSWR and naphtha from the Port Dickson Refinery through accredited traders and to end-users under term or spot contracts.

Capital Expenditures

Over the past several years, Petron has made significant capital expenditures to maintain and upgrade the Limay Refinery, to expand its retail service station network in the Philippines, and to upgrade its service stations in Malaysia. In 2012, 2013 and 2014, the capital expenditures of Petron were ₱41.8 billion, ₱51.6

billion and ₱11.9 billion, respectively, which were primarily related to expenditures for RMP-2. Petron has historically funded its capital expenditures with net cash flows provided by operating activities and debt or equity financing.

The estimated consolidated capital expenditures of Petron for 2015 is approximately ₱9.1 billion, primarily to fund the expansion of its retail service station network in the Philippines and Malaysia and upgrading of its logistics network. These capital expenditures are expected to be funded by a combination of net cash flows provided by operating activities and external financing sources. The anticipated capital expenditures of Petron are based on the estimates of management and have not been appraised by an independent organization. In addition, the capital expenditures of Petron may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine and Malaysia economies, the operating performance and cash flow of Petron and the ability of Petron to obtain financing on terms satisfactory to management.

Competition

The Philippines

In the Philippines, Petron operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of the Downstream Oil Industry Deregulation Law in 1998 effectively removed the rate-setting function of the Philippine government through what was then known as the Energy Regulatory Board, leaving price-setting to market forces. It also opened the oil industry to free competition. The Philippine oil industry is dominated by three (3) major Philippine oil companies: Petron, Shell and Chevron (formerly Caltex Philippines), which, based on industry data from the DOE for the year ended December 31, 2014, together constitute 68.9% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 100 other industry market participants, rendering the petroleum business more competitive. Petron and Shell operate the only refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase finished petroleum products from other market participants in the local market. In the Philippines, Petron competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value.

Petron participates in the reseller (service station), LPG, industrial and lube sectors, through its network of service stations, terminals and bulk plants, dealers and distributors throughout the Philippines. In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, Total Philippines, Phoenix Petroleum, Seaoil and other new participants in major thoroughfares. The small market participants also continue to grow, with station count increasing from 695 in 2001 to approximately 3,300 stations as of December 31, 2014. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting in order to expand their market share. The number of LPG importers in the Philippines increased from three (3), prior to deregulation, to about six (6), with new entrants having more flexible and bigger import receiving capacities. Although Petron is the biggest participant in the Philippine LPG sector, one of the new participants in this sector, *Liquigaz*, has amassed a substantial market share of 30.4% for the year ended December 2014, pursuant to estimates of Petron based on its internal assumptions, calculations and industry data from the DOE. In the industrial sector, the major market participants continue to invest heavily in order to increase their market share and tap new markets. In the lubricants sector, intense competition among over 50 brands, including global brands such as Castrol, Mobil, Shell and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets, such as auto-dealerships in malls.

Petron is the leader in the Philippine oil industry, with an overall market share of 35.4% of the Philippine oil market, as of December 2014, ahead of the other two (2) major Philippine oil companies, in terms of sales volume pursuant to estimates of Petron based on its internal assumptions, calculations and industry data from the DOE. Approximately 100 smaller oil market participants, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. Petron is the leader in terms of sales volume in the retail, industrial and LPG market segments and a strong second, as compared with the market shares of the two (2) other major Philippine oil companies, in the lubricants and greases market segment estimates of Petron based on its internal assumptions, calculations and industry data from the DOE for the year ended December 2014.

Petron believes that its competitive advantages include organization, technology, assets, resources and infrastructure. Petron continues to implement initiatives aimed at improving operational efficiencies, managing costs and risks, and maximizing utilization of its assets and opportunities.

Malaysia

In the retail service station business, the Malaysian operations of Petron compete with four (4) other main participants in the market, namely: subsidiaries of Petroliaam Nasional Berhad (“Petronas”), Royal Dutch Shell plc, Caltex and BHPetrol. Of these competitors, Petronas and Shell also have refinery operations in Malaysia. The Malaysian government regulates the pricing of gasoline and diesel at retail service stations through the APM.

Petron continues to face intense competition in the Malaysian industrial, aviation and wholesale market segments from other local and multi-national oil companies. Petron uses its local production from the Port Dickson Refinery and its strategic terminal locations across Malaysia to remain competitive in these segments. Besides the mini-stations, fisheries and some selected transportation sectors, which are governed by the APM, other sectors do not benefit from the subsidies provided for under the APM.

The aviation market is also very competitive, as the three (3) local refiners offload their jet fuel through the mulit-product pipeline to KLIA. Sales of jet fuel at the other Malaysian airports are supplied by the oil companies having the necessary storage and logistics capability.

In the LPG segment, the APM applies only for sales of LPG in domestic cylinders. Competition in this market is driven by supply reliability, dealer network efficiency and customer service. Petron, being well established, remains competitive in this segment.

The lubricants and specialties market is dominated by the traditional global brands as well as Petronas. Petron has the advantage of an extensive network of service stations to market its products and to provide brand presence. Price is a major competitive factor in this market. Petron believes that it is well positioned to compete in this market, due to its efficient blending plant and supply chain.

Health, Safety and Environmental Matters

The Philippines

Petron is guided by its Corporate Health, Safety and Environment Policy (the “Corporate HSE Policy”). The principles of the Corporate HSE Policy apply to all assets, facilities, and operating and support groups of Petron.

Petron has a Corporate Technical and Engineering Services Group (“CTESG”) responsible for formulating, implementing and enforcing the employee health, safety and environment policies of Petron, as well as ensuring compliance with applicable laws and regulations in the Philippines.

The Safety division of the CTESG (“CTESG-Safety”) ensures, among others, compliance by the contractors of Petron and service station dealers to government-mandated safety standards and regulations, and conducts training programs designed to raise awareness on process safety, oil spill response, fire-fighting and basic safety procedures for employees, contractors and service station dealers. CTESG-Safety has put together a Corporate Safety Management System, the main reference of all safety management systems in Petron based mainly on OHSAS 18001. The Limay Refinery and some of the depots, terminals and service stations have implemented third party certified management systems. The Limay Refinery is certified by TUV-SUD-PSB, an internationally recognized certification and inspection body, for its Integrated Management System (“IMS”) on Quality (ISO 9001), Environment (ISO 14001), and Safety (OHSAS 18001). As of March 31, 2015, 29 of the depots and terminals of Petron had been IMS-certified. In addition, all of the depots and terminals of Petron have Philippine Coast Guard-approved Oil Spill Response Contingency Plans.

CTESG-Safety also conducts multi-functional audits of the Limay Refinery as well as of the facilities, depots, service stations, industrial accounts of Petron in the Philippines and the facilities of Petron in Malaysia to ensure compliance with Petron safety standards and government laws and regulations on safety.

The Environment division of the CTESG (“CTESG-Environment”) provides among others, technical assistance and consultancy services on areas of environmental management and conducts environmental

awareness training for the employees, contractors and service station dealers of Petron. It is also responsible for formulating and implementing an Environmental Management System (“EMS”) based on ISO 14001-2001 standards in the Limay Refinery and the depots, terminals and service stations of Petron. As of March 31, 2015, 22 Petron service stations have been certified compliant to the EMS, a first in the Philippine oil industry.

As part of its advocacy functions, the CTESG is also actively involved in public stakeholder consultations during the drafting of Philippine safety and environmental protection standards, laws and regulations. Petron also actively participates in the implementation of government programs, such as the Kapatiran WISE-TAV program (also known as the Big Brother/Small Brother Project) of the Philippine Department of Labor and Employment, as well as in local and regional oil spill response consortiums such as Oil Spill Response Ltd.

Malaysia

Petron is subject to local safety, health and environmental regulation in Malaysia, including (i) the Factories and Machinery Act 1967 (Act 139) and the Occupational Safety and Health Act 1994 (Act 514), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Occupational Safety and Health, (ii) the Environmental Quality Act 1974 (Act 127), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Environment and (iii) the Fire Services Act 1988 (Act 341), as amended, and regulations made pursuant thereto, which are administered by the Malaysian Fire and Rescue Department.

CTESG-Safety and CTESG-Environment conduct multi-functional audits of the Port Dickson Refinery and the other facilities, depots and service stations in Malaysia every two (2) years. Petron also has a corporate safety, security, health and environment (“SSHE”) department that is responsible for formulating, implementing and enforcing the safety, health and environmental policies of Petron in Malaysia, coordinating and conducting relevant programs to raise the level of awareness of Safety, SSHE and ensuring compliance with applicable laws and regulations. For more than ten (10) years, operating facilities, plants and other businesses of Petron in Malaysia have attained good SSHE performance without any lost-time injury for employees or contractors. The Port Dickson Refinery and distribution terminals at Peninsular and East Malaysia have been awarded annual recognition of their safety and health performance by the Malaysian Society for Occupational Safety and Health (“MSOSH”) for more than five (5) consecutive years. The Port Dickson Refinery has been awarded the Prime Minister Hibiscus Award for good environmental performance. As prescribed by local regulatory requirements, the Port Dickson Refinery and the Malaysian terminals of Petron have established emergency response and oil spill contingency plans. For more than 15 years, the Malaysian operations of Petron have actively participated in local and regional oil spill response consortiums, such as the Petroleum Industries of Malaysia Mutual-Aid Group and Oil Spill Response Ltd.

Petron strives to achieve and sustain good SSHE performance in Malaysia through the implementation of various key programs including (i) the safety, health and environmental management system, which provides a structured approach to the management of work-related personal and operational risks, including the selection, recruitment and training of employees and contractors, equipment design, maintenance and servicing, as well as to ensuring regulatory compliance, and (ii) the loss prevention system, which was adopted to prevent or reduce losses and incidents using behavior-based tools and other safety management techniques.

Research and Development

To enhance productivity, efficiency, reduce costs and strengthen the competitiveness of Petron, it engages in research and development to identify improvements that can be made to its production processes. The development, reformulation and testing of new products are continuing business activities of Petron.

As part of its product innovation strategy, Petron produces Blaze 100 Euro 4, the first premium plus gasoline in the Philippines that meets the Euro IV standard, a globally accepted European emission standard for vehicles. Petron Blaze 100 Euro 4 meets the fuel quality requirements of Euro 4 technology vehicles. It also exceeds the Euro-4PH fuel specifications for sulfur and benzene content of the Philippine National Standards. Petron Blaze 100 Euro 4 was launched two-and-a-half years ahead of the Philippine government mandate for this global fuel standard which is set to take effect by 2016. Petron spent approximately ₱1.0 million to develop the product.

Petron utilizes appropriate technology in developing new fuel and lubricant products for performance, cost-effectiveness and environment-friendliness. Petron also enhances the quality level of its existing products.

Petron also voluntarily applied its products for Original Equipment Manufacturers (“OEMs”) certification and accreditation. This year, the American Petroleum Institute (“API”) Engine Oil Licensing and Certification System has renewed license of Petron to use the API Service Certification mark for its Ultron Race and Rev-X All Terrain engine oil products. Similarly, approval certifications were granted by original engine manufacturers, including Mercedes Benz and BMW, allowing the use of these products in their engines.

Petron is committed to continuing to develop high quality and innovative products to meet the requirements of the market. Petron believes that its continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. Expenses relating to research and development amounted to ₱50 million in 2012, ₱60 million in 2013, and ₱66 million in 2014.

As of December 31, 2014, 28 of the employees of Petron were employed in the Research and Development Group. The Research and Development Group has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. It is engaged in the customization of products at globally competitive quality and performance. It also manages a petroleum and allied products testing facility that meets global standards. In addition, it provides technical training to keep internal and external customers updated of the latest technology trends in the industry.

Energy Business

SMC operates its energy business through its wholly-owned subsidiary, SMC Global Power and its subsidiaries. SMC Global Power is a leader in the Philippine power generation industry in terms of installed capacity. Incorporated in 2008, SMC Global Power, through its subsidiaries, has successfully bid for the privatization of electrical power generation plants in the Philippines, which are administered pursuant to IPPA agreements with PSALM, an entity owned by the Philippine government. In addition, SPI, a subsidiary of SMC Global Power, acquired the Limay Co-generation Plant from Petron. SMC Global Power entered into a joint venture with K-Water for the acquisition of the Angat Hydroelectric Power Plant through PVE. SMC Global Power is also embarking on greenfield power plants along with strategic ventures into related businesses to vertically integrate its power assets.

SMC Global Power currently has interests in a portfolio of five (5) operating power plants, three (3) of which are under IPPA agreements, with a combined capacity of 2,903 MW.

As of December 31, 2014, SMC Global Power had total assets of ₱313,749 million and revenues in 2014 of ₱84,294 million.

Philippine Power Generation Industry

The current framework of the Philippine power sector is governed by the EPIRA, which was enacted in 2001. The Philippine power industry, following the passage of the EPIRA, is undergoing major reforms. The EPIRA aims to improve the power sector in the Philippines by ensuring and accelerating total electrification of the country and providing a fairer and competitive landscape for power sector participants, resulting in a more efficient and transparent industry. Among other things, the EPIRA requires:

- The creation of the ERC, which is an independent quasi-judicial regulatory body under the EPIRA;
- Separation of the industry into generation, transmission, distribution and supply sectors;
- Break-up and privatization of generation assets of the NPC, and the privatization of transmission assets by PSALM;
- Eventual removal of the monopoly distribution utilities currently hold on retailing electricity within their franchise areas to allow retail competition; and
- Retail competition and open access to distribution networks.

The open access regime commenced on June 26, 2013 in Luzon and Visayas. Under the open access regime, all electricity end-users with an average monthly peak demand of 1MW for the past 12 months, as certified by the ERC, will have the right to choose their own electricity suppliers.

The Philippine power industry has evolved into a competitive market with clear separation among the generation, transmission, distribution and supply sectors. Under the EPIRA, cross ownership is not allowed in the transmission sector with the generation and distribution sector.

The following tables and graphs summarize the power supply and demand outlook from 2012 to 2030 in Philippines based on the DOE Power Development Plan, 2012-2030:

Grid	Existing Capacity (MW) 2012	Peak Demand (MW) 2012	Average Annual Growth Rate	Committed Capacity (MW)	Critical Period	Required Additional Capacity (MW) 2009-2030	Indicative New Capacity (MW) 2009-2030
Luzon.....	10,744	7,696	4.1%	869	2016	8,100	6,819
Visayas.....	2,037	1,568	4.5%	310	2016	1,700	580
Mindanao.....	1,616	1,407	4.7%	580	2012	2,500	527
Philippines...	14,397	10,671	4.3%	1,759		12,330	7,926

SMC believes this increase in demand will lead to opportunities for new power plants to enter the market. SMC is confident of its abilities to capture this growth through power supply agreements while leveraging on arbitrage and spot sale opportunities in the WESM.

IPPA Framework

PSALM, together with NPC, has ECAs or other PPAs in place with various IPPs in the Philippines. Under the EPIRA, PSALM is required to achieve, through open and competitive bidding, the transfer of the management and control of at least 70.0% of the total energy output of the IPP plants under contract with NPC to IPPAs pursuant to IPPA agreements, such as those held by SMC Global Power.

Under the IPPA agreements, the IPPAs have the right to sell the electricity generated by such IPP in the WESM and also by entering into PSCs with specific customers. For SMEC in particular, it will, manage procurement of the fuel supply to the associated IPP. IPPAs pay PSALM a fixed monthly payment and a variable energy or generation fee the amount of which depends on the dispatch and performance of the IPP. IPPA agreements provide relief for IPPAs such as SMC Global Power in the event the associated IPPs are unable to dispatch for a certain period of time not due to the fault of the IPPA. PSALM/NPC in turn pays the IPPs capacity and energy payments based on their respective ECAs or PPAs. In some cases, IPPA agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities from the IPPs at the end of the terms of the ECAs or PPAs. Under the IPPA agreements of SMC Global Power, it has the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in May 2028 or on some earlier date due to certain events such as changes in applicable law or non-performance by the IPP.

The IPPA framework is intended to provide successful bidders a way to enter and trade in the WESM for a minimal capital outlay without the expense of building a new power plant and for IPPAs to enjoy the benefits normally attributed to owners of power generation plants, including controlling the fuel and its dispatch, trading, and contracting of the power plant, without maintenance costs or capital upgrades, which remain with the IPPs. Also, many of the risks of owning a power plant are explicitly managed through the contract. If there is an extended outage at the power generation plants, for example, there is up to a 50.0% discount on the monthly fees, and PSALM bears the force majeure risks to the power generation plants. The IPPA framework also permits an IPPA to assume the role of NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

IPPA's are permitted to trade in the WESM, and are also free to enter into bilateral contracts and seek other markets for the balance of their contracted capacities and energy, as well as enter into other forms of financial hedging instruments, if desired, to manage their position in and exposure to the market.

Strengths

Leading power company in the Philippines with a strong platform for future growth

SMC Global Power is one of the largest power companies in the Philippines based on the contracted capacity of its existing power portfolio. SMC Global Power is the IPPA for the Sual, Ilijan and San Roque power plants, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. In addition, SMC Global Power also owns the 140 MW Limay Co-generation Plant and the 218 MW Angat Hydroelectric Power Plant through a joint venture. This brings total combined capacity of SMC Global Power to 2,903 MW. Based on the total installed capacity, SMC Global Power has a 16.5% market share of the power supply of the national grid of the Philippines and a 22.2% market share of the Luzon grid, in each case as of April 2015, based on industry data from the ERC.

The IPPA business model provides SMC Global Power with the benefit of having the right to sell electricity generated by the IPPs without having to incur large upfront capital expenditures for the power plant construction, or to bear any related development risk. As an IPPA, SMC Global Power determines the amount of power to be produced by the IPP for supply to the customers of the IPPA and sells the power generated by the IPPs either pursuant to offtake agreements directly with customers or through the WESM. This business model provides SMC Global Power the ability to manage both market and price risk by entering directly into bilateral contracts with established customers while capturing potential upside through the sale of excess capacity through the WESM when spot market prices are attractive.

The experience of SMC Global Power in acting as an IPPA and its history of ownership and operation of the Limay power plant have enabled SMC Global Power to gain expertise in the Philippine power generation industry. With this experience, SMC Global Power believes it is in a strong position to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity of selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework.

SMC Global Power is also in a strong position to pursue vertical integration by developing its own coal supply source (upstream vertical integration) and expansion of its sales to a broader range of customers (downstream vertical integration), including retail customers. SMC Global Power has already acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. Capitalizing on changes in the Philippine regulatory structure, SMC Global Power holds a retail electricity supplier license from the ERC. With the implementation of open access and retail competition SMC Global Power can now enter into offtake agreements with customers with power requirements of at least 1 MW.

Flexible and diversified power portfolio

SMC Global Power manages the capacity of a balanced portfolio of some of the newest and largest power plants in the Philippines, which benefit from diversified fuel sources. The IPPA power plants have an average age of 14 years. Based on Philippine power industry data from the DOE, in terms of installed capacity in the Philippines, the Sual power plant is the largest coal-fired power plant, the Ilijan power plant is the largest natural gas-fired power plant and the San Roque power plant is one of the largest and newest hydro-electric power plants.

The existing power portfolio of SMC Global Power consists of natural gas-fired (Ilijan power plant), which represents 41.3%, coal-fired (Sual power plant and Limay Co-generation power plant), which represents 39.3%, and hydro-powered (San Roque power plant and Angat power plant), which represents 19.4% of the total capacity of SMC Global Power. Power generated by the Sual, Ilijan, and Limay Co-generation power plants is primarily sold to customers pursuant to offtake agreements, while power generated by the San Roque and Angat power plants is primarily sold through the WESM.

SMC Global Power believes that the size and diversity of the feedstock of its power portfolio reduces its exposure to specific risks associated with any one type of power plant, to fluctuations in electricity demand, and to variations in fuel costs and regulatory concerns that are linked to any one type of power plant. The fuel diversity of the portfolio is expected to mitigate the impact of sudden fuel price increases and supply shortages. SMC Global Power believes that its management of the capacity of this large diverse portfolio of power plants allows it to respond efficiently to market requirements at each point of the electricity demand cycle. This diversity helps it to improve the profitability of its portfolio by flexibly dispatching electricity in response to market demand and fuel cost competitiveness. SMC Global Power is permitted to enter into

bilateral contracts and to trade in the WESM for the balance of its contracted capacities and energy. By managing the IPPA power plants as a single portfolio and actively managing the energy output of the plants, SMC Global Power seeks to offer more competitive electricity rates compared to other power companies with smaller and less diverse portfolios.

Established relationships with world class partners

The IPPA power plants are owned, operated and maintained by world-class partners, including Marubeni Corporation, Tokyo Electric Power Corporation, Korea Electric Power Corporation and Mitsubishi Corporation. The plants owned by SMC Global Power are also maintained by world-class partners such as Petron Corporation for the Limay Co-generation power plant, and the joint venture partner for the Angat power plant, K-Water. Since entering the power business, SMC Global Power has established relationships with recognized international fuel suppliers, including PT Bumi Resources tbk, Noble Resources Pte. Ltd. and Banpu Public Company Limited Thailand, as well as with its customers, including Meralco, its largest customer. SMC Global Power believes that these established relationships provide a strong foundation for its existing business and an excellent base of potential partners for future expansion.

Well-positioned to capitalize on the anticipated growth of the Philippine electricity market

Over the period from 2012 to 2030, according to the DOE Power Development Plan 2012-2030, growth in demand for electricity in the Philippines is expected to be robust, with peak demand for electricity in Luzon, Visayas and Mindanao expected to reach an average annual growth rate of 4.1%, 4.5% and 4.8%, respectively. The DOE projects that power consumption in Luzon, Visayas and Mindanao will require aggregate additional capacities of 8,100 MW, 1,700 MW and 1,600 MW, respectively, by 2030, while only approximately 869 MW, 310 MW and 580 MW are currently expected to be provided by committed power projects in Luzon, Visayas and Mindanao, respectively. Construction of new power plants on average takes a minimum of three (3) years. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacities are built.

SMC Global Power believes it is well-positioned to benefit from continued growth in the Philippine electricity market and power supply shortage. SMC Global Power has a defined roadmap to increase capacity by developing greenfield power projects and bidding for selected NPC-owned power generation plants that are scheduled for privatization. SMC Global Power is already in advanced stages of construction of two (2) clean coal greenfield power projects – Limay circulating-fluidized bed (“CFB”) and the Malita CFB, which is expected to come online by 2016. In addition, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increased electricity demands.

Strong parent company support

The principal shareholder of SMC Global Power is SMC, a highly diversified conglomerate with 125 years of experience in operations in the Philippines. SMC today has become one of the largest companies listed on the PSE in terms of revenues and total assets. In addition to its power business, SMC has investments in vital industries that support the economic development of the country, including the food and beverage, packaging, property, fuel and oil, infrastructure, telecommunications and other businesses.

Under the stewardship of SMC, SMC Global Power has become a market leader in the Philippine power industry in a relatively short period of time. SMC provides SMC Global Power with key ancillary and support services in areas that promote operational efficiency, such as human resources, corporate affairs, legal, finance and treasury functions. SMC Global Power believes it will continue to benefit from the extensive business networks of SMC, its in-depth understanding of the Philippine economy and expertise of its senior managers to identify and capitalize on growth opportunities. Given the substantial electricity requirements of the other businesses of SMC, SMC Global Power believes that it can benefit from potential revenue and operational synergies with the SMC Group and that the SMC Group potentially provides a large captive energy demand base for SMC Global Power.

Business Strategies

Optimize the generation capacity of the IPPA power plants, leverage operational synergies and expand its customer base

SMC Global Power intends to actively manage its revenues and optimize the operations of its IPPA power plants in order to achieve a balanced mix of power sales through (i) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, (ii) sales through the WESM and (iii) participation in the retail electricity supply market. This approach is intended to improve certainty and predictability of revenues from contracted sales and capture revenue upside from the WESM. The objective of SMC Global Power is to supply customers based on the least cost while dispatching according to the requirements of the IPPA agreements, and to sell available excess energy of the IPPA power plants through the WESM at favorable prices. As such, SMC Global Power seeks to maximize profitability through effective fuel cost risk management and dispatch decisions relating to its IPPA power plants. Specifically, in case of high prices in the WESM, SMC Global Power can sell the excess output of the IPPA power plants to the WESM after delivering the contractual amounts required under its offtake agreements. Alternatively, in case of low prices in the WESM, SMC Global Power can minimize the generation output of its power plants and deliver the contractual amounts required under its offtake agreements either with output from the San Roque power plant or with energy purchased from the WESM. In the event of tripping or shutdown from either the Sual or Ilijan power plant, SMC Global Power can maximize the dispatch of its remaining units by lowering the bid prices so that the bilateral contract quantity requirements will be served without buying at high prices from the WESM.

SMC Global Power manages the generation capacity of each IPPA power plant centrally through its executive management team, who regularly reviews performance reports prepared by its onsite team and members of senior management. SMC Global Power leverages on the strengths of its world class IPP partners in operating its existing power portfolio by monitoring their adherence to international best practices.

SMC Global Power intends to continue working efficiently and profitably by building on synergies across its operations based on economies of scale as it increasingly works with a growing network of suppliers, IPPs, customers, other business partners and industry regulators, and continue to gain substantial leverage and bargaining power.

As one of the largest power companies in the Philippines with a diversified power portfolio, SMC Global Power believes that it can offer its customers a more stable supply of electricity, as well as the capacity to supply their additional electricity requirements. SMC Global Power has closed long-term contracts of five (5) years or more with majority of its offtakers. As the regime of open access matures, and with the construction of new capacities in strategic locations of Limay, Bataan and Malita, Davao, SMC Global Power is expected to secure and enhance its position as a leader in the power business by allowing it to diversify its customer base and expand its geographical reach to customers in the Visayas and Mindanao.

Grow its power portfolio through development and acquisition of power generation capacity

SMC Global Power intends to utilize its strong platform, extensive relationships and experienced management team to address the growing demand for power in the Philippines. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity by bidding for selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the growth in electricity demand, as well as the maturation of the regime of the RCOA and the full implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by investing in new technologies able to utilize cost-effective fuel sources, and strategically locating them nearer load centers.

SMC Global Power is considering the expansion of its power portfolio of new capacity nationwide through greenfield power projects over the next ten (10) years, depending on market demand. SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power plans to use clean coal technology and renewable technologies such as hydro for its planned and contemplated greenfield power projects.

Pursue vertical integration

SMC Global Power intends to continue to expand into businesses along the power sector value chain that complement its current power generation business. As part of this strategic growth and expansion, SMC Global Power has acquired coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao. Should the need arise, SMC Global Power may develop these mining assets to ensure fuel security for its coal power plants, and in turn its customers. Further, SMC Global Power has a 35.0% equity stake in Olongapo Electricity Distribution Company, Inc. ("OEDC"), as well as operating as the concessionaire for distribution system of APEC (formerly ALECO). Through these investments, SMC Global Power has developed an understanding of the electricity distribution market in the Philippines, particularly in the Luzon region. Moreover, with the implementation of the RCOA, SMC Global Power believes it is in a strong position to capitalize on the retail electricity selling opportunity due to its current strong industry position in both Luzon and the Philippines as a whole. SMC Global Power has obtained a retail electricity supplier license to expand its customer base and diversify its revenues. The electricity supplier license allows SMC Global Power to enter into offtake agreements with customers with power requirements of at least 1 MW, which may include other SMC subsidiaries. SMC Global Power believes that such vertical integration will provide it with a competitive advantage in the Philippine power market.

SMC Global Power receives income from the sale of electricity by its administered and owned power generation facilities to a variety of customers, including Meralco, electric cooperatives, industrial customers and the WESM. In 2014, SMC Global Power delivered an offtake volume of 17,001 giga-watt hours ("GWh") of electricity.

The table below summarizes certain operating metrics in respect of the three (3) power generation facilities owned or administered by SMC Global Power as of end 2014:

Project	Placed in service	Date SMC Global Power assumed operations	Operator	Installed capacity (MW)	Fuel	Energy Generation (GWh) ⁽¹⁾		Capacity Utilization (%)		Availability Factor (%)	
						2013	2014	2013	2014	2013	2014
Sual	10/25/1999	11/6/2009	TeaM Energy	2 x 500 ⁽¹⁾	Coal	6,427	6,536	73.27	74.62	88.47	89.51
Ilijan	6/5/ 2002	6/26/ 2010	KEPCO	2 x 600	Gas	8,147	8,576	77.50	81.58	94.05	97.61
San Roque	5/1/ 2003	1/26/2010	Marubeni-Kansai Electric	345	Hydro-electric	785	695	25.97	22.99	97.31	99.59
Limay Cogen	Phase 1 – 5/6/2013	– 5/19/2014	Petron Corporation	4x35 MW	Coal/ Petcoke	104 ⁽²⁾	537	67.95 ⁽²⁾	51.23	99.59 ⁽²⁾	86.52
Angat	Phase 2 – 5/19/2014										
	Main 1 & 2 – 1967	November 2014	Angat Hydro Power Corporation	218 MW	Hydro-electric	not applicable	50 ⁽³⁾	not applicable	17.54 ⁽³⁾	not applicable	62.26 ⁽³⁾
	Aux 1 & 2 – 1967										
	Main 3 & 4 – 1968	– 1978									
	Aux 3 – 1978										

Notes:

(1) Installed capacity is 2 x 647 MW but contracted capacity of the Sual Power Plant is 2 x 500 MW

(2) Covers the period September – December 2013 only

(3) Covers the period November – December 2014 only

The table below sets forth the gross profit margin, EBITDA margin and net income before tax margin of SMC Global Power for the periods indicated:

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Sales	74,656	74,044	84,294	19,959	19,757
Gross profit.....	18,811	22,090	28,807	7,002	7,893
Gross profit margin ⁽¹⁾	25.2%	29.8%	34.2%	35.1%	39.9%
EBITDA ⁽²⁾	24,981	27,684	32,929	7,648	7,625
EBITDA margin ⁽³⁾	33.4%	37.4%	39.1%	38.3%	38.2%
Net income before tax	15,648	3,206	13,323	2,260	3,852
Net income before tax margin ⁽⁴⁾	21.0%	4.3%	15.8%	11.3%	19.5%

Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as (a) net income plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case excluding amounts attributable to ring-fenced subsidiaries less (c) foreign exchange gain (loss), gain on sale of investment and aggregate fixed payments made to PSALM for the trailing 12 month period.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

In addition, SMC Global Power, through its subsidiaries, Daguma, Bonanza Energy, and Sultan Energy, owns various coal properties that it may develop as a hedge against international coal price fluctuations.

SMC Global Power, through its subsidiaries, derives a substantial portion of its revenues from PSCs with established offtakers. The DOE forecasted in its Power Development Plan, 2012-2030 that peak demand will grow at an average annual rate of 4.13%, 4.52% and 4.75% per year between 2012 and 2030 in Luzon, Visayas and Mindanao, respectively, with aggregate peak demand expected to reach 16,477 MW, 3,431 MW and 3,250 MW by 2030 in Luzon, Visayas and Mindanao, respectively. SMC Global Power expects these factors, and the scarcity of new capacity expected to come online over the next two (2) to three (3) years, to support dispatch for it as well as other existing generators.

The following table sets forth offtake arrangement pursuant to PSCs for the Sual, Ilijan, and Limay Co-generation Power Plants. PSCs are contracts pursuant to which IPPAs sell electricity to offtakers. The San Roque Power Plant is a peaking plant primarily serving the WESM or as back-up power for affiliates. The AHEPP is also a peaking plant and exclusively served the WESM for 2014.

Extent of Power Generation Facilities

Sual Power Plant

The Sual Power Plant is a 2 x 647 MW coal-fired thermal power plant located in Sual, Pangasinan on the Lingayen Gulf that commenced commercial operations in October 1999, and is the largest coal-fired thermal power plant in the Philippines in terms of installed capacity. The Sual Power Plant was built by CEPA Pangasinan Electric Limited pursuant to an ECA with NPC under a 25-year Build-Operate-Transfer (“BOT”) scheme that expires on October 24, 2024. In 2007, Team Sual Corporation, which is a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

SMC Global Power, through its subsidiary SMEC, assumed administration of the Sual Power Plant on November 6, 2009 in accordance with an IPPA agreement (the “Sual IPPA agreement”) entered into with PSALM. PSALM remains responsible under an ECA to remunerate the IPP of the Sual Power Plant for the electricity it produces.

Sual IPPA

PSALM, NPC and SMC Global Power entered into the Sual IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the Sual Power Plant, while SMC Global Power must supply and deliver, at its own cost, fuel required by the power plant and necessary for it to generate the electricity required to be produced under the ECA between NPC and Team Energy (the “Sual ECA”). In addition, SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. These fixed monthly payments are reduced

proportionately in any month that the Sual Power Plant is unable to produce power for an entire day (a “Non-Delivering Day”) (for reasons not attributable to SMC Global Power) and reduced further in proportion to the number of Non-Delivering Days in that month. In addition, SMC Global Power must pay monthly energy fees that are periodically adjusted for inflation and that consist of (i) a fixed base energy rate for power actually delivered by the Sual Power Plant comprising both a U.S. Dollar and Peso component plus (ii) a variable energy rate for power actually delivered by the Sual Power Plant, in U.S. Dollars only, that takes into account the cost and efficiency of fuel supplied to the Sual Power Plant as well as the efficiency (unit heat rate) of the Sual Power Plant, which is measured on an annual basis.

The Sual IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US\$58.0 million, and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the Sual Power Plant is unable to supply the contracted power.

Under the Sual IPPA agreement, SMEC has the right to acquire the Sual Power Plant in October 2024, which is the end of the cooperation period between NPC and Team Energy under the Sual ECA, or on some earlier date due to certain events such as changes in law or non-performance by Team Energy under the Sual ECA.

Power Offtakers

The PSCs of the Sual Power Plant have two (2) main types – Energy and Capacity. Energy contracts require its offtakers to take or pay for, within a contract year, a mutually agreed minimum energy quantity (“MEQ”). Such offtakers may exceed the MEQ, but any consumption in excess of the MEQ may be subject to additional charge.

Pricing is based on a reasonable return over the cost structure of SMEC and benchmarked to the basic rates of NPC, or on prevailing WESM prices. The components for pricing comprise a Basic Energy Rate (“BER”), also on a time-of-use basis, and a monthly Basic Energy Rate Adjustment (“BERA”) charge. The components for the BERA include adjustments for fuel, foreign exchange and inflation costs. Any changes to the level of the BER and/or the BERA are not affected by movements in the charges of NPC.

Capacity contracts require its offtakers to pay a monthly fixed capacity charge based on their contract capacity. This ensures recovery of all fixed costs along with the applicable margin. In addition to this, they pay variable energy charges based on their actual utilization of their contract capacity. Pricing is based on the fixed and variable costs of SMEC. Similar to BERA, components are adjusted based on movements in fuel, foreign exchange, and inflation costs.

Fuel Supply

SMEC entered into a coal supply agreement with KPC. This ensures coal supply from 2015–2024, subject to the extension of the Coal Contract of Work in 2021. Under the coal supply agreement, KPC is required to supply a total of 24 panamax shipments per annum, each comprising 65,000 metric tons. Pricing under the coal supply agreement is subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by KPC.

Operations and Maintenance

Under the Sual ECA, Team Energy is required, at its own cost, to be responsible for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant until the date of transfer (to NPC or to SMC Global Power, as the case may be), and shall use its best endeavors to ensure that during such period the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMC Global Power under the Sual IPPA Agreement, into electricity in a safe and reliable manner.

Ilijan Power Plant

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEPCO Ilijan Corporation pursuant to a 20-year ECA with NPC under a BOT scheme that expires on June 4, 2022. NPC supplies natural gas to the Ilijan Power Plant from the Malampaya field in Palawan. The Ilijan

Power Plant consists of two (2) blocks with a rated capacity of 600 MW each. The power plant can also run on diesel oil stored on site.

On April 16, 2010, SMC successfully bid for the appointment to be the IPPA for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, SMC and South Premiere Power Corp. ("SPPC"), a wholly-owned subsidiary of SMC Global Power, entered into an assignment agreement with assumption of obligations whereby SMC assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC, which assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with an IPPA agreement with PSALM ("Ilijan IPPA agreement").

Ilijan IPPA

PSALM, NPC and SMC Global Power (through SPPC) entered into the Ilijan IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the Ilijan Power Plant. SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. In addition, SMC Global Power must pay monthly generation payments comprising a "must pay" amount for electricity sold up to a given volume (the "Must Pay Volume") and a variable amount for electricity sold in excess of the Must Pay Volume. The "must pay" amount in a given month is the sum of: 80.0% of the statutory rate SMC Global Power charges Meralco for supplying electrical power under the offtake agreement between SMC Global Power and Meralco for the given month multiplied by a factor equal to the volume sold (the "T1 Volume"), where the T1 Volume cannot exceed the Must Pay Volume; and 80.0% of the price for the electrical power sold to WESM during the month, multiplied by a factor equal to the Must Pay Volume less the T1 Volume, where such factor may not be less than zero.

The variable amount of the monthly generation payment is payable for electricity sold in excess of the Must Pay Volume for that month and is calculated as a base rate plus an index based on the cost of natural gas, the U.S. Dollar/Peso exchange rate and the efficiency of the Ilijan Power Plant.

The Ilijan IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US\$60 million, and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the Ilijan Power Plant is unable to supply the contracted power.

Under the Ilijan IPPA agreement, SMC Global Power has the right to acquire the Ilijan Power Plant in June 2022, which is the end of the cooperation period between NPC and KEPCO Ilijan Corporation under the ECA with KEPCO Ilijan Corporation, or on some earlier date due to certain events such as changes in law or non-performance by KEPCO Ilijan Corporation under the ECA.

Power Offtakers

The Ilijan Power Plant PSCs generally require its offtakers to take or pay for, within a contract year, a mutually agreed MEQ, and such offtakers would be allowed to exceed up to 20.0% of its MEQ. Any power taken in excess 20.0% of the MEQ is subject to a premium on the base tariff rate imposed by SMC Global Power.

For PSCs assigned by NPC to SMC Global Power in respect of the Ilijan Power Plant, the pricing structure is similar to that provided under the PSCs assigned by NPC to SMC Global Power in respect of the Sual Power Plant. Likewise, pricing for PSCs entered into by SMC Global Power with new offtakers on a bilateral basis for the Ilijan Power Plant (or with those offtakers under previously assigned PSCs which have expired), is based on the BER and the BERA structure.

Fuel Supply

NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Under a fuel supply and management agreement with Shell Exploration B.V. and Occidental Philippines, Inc., NPC supplies natural gas to the Ilijan Power Plant through a 480 km undersea pipeline from the Camago-Malampaya field in Palawan to the Shell Refinery in Tabangao. From there, the natural gas is transported through a 16-in-diameter onshore pipeline running 15 km to the power plant.

Operations and Maintenance

KEPCO Ilijan Corporation currently owns and is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years effective from June 5, 2002. KEPCO Ilijan Corporation is majority owned by KEPCO, with its partners, Mitsubishi Corporation and Team Energy. KEPCO Ilijan Corporation is a stock corporation incorporated in the Philippines, in accordance with the Corporation Code and the Foreign Investment Act of 1991 (the "FIA").

Under the ECA for the Ilijan Power Plant, KEPCO Ilijan Corporation shall operate the Ilijan Power Plant in accordance with the operating criteria and guidelines provided therein, including output of 1,200 MW guaranteed net contracted capacity, base load operation, spinning reserve capability, a minimum stable load of not more than 30.0% of the unit rated generating capacity, and a ramp rate of not less than 5.0% of the rate unit generator capacity per minute.

San Roque Power Plant

The 345 MW San Roque multi-purpose hydroelectric power plant in San Manuel, Pangasinan commenced operations on May 1, 2003 and is a peaking plant that was constructed by a consortium composed of Marubeni Corporation, Sithe Philippines Holdings, Ltd., and Italian-Thai Development Public Company Limited pursuant to a PPA with NPC under a BOT scheme.

The San Roque Power Plant utilizes the Agno River for power generation and irrigation and contributes to flood control and water quality improvement for the surrounding region, and comprises three (3) power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 GWh from the 345 MW hydroelectric power plant, the irrigation of approximately 34,450 hectares of agricultural land, storage of water that would otherwise flood the Pangasinan plains, and improvement of water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, Statagic Power Dev. Corp. ("SPDC"), a wholly-owned subsidiary of SMC Global Power, successfully bid for the appointment to be the IPPA for the San Roque Power Plant and received a notice of award on December 28, 2009. SPDC assumed administration of the San Roque Power Plant on January 26, 2010 in accordance with an IPPA agreement with PSALM (the "San Roque IPPA agreement"). PSALM remains responsible under a PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

PSALM, NPC and SMC Global Power (through SPDC) entered into the San Roque IPPA agreement pursuant to which SMC Global Power has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, may be requested to obtain and maintain water rights necessary for the testing and operation of the power plant. SMC Global Power is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the PPA (the "San Roque PPA") of NPC with San Roque Power Corporation ("SRPC"). In addition, SMC Global Power must pay fixed monthly payments comprising both a U.S. Dollar and Peso component. These fixed monthly payments are reduced when there is a Non-Delivering Day for reasons not attributable to SMC Global Power. In addition, SMC Global Power has a Must Pay Volume of ₱1.30 per kWh.

The San Roque IPPA agreement also requires SMC Global Power to maintain a performance bond in favor of PSALM equivalent to US\$20 million and perform the obligations of NPC in its PSCs, including the obligation to procure electricity at its own cost to meet deficiencies, in cases where the San Roque Power Plant is unable to supply the contracted power.

Under the San Roque IPPA agreement, SMC Global Power has the right to acquire the San Roque Power Plant in May 2028, which is the end of the cooperation period between NPC and SRPC under the San Roque PPA, or on some earlier date due to certain events such as changes in law or non-performance by SRPC under the San Roque PPA.

Power Offtakers

Since the San Roque Power Plant is a peaking plant, all of its output is traded on the WESM and SPDC has no PSC with any party. Under the terms of the San Roque PPA, power and energy are delivered to SMC Global Power at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the San Roque Power Plant site. SMC Global Power is responsible for contracting with the National Grid Corporation of the Philippines (“NGCP”) to wheel power from the delivery point.

In addition to the WESM, San Roque provides necessary ancillary services to the grid to ensure supply stability. Further, San Roque uses its expertise as a hydro power generator to procure power from other hydro plants and supply affiliate, Albay Power and Energy Corp.

Water Rights

The generated output energy of the San Roque Power Plant is limited by the Irrigation Diversion Requirements set by the National Irrigation Administration. Water allocation is usually dictated by rule curve that is derived from historical data of river flows and water demands. A rule curve shows the minimum water level requirement in the reservoir at a specific time to meet the particular needs for which the reservoir is designed. The rule curve must generally be followed except during periods of extreme drought and when public interest requires. In general, the rule curve dictates the following:

- **Water Level Above The Upper Rule Curve** — All demands for water supply and irrigation are met and electricity can be generated at the full capacity of the turbine units. Excess inflow is discharged through the spillway. Water released through the spillway is controlled and regulated by the NPC Dam Office personnel.
- **Between Upper And Lower Rule Curves** — All demands for water supply and irrigation are satisfied. Generation of electricity is limited to the released water for water supply and irrigation. Further water releases for power generation are allowed provided that the auxiliary units are utilized first before main units.
- **Water Level Below Lower Rule Curve** — The remaining water in the reservoir is reserved for water supply and irrigation. Generation of electricity is limited to these water releases. No further water release for power generation is allowed.

In 2010, the water level in the San Roque Power Plant dam has consistently been below the rule curve. However, the National Irrigation Administration permitted the San Roque Power Plant to continue operations during this time due to downstream irrigation requirements caused by drought during the same period.

Generally, the output energy of San Roque Power Plant is high during planting seasons which covers the months of December through April (dry planting season) and July through September (wet planting season). The water releases from the dam, and thus, energy generation, during the dry planting season is much higher due to the absence of rain. The water rights of NPC are used by the San Roque Power Plant and NPC, until the date of transfer of the San Roque Power Plant to NPC (or SMC Global Power, as the case may be), must obtain such renewals or extensions as may be required to maintain the water rights in full force and effect at all times. NPC derives its water rights from a permit granted by the National Water Resources Board.

Operations and Maintenance

SRPC is responsible for the operations and maintenance of the San Roque Power Plant for 25 years effective May 1, 2003. SRPC is owned by Marubeni and Kansai-Electric and is a stock corporation incorporated in the Philippines, in accordance with the Corporation Code and the FIA.

Under the San Roque PPA, SRPC is responsible for the management, operation, maintenance and repair of the San Roque Power Plant at its own cost until transfer to NPC or SMC Global Power, as the case may be. As operator, SRPC is entitled to conduct the normal inspection, regular maintenance, repair and overhaul for a period of 15 days for each unit comprising the San Roque Power Plant. In addition, SRPC has the right to enter into contracts for the supply of materials and services, including contracts with NPC; appoint and remove consultants and professional advisers; purchase replacement equipment; appoint, organize and direct staff; manage and supervise the power plant; establish and maintain regular inspection, maintenance

and overhaul procedures; and otherwise run the power plant within the operating parameters set out in the PPA. The operating fee is the product of the contracted capacity for the contract year in kW, which is nominated annually, multiplied by ₱250 per kW per month. This fee is in addition to the capital recovery fee and covers the fixed operating and maintenance costs of the power structures and equipment.

Limay Co-generation Power Plant

The Limay Co-generation Plant is a 4 x 25 MW fuel-fired cogeneration power plant located in Barangay Lamao, Limay Bataan. Phase 1 (70 MW) of the Limay Co-generation Plant commenced commercial operations in May 6, 2013, while Phase 2 (70 MW) commenced commercial operations on May 19, 2014.

SMC Global Power, through its subsidiary SPI, acquired the Limay Co-generation Plant from Petron in September 2013. Petron remains responsible for the operation and maintenance of the Limay Co-generation Plant.

Petron has the right of first refusal in case of sale of the Limay Co-generation Plant.

Power Offtakers

The Limay Co-generation Plant has a net power contracted capacity of 140 MW and a steam generation capacity of 76 MW fully contracted to Petron under a 25-year PSA. The output of the Limay Co-generation Plant will supply the electricity and steam requirements of the Limay refinery of Petron including the increase in demand from the RMP-2

Fuel Supply

The Limay Co-generation Plant was designed to operate on coal and/or petcoke. Petron is expected to supply petcoke as byproduct of RMP-2 operations. Currently, the Limay Co-generation is intended to use 50.0% coal and 50.0% petcoke from RMP-2.

Operations and Maintenance

Petron also serves as the operations and maintenance contractor for the Limay Co-generation Plant under a 25-year operations and maintenance contract. Under this contract, Petron has the responsibility to operate and maintain the Limay Co-generation Plant at par with the industry standards.

Angat Hydroelectric Power Plant

AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan approximately 58 km northeast of Metro Manila. Pursuant to EPIRA, the AHEPP was privatized through an Asset Purchase Agreement between PSALM and K-Water. The latter assigned its rights in favor of Angat Hydropower Corporation ("AHC"), a joint venture between PVEI and K-Water, the former being a subsidiary of SMC Global Power.

The AHEPP has a total electricity generating capacity of 218 MW, comprising of four (4) main units of 50 MW capacity each and three (3) auxiliary units of 6 MW capacity each. The Main Units were commissioned in 1967 (Main Units 1 and 2) and 1968 (Main Units 3 and 4). The Auxiliary Units were commissioned in 1967 (Auxiliary Units 1 and 2) and 1978 (Auxiliary Unit 3). Auxiliary Unit 3 was manufactured by Allis-Chalmer and Ebara and all the other units were manufactured by Toshiba Corporation of Japan. All units are run by the Francis type turbines, which is the most commonly used model in hydroelectric power generation.

Fuel Supply & Water Rights

The AHEPP utilizes water resources of the Angat reservoir, which in turn was formed by the Angat dam. The Angat reservoir is 35 km long and 3 km wide at its widest points, and has surface of 2,300 hectares and viable storage volume of 850 million cubic meters. The water discharged by the project is used for two (2) purposes:

- Water discharged through Auxiliary Units and through the spillway flows to the Ipo reservoir, whose water resources are used to supply 97.0% of the residential drinking water of Metro Manila.

- Water discharged through Main Units flows downstream to the Bustos reservoir, whose water resources are utilized for irrigation purposes.

Water rights surrounding the Project are co-owned and governed by the following government-owned entities, pursuant to the Water Code of the Philippines, Angat Reservoir Operation Rules issued and regulated by National Water Resources Board (“NWRB”) as implemented by a Memorandum of Agreement on the Angat Water Protocol between Metropolitan Waterworks and Sewerage System (“MWSS”), National Irrigation Administration (“NIA”), AHC, PSALM, NPC and NWRB:

- MWSS, for domestic water supply to Metro Manila;
- Provincial Government of Bulacan, for water supply in the Bulacan Province;
- NIA, for irrigation diversion requirements.
- NPC, for power generation

Power Offtakers

AHC sells 100.0% of its generated capacity to the WESM at the prevalent spot price. The main units are being operated as peaking units. The strategy for the Main Units is to allocate daily water release at the peak hours. Auxiliary Units are being operated as base load units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discrete optionality to choose the hour of allocation.

AHC is exploring options to contract the capacity of its Auxiliary Units come 2015.

Operations & Maintenance

AHC will undertake the operation and maintenance of the project in-house. The O&M team consists of the incumbent local technical team who are operating the AHEPP for decades, supported by technical experts seconded from K-Water. AHC will enter into technical services agreements with each of K-Water and PVEI to ensure that the appropriate level of technical and management support will be provided to support operation and maintenance requirements of AHC.

Related Coal Investments

SMC Global Power has invested in certain coal mining assets in the Philippines. Such assets are in a preliminary stage of exploration and no results as to their actual viabilities are available as of the date of this Prospectus. The mines of SMC Global Power are not expected to provide fuel for any of its power plants since the Sual Power Plant runs on high-performance coal, and high-performance coal is not found naturally in the Philippines.

Investments in the Distribution Sector

SMC Global Power entered into a joint venture with Cagayan Electric Power & Light Co., Inc. (“CEPALCO”) for the ownership and operation of the franchise area of the Public Utilities Department (“PUD”) of Olongapo City through OEDC. SMC Global Power has a 35.0% stake in this project. OEDC formally took over operations of the PUD on June 24, 2013.

SMC Global Power, through subsidiary APEC, is also the concessionaire of the electricity distribution franchise of ALECO. On February 26, 2014, APEC formally took over the operations of ALECO in line with its 25-year concession agreement.

Competition

SMC Global Power is the largest independent power producer administrator in the country, with a 16.5% share of the power supply of the national grid, and a 22.3% market share of the Luzon grid as of April 2015. Its main competitors are the Lopez Group and the Aboitiz Group. The Lopez Group holds significant interests in First Gen Corporation and Energy Development Corporation, while the Aboitiz Group holds interests in Aboitiz Power Corporation and Hedcor, Inc, among others.

With the Philippine government committed to privatizing the majority of PSALM-owned power generation facilities and the establishment of WESM, the generation facilities of SMC Global Power will face competition from other power generation plants that supply the grid during the privatization phase. Multi-nationals that currently operate in the Philippines and could potentially compete against SMC Global Power in the privatization process include KEPCO, Marubeni, Tokyo Electric Power Corporation, AES Corporation and Sumitomo, among others. Several of these competitors have greater financial resources, and have more extensive operational experience and other capabilities than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. SMC Global Power will also face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall of the energy supply in the Philippines have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

The implementation of several EPIRA policies, namely creating the regime of Open Access and Retail Competition, expands the market a generator or power supplier can tap while promoting competition. The law allows for the creation of Retail Electricity Supplier ("RES"), who are to compete for the large industrial users of 1 MW and above or those certified as contestable by the ERC. SMC Global Power is a holder of an RES License through its subsidiary, San Miguel Electric Corp. ("SMELC"). The intent of this regime is to remove the supply sourcing monopoly of the franchised Distribution Utility/Electric Cooperative. As this regime matures, a competitive generation supply market is expected in the country.

Safety, Health and Environmental Regulation and Initiatives

Power generation operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the Philippine Clean Air Act of 1999 ("Clean Air Act"), The Philippine Clean Water Act of 2004 (the "Clean Water Act"), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990, and Occupational Safety and Health Standard of 1989 of the Department of Labor and Employment, as amended. Such legislation addresses, among other things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste. It also regulates workplace conditions within power plants and employee exposure to hazardous substances. The Occupational Safety and Health Standard, meanwhile, was formulated to safeguard the social and economic well-being as well as their physical safety and health of the employees.

The management of SMC Global Power believes that the IPPs for each of the IPPA power plants comply in all material respects with all applicable safety, health and environmental laws and regulations.

Insurance

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the IPPA power plants are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for the power plants of SMC Global Power, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC retains responsibility for insuring.

Infrastructure Business

SMC has made investments in the infrastructure industry in the Philippines, through its wholly-owned subsidiary, SMHC, consisting of concessions for toll roads, an airport and a mass rail transit system. Certain details of these investments are set forth in the table below:

Concession	% SMC Effective Ownership Interest	Expected Project Cost (in millions)		Concession Length
TPLEX Tollway.....	45.00% ⁽¹⁾	₱27,946	US\$ 625 ⁽⁸⁾	35 years
Boracay Airport.....	99.77% ⁽²⁾	₱7,900	US\$ 176 ⁽⁸⁾	25 years
MRT-7.....	51.00% ⁽³⁾	₱68,100	US\$1,540 ⁽⁹⁾	25 years
SLEX Toll Road (TR) 1, 2, & 3.....	76.00% ⁽⁴⁾	N/A	-	25 years
SLEX TR4.....	76.00% ⁽⁴⁾	₱14,500 ⁽⁴⁾	US\$ 324 ⁽⁸⁾	25 years
Skyway Stage 1 & 2.....	83.45% ⁽⁵⁾	N/A	-	25 years
Skyway Stage 3.....	76.00% ⁽⁶⁾	₱ 44,300	US\$ 991 ⁽⁸⁾	30 years
NAIA Expressway.....	100.00% ⁽⁶⁾	₱ 23,800	US\$ 532 ⁽⁸⁾	30 years
Star Tollway	53.32% ⁽⁷⁾	None	-	30 years

Notes:

- (1) Ownership through PIDC, through RTI through SMHC equity interest.
- (2) Ownership through TADHC, through SMHC equity interest.
- (3) Ownership through Universal LRT through SMHC equity interest.
- (4) Ownership through SMHC equity interest: 95.0% SMHC to AAIBV, 100.0% AAIBV to MTDME and 80.0% MTDME to SLTC. All major capex have been completed prior to equity acquisition.
- (5) Ownership through SMHC equity interest: 95.0% SMHC to AAIBV, 100% AAIBV to AAIPC and 87.84% AAIPC to CMMTC. All major capex have been completed prior to equity acquisition.
- (6) Ownership through SMHC equity interest: 95.0% SMHC to AAIBV, 100% AAIBV to S3HC and 80% S3HC to CCEC.
- (7) Ownership through SMHC equity interest: 58.31% SMHC to Sleep Coop, 40.0% Sleep Coop to CTCII, 100.0% CTCII to SIDC and 50.0% SMHC to Wiselink, 60.0% Wiselink to CTCII and 100.0% CTCII to SIDC.
- (8) Conversion rate used – US\$ 44.700 / PHP as of March 31, 2015.
- (9) Based on conversion rate used by the National Economic Development Authority of the Philippines.

Philippine Infrastructure Industry

Under the current administration, the Philippine government has accelerated the implementation of a number of key infrastructure projects. It has created the Public-Private Partnership (“PPP”) Center as it recognizes the essential role of the private sector as the main engine for national growth and development. In accordance with this initiative, pertinent incentives will be provided to stimulate private resources for the purpose of financing the construction, operation and maintenance of infrastructure and development projects normally undertaken by the Philippine government.

Private sector investors will be selected through open competition under the fair and transparent terms outlined by the BOT Law (Republic Act No. 6957 as amended by Republic Act No. 7718). All interested investors will be given a level playing field with reasonable returns and appropriate sharing of risks without compromising the protection of public interests. Through this program, end users will be provided with adequate, safe, efficient, reliable, and reasonably-priced infrastructure services.

Currently, the list of infrastructure projects under the PPP includes the following:

- Bulacan Bulk Water Supply Project
- New Centennial Water Source-Kaliwa Dam Project
- Laguna Lakeshore Expressway Dike Project
- Manila Light Rail Transit Line 2 Operations & Maintenance
- Airports Development and Operations & Maintenance – Package 1 (Bacolod / Iloilo) & Package 2 (Panglao / Laguindingan / Davao)
- Regional Prison Facilities
- Davao Sasa Port Modernization Project

- Ninoy Aquino International Airport Development Project
- Clark International Airport Project
- Manila Bay Integrated Flood Control, Coastal Defense and Expressway Project (unsolicited proposal)

Strengths

Project portfolio vital to the growth of the Philippine economy

SMHC has ownership in various companies which hold concession rights in infrastructure projects which are vital to the development and growth of the Philippine economy. These include operating tollways, such as the SLEX TR 1, 2 & 3, Skyway Stages 1 & 2 and STAR, serving as the main thoroughfare for motorists between Metro Manila and the Cavite, Laguna, Batangas, Rizal and Quezon ("CALABARZON") areas. Given improved access to and from the region, Southern Luzon has seen tremendous economic development these past few years, registering an average of gross regional domestic product growth rate of about 6.0% to 7.0% from 2012 to 2014, based on National Statistics and Coordination Board data. As a result, CALABARZON now accounts for about 17.0% of the total gross domestic product of the country, second only to the NCR.

SMHC has also benefited from this economic growth as evidenced in the increasing traffic volume during the said period as set forth in the table below.

	As of and for the years ended December 31,				CAGR (2012 –2014)
	2012	2013	2014	First Quarter 2015	
	Annual Average Daily Traffic ("AADT")				(%)
SLEX TR 1, 2 & 3.....	217,301	231,234	247,124	266,769	6.6%
Skyway Stages 1 & 2	204,215	218,553	228,079	239,584	5.7%
STAR.....	27,560	29,724	33,436	39,152	10.1%

SMHC also has ongoing projects such as TPLEX, SLEX TR4, Skyway Stage 3, NAIAX and the Boracay Airport, which are also projected to further support the growth in areas they will serve.

Highly experienced technical team

The infrastructure business is composed of a highly experienced and qualified technical team, with an extensive knowledge in the Philippine infrastructure industry. In addition, the technical team has gained further expertise in the regulatory, business development and financial aspect of the infrastructure business in the course of construction and operations of various infrastructure projects. Strong professional relationships have also been developed with key industry participants, such as DOTC, DPWH, Civil Aviation Authority of the Philippines ("CAAP"), Philippine National Construction Company ("PNCC") and TRB as well as reputable construction contractors such as D.M. Consunji, Inc., EEI Corporation and Matière S.A.S.

Strong principal shareholder

With SMC as one of the largest and most diversified conglomerates in the Philippines, the infrastructure business believes that it can increase its leverage and bargaining ability that is vital to the implementation and completion of its projects. SMC has continuously provided the necessary financial support to the infrastructure business whose projects are capital-intensive.

Under the stewardship of SMC, the infrastructure business was able to become one of the major players in the industry in a relatively short period of time. SMHC believes it will continue to benefit from the extensive business networks of SMC, its in-depth understanding of the Philippine economy and expertise of its senior managers to identify and capitalize on growth opportunities.

Business Strategies

Focusing on the improvement of infrastructure in the Philippines

SMHC believes there are significant opportunities in building and participating in infrastructure projects in the country that has historically under invested in infrastructure. These infrastructure projects will support the continued growth of the Philippine economy. Thus, SMHC believes its long-term concessions will provide strong and stable cash flows.

Potential to extract synergies across businesses

Areas and projects being developed by the infrastructure business present opportunities for the other businesses of SMC. For example, the TPLEX, Boracay Airport, MRT-7 and other road projects are expected to complement and present opportunities for fuel and oil, energy, and telecommunications businesses of SMC, as well as further expand the distribution network for food and beverages business of SMC.

Selected financial highlights for the infrastructure business is provided below for the periods indicated:

	As of and for the years ended December 31,			As of and for the three months ended March 31,	
	2012	2013	2014	2014	2015
	(₱ in millions, except percentages)				
Revenue.....	134	6,473	9,657	1,877	2,887
Gross profit.....	29	4,670	383	68	970
Gross profit margin ⁽¹⁾	21.6%	72.0%	4.0%	3.6%	33.6%
EBITDA ⁽²⁾	184	3,784	1,344	1,518	1,027
EBITDA margin ⁽³⁾	137.3%	58.0%	13.9%	80.1%	35.6%
Net income before tax.....	(47)	1,124	575	263	194
Net income before tax margin ⁽⁴⁾	(35.1%)	17.0%	6.0%	14.0%	6.7%

Notes:

- (1) Gross profit margin is calculated by sales less cost of sales divided by sales.
- (2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains) and depreciation and amortization and impairment losses.
- (3) EBITDA margin is calculated by EBITDA divided by sales.
- (4) Net income before tax margin is calculated by net income before income tax divided by sales.

Toll road concessions

Presidential Decree No. 1112 was signed authorizing the establishment of toll facilities on public improvements, creating a board for the regulation thereof and for other purposes. It is in the same decree that states that the resources of the private sector can be tapped to provide certain infrastructure services to the general public and in return would have the right to collect toll fees in order to get a reasonable rate of return. The TRB (under the DOTC) was established to be the governing authority of all tolled infrastructure facilities in the Philippines. It is also empowered to enter into contracts, determine public improvements that can be operated as tolls, monitor operations and maintenance of tolled facilities, and approve tariff or toll rates for public infrastructure projects.

Currently, there are seven (7) operational toll road facilities in the country recognized by the TRB, which are the TPLEX, Skyway Stages 1 and 2, SLEX, STAR, Subic-Clark-Tarlac Expressway ("SCTEX"), North Luzon Expressway ("NLEX") and CAVITEX. Out of the seven (7) operating toll facilities in the country, four (4) are owned and controlled by SMHC namely, TPLEX, Skyway Stages 1 and 2, SLEX and STAR. Several projects are still under construction while some are still in the design and planning stage. SMC has rights to about 52.7% of the total road length of awarded toll road projects in the country.

TOLL ROAD PROJECT	Length (km)	Status
San Miguel Corporation (SMC)		
Tarlac Pangasinan La Union Expressway (TPLEX)	88.85	Section 1 & 2 Operational. Section 3 On going
Skyway (Stage 1 and 2)	29.59	Operational
South Luzon Expressway (SLEX TR1-TR3)	36.12	Operational
Southern Tagalog Arterial Road (STAR)	41.85	Operational
NAIA Expressway	5.40	Ongoing construction
Skyway Stage 3 (NLEX-SLEX Link SMC)	14.82	Ongoing construction
SLEX TR4	57.59	Detailed Design Stage
TOTAL SMC.....	274.22	52.7%
Others		
Subic Clark Tarlac Expressway (SCTEX)	93.77	Operational
Noth Luzon Expressway (NLEX)	89.12	Operational
CAVITEX	13.75	Operational
Cavite Laguna Expressway (CALAX)	45.35	To be awarded by DPWH to MPIC
Daang-Hari SLEX Expressway	4.00	Ongoing construction
TOTAL Others.....	245.99	47.3%
GRAND TOTAL.....	520.64	100.0%

TPLEX

In August 2009, SMC made its first infrastructure investment by acquiring a 35.0% (currently 45.0%) stake in PIDC. PIDC holds the 35-year BTO concession for TPLEX. The TPLEX is an 88.85 km toll expressway that connects the northern part of Luzon to Manila. The TPLEX is expected to be integrated with other major expressways (including the NLEX and SCTEX) to expand the road/expressway network in and around Metro Manila by 325 km.

Project cost for the development of TPLEX is estimated at ₱27.9 billion, which is funded by a combination of debt, equity and Philippine government subsidy which will be available at the start of construction of Section 3 of TPLEX.

Construction commenced in October 2010. Section 1 (from Tarlac to Carmen) was completed in April 2014. Section 2 (from Carmen to Urdaneta) was completed December 2014 while the remainder of the expressway from Urdaneta to Rosario is projected to be completed by end 2015. In 2014, the AADT of TPLEX is around 8,500 vehicles. By March 2015, AADT increased by about 37.0% to 11,671 vehicles.

SLEX

SLTC is the concessionaire of the SLEX which currently spans 36.1 km from Alabang, Muntinlupa to Sto. Tomas, Batangas. SLEX is composed of four (4) toll road segments, namely TR1, TR2, TR3 and TR4 which are intended to operate as an integrated expressway. Currently operational are TR1, TR2 and TR3. These were classified into four (4) segments to clearly define the scope of work (including rehabilitation and/or construction works) for each.

TR1 involved the rehabilitation and upgrade of the Alabang viaduct which included the widening of the at-grade portion of the roads, retrofitting of the existing structure, and the replacement and expansion of the elevated portion from six (6) to eight (8) lanes. TR2 involved the widening of the SLEX segment between Filinvest exit and Sta. Rosa, Laguna from four (4) to eight (8) lanes and segment between Sta. Rosa, Laguna to Calamba, Laguna from four (4) to six (6) lanes. TR3 involved the construction of a 4-lane roadway from Calamba, Laguna to Sto. Tomas Batangas. The construction of this section connected Metro Manila, SLEX, and STAR. In 2014, SLEX had an AADT of around 247,124 vehicles. As of March 2015, SLEX registered a strong 9.0% growth in vehicular traffic which is roughly 266,769 per day.

In December 2014, SLTC submitted to the TRB for approval the Detailed Engineering Design of Sections A, B and C of TR4 (from Sto. Tomas, Batangas to Lucena City in Quezon). TR4 is expected to start in 2015 which involves a 57.59 km, four (4) lane road that will start from Sto. Tomas, Batangas to Lucena City, in Quezon. This will shorten the travel time to about an hour from the current four (4) hours. It is divided into five (5) sections: Sto. Tomas to Makban in Laguna (10.58 km); Makban to San Pablo City (12.2 km); San Pablo to Tiaong, Quezon (8.1 km); Tiaong to Candelaria, Quezon (14.4 km); Candelaria to Lucena City

(12.31 km). It will include seven (7) interchanges in Sto. Tomas, Makban, San Pablo City, Tiaong, Candelaria, Sariaya and Lucena City. The whole project is estimated to cost around ₱14.5 billion and is set to be finished by year 2019.

Skyway System

Skyway Stage 1 and 2

The Republic of Indonesia was invited by the Philippine government to assist in the realization of the infrastructure development of the Philippines in 1994 thru an Indonesian company. As a result of this initiative, a Memorandum of Agreement ("MOA") was signed in Jakarta in 1993 between P.T. Citra Lamtoro Gung Persada ("Citra") and PNCC in the presence of former President Fidel V. Ramos. In 1995, a Business and Joint Venture Agreement ("BJVA") was signed by the said parties to undertake the construction of the Metro Manila Skyway ("MMS") and Metro Manila Expressway ("MME").

On November 27, 1995, CMMTC was incorporated as a stock corporation under the laws of the Republic of the Philippines, as a joint venture between Citra and PNCC, with the primary purpose to finance, design and construct (under a BOT scheme with the Philippine government) the Skyway Stage 1 and 2 project.

Skyway Stage 1 consists of the construction of a 9.30 km elevated road from Bicutan, Parañaque City to the Buendia, Makati City as well as the rehabilitation of the 13.43 km at-grade road from Alabang, Muntinlupa to Magallanes, Makati City. Skyway Stage 1 was first opened to traffic in 1999, with an AADT of 160,000 vehicles, broken down into 25,000 and 135,000 of vehicles on the elevated highway and at-grade road, respectively. Skyway Stage 2 consists of a 6.86 km elevated toll road from Bicutan, Parañaque City to Alabang, Muntinlupa, to be integrated with Skyway Stage 1 and operated as one (1) sub-system of the MMS.

Originally scheduled for completion in April 2011, Phase 1 of Skyway Stage 2 was completed on November 2010 and opened to the public in December the same year. Phase 2 of Skyway Stage 2 was completed on March 2011. In 2014, the AADT of Skyway Stages 1 and 2 is at 228,079 vehicles. As of March 2015, the AADT for Skyway Stage 1 and 2 increased to about 239,584 vehicles, representing a 5.0% increase compared to the AADT last year.

In December 31, 2014, AAIPC, a 95.0% owned subsidiary of SMC, has an ownership interest of 87.84% in CMMTC.

Skyway Stage 3

Skyway Stage 3 is a 14.82 km elevated roadway from Buendia, Makati City to Balintawak, Quezon City. Skyway Stage 3 is a priority infrastructure project of the government meant to decongest major thoroughfares within Metro Manila and stimulate growth of trade and industry in Southern, Central and Northern Luzon. The project covers a concession period of 30 years (from start of operations), and is estimated to cost a total of ₱44.3 billion.

On November 16, 2012, CCEC was incorporated as a stock corporation under the laws of the Republic of the Philippines with the primary purpose to finance, design and construct (under a BOT scheme with the Philippine government) the Skyway Stage 3 project. Subsequently, the Supplemental Toll Operation Agreement ("STOA") covering the Skyway Stage 3 project was signed on September 26, 2013 among TRB, PNCC, and CCEC.

In December 31, 2014, S3HC, a 95.0% owned subsidiary of SMC, has an ownership interest of 80.0% in CCEC.

STAR Tollway

In 2013, SMHC acquired equity interest in SIDC which holds the concession over the STAR Tollway, through its 58.31% membership interest in Sleep Coop and 50.0% shares in Wiselink. Sleep Coop and Wiselink owns 40.0% and 60.0% of CTCII, respectively which owns 100.0% of SIDC.

STAR Tollway is composed of two (2) stages - Stage 1 which involves the operation and maintenance of the 22.16 km toll road from Sto. Tomas, Batangas to Lipa City, Batangas and Stage 2 which involves the financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City,

Batangas to Batangas City, Batangas. The entire system has an AADT of 33,436 vehicles in 2014. As of March 2015, the AADT in STAR Tollway is 39,152, representing a 17.0% increase compared to 2014 AADT levels.

With the acquisition of Sleep Coop and Wiselink, SMHC effectively owns 53.32% of CTCII. As such, CTCII became a majority-owned subsidiary and is controlled by SMHC effective June 28, 2013.

NAIAx

Vertex, a wholly-owned subsidiary of SMHC, was incorporated on May 31, 2013 for the purpose of holding the 30-year concession rights (including a 2-year construction period) for the NAIAx project.

The ₱23.8 Billion NAIAx is the third (3rd) PPP project awarded under the administration of President Benigno Aquino III. It was awarded by the DPWH through a competitive bidding process to Optimal Infrastructure Development, Inc. ("Optimal") in 2013. Eventually, Optimal nominated Vertex as the concessionaire of the said project. The concession agreement between DPWH and Vertex was finalized and signed on July 8, 2013.

The project covers the financing, design, construction, operation and maintenance of a new tollway system, approximately 5.4 km in length, serving as interface to the Skyway Stage 1 and 2 and CAVITEX. Once operational, the NAIAx is expected to (i) significantly reduce travel time from Skyway Stage 1 and 2 to Roxas Boulevard; (ii) provide easy access to airports in Metro Manila, linking them to Skyway Stages 1 and 2 and the CAVITEX; (iii) boost tourism by providing access to and from Entertainment City, paving the way for further developments within the PAGCOR Entertainment City; and (iv) be the first expressway system in the Philippines to eventually utilize a barrier-less toll collection system with an Automatic License Plate Recognition feature in its software.

Airport concession

Boracay Airport

In April 2010, SMHC acquired a 93.0% stake in Caticlan International Airport Development Corp. (subsequently renamed TADHC). TADHC holds a 25-year BROT granted by the ROP, through the DOTC, to develop and operate Boracay Airport which shall end by 2038. The remaining 7.0% interest is held by Akean Resorts Corporation, a non-affiliated entity. As of December 31, 2014, SMHC owns 99.77% of TADHC.

Boracay airport is the principal gateway to the Boracay Island, a popular resort for passengers traveling from Manila. Due to a short runway, the airport is only able to accommodate turbo propeller airplanes. The airport has experienced rapid growth in passenger volumes in the last decade, growing on average 23.3% a year from 1991. In 2014, approximately 300,000 tourists passed through Boracay Airport.

The planned expansion of the airport is expected to be completed in a number of stages and involves the following:

- Upgrade and extension of the runway, from original scale of 950 meters long and 30 meters wide, to 2,600 meters long and 60 meters wide to accommodate larger international and domestic aircraft;
- Upgrade of the Boracay Airport and its facilities to comply with International Civil Aviation Organization standards and the Manual of Standards for Aerodromes of the CAAP;
- Removal of obstruction along Eastern Approach to enhance operational safety and further shaving of the hill for the construction of runway extension and terminal facilities;
- Replacement of the old 550 square meter terminal with a new world class passenger and cargo terminal and to commence construction of new terminal in 2015;
- Improvement of road networks around Boracay Airport and its facilities; and
- Upgrade of air navigational systems.

Mass rail transit concession

MRT-7

In October 2010, SMC acquired a 51.0% stake in Universal LRT, which holds the 25-year concession for the MRT-7 project, a planned expansion of the Metro Manila mass transit rail system, home to over ten (10) million inhabitants. MRT-7 is a BGTO project for the development, financing, operation and maintenance of a 22 km light rail transit that will be linked with the existing MRT-3 Line at SM North EDSA, Quezon City. The construction period for the project is about 42 months. The rail component of the MRT-7 is envisioned to have 14 stations plus a depot and will operate 108 rail cars in a three-car train configuration, with capacity of 448,000 to as many as 850,000 passengers daily. The project also includes an Intermodal Transport Terminal that can accommodate up to 60 buses and other public utility vehicles, and a 22-km six-lane access road connecting the Intermodal Transport Terminal to the Bocaue exit of NLEX.

Other Operations and Investments

Telecom

SMC has made investments in the Philippine telecommunications sector through acquisitions of stakes in Liberty Telecom, BellTel and Eastern Telecom.

Liberty Telecom

As of December 31, 2012, SMC owned 41.48% of Liberty Telecom, in partnership with G.S.P.C. Qtel Westbay Holding (26.75%), Wi-Tribe Asia Limited (5.90%) and White Dawn Solutions Holdings, Inc. (18.36%), with the remaining shares owned by the public. Vega increased its ownership from 41.48% to 45.05% in April 2014 and to 45.58% in December 2014.

Liberty Telecom is a telecommunications carrier offering services including nationwide telephone service, data communications, inter-exchange carrier services and international voice and data connectivity services.

BellTel

SMC acquired 100.0% of BellTel in 2010, a full-service telecommunications company which is licensed to provide a range of services throughout the Philippines. The telecommunication license of BellTel authorizes it to provide data services throughout the Philippine archipelago and telephony to all central business districts and special economic zones. BellTel was one of the first companies to deploy point-to-multipoint fixed wireless access technologies delivering multiple product offerings. BellTel has also entered into strategic alliances with operators of underutilized telecommunications infrastructures, such as hybrid fiber-coaxial and fiber optic networks, giving it several cost-effective last mile options for rapid service deployment. In addition, BellTel holds licenses in the 1.7, 3.5 and 24 GHz spectra, which enable it to provide a wide array of wireless broadband products and services.

Eastern Telecom

In 2011, SMC, through Vega, acquired 100.0% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40.0% of Eastern Telecom. On October 20, 2011, SMC through its wholly owned subsidiary, SMESI, acquired an additional 37.7% of the outstanding and issued shares of stock of Eastern Telecom, bringing its total indirect equity interests in Eastern Telecom to 77.7% as of December 31, 2014. Eastern Telecom is a provider of voice, data and internet services to the corporate, government and business process outsourcing market.

Banking

SMC through SMPI made a series of acquisitions of BOC shares in 2007 and 2008 and has a current ownership of 39.9%. BOC is a commercial bank licensed to engage in banking operations in the Philippines.

Description of Property

The general asset description and locations of the various plants and farms owned and leased by the SMC Group are included as Appendix “C” of this Prospectus.

The properties included in Appendix “C” of this Prospectus that are owned by the SMC Group are free of liens and encumbrances.

The properties in Appendix “C” of this Prospectus are in good condition, ordinary wear and tear excepted.

The SMC Group is continuously evaluating available properties for sale which cost or details cannot be determined at this time.

Legal Proceedings

Neither SMC nor any of its subsidiaries is a party to nor its properties subject of, any material pending legal proceeding that could be expected to have a material adverse effect on the issuance of the Offer Shares and on the results of the financials and the operations of SMC. SMC has initiated the appropriate actions to contest an assessment imposed by the SEC – Corporation Finance Department of a substantial fine in connection with the filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) under the Securities Regulation Code of the Philippines (“SRC”). For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to notes 25 and 44 of the audited financial statements of the Company for the period ended December 31, 2014.

Ownership and Capitalization

Share Capital

As of July 31, 2015, the Company had a total of 3,283,263,548 common shares issued, of which 2,378,511,011 are outstanding common shares; 279,406,667 issued and outstanding Series “1” Preferred Shares ; and 1,067,000,000 issued and outstanding Series “2” Preferred Shares.

Following the Offer, the Company will have a total of 3,283,263,548 common shares issued, of which 2,378,511,011 are outstanding common shares; 279,406,667 issued and outstanding Series “1” Preferred Shares and 1,067,000,000 issued and outstanding Series “2” Preferred Shares.

Top 20 Shareholders (as of July 31, 2015)

Rank	Name of Stockholders	Common	Series “1” Preferred Shares	Series “2-A” Preferred Shares	Series “2-B” Preferred Shares	Series “2-C” Preferred Shares	Total No. of Shares	Percentage of outstanding
1	TOP FRONTIER INVESTMENT HOLDINGS, INC.	1,573,100,340	0	0	0	0	1,573,100,340	42.231657%
2	PCD NOMINEE CORPORATION	48,984,405	0	647,411,795	56,194,030	229,897,407	982,487,637	26.375.991%
3	PRIVADO HOLDINGS CORP.	368,140,516	0	0	0	0	368,140,516	9.883148%
4	PCD NOMINEE CORPORATION (FILIPINO)	143,955,301	0	0	0	0	143,955,301	3.864643%
5	METROPLEX HOLDINGS CORPORATION	0	106,174,534	650,000	0	0	106,824,534	2.867825%
6	LUCENA HOLDINGS CORPORATION	0	89,410,133	450,000	0	0	89,860,133	2.412397%
7	GINGOOG HOLDINGS CORPORATION	1,830,082	83,822,000	1,000,000	0	0	86,652,082	2.326273%
8	PCD NOMINEE CORPORATION (NON-FILIPINO)	62,206,350	0	3,690,565	93,500	734,393	66,724,808	1.791303%
9	CHINA BANKING CORPORATION	0	0	44,444,400	0	0	44,444,400	1.193160%
10	PCGG IN TRUST FOR THE COMPREHENSIVE AGRARIAN REFORM PROGRAM	27,636,339	0	0	0	0	27,636,339	0.741929%
11	SAN MIGUEL CORPORATION RETIREMENT PLAN	15,001	0	0	26,435,700	0	26,450,701	0.710099%
12	G & E SHAREHOLDINGS INC.	0	0	0	0	15,000,000	15,000,000	0.402692%
13	GSIS PROVIDENT FUND	0	0	0	1,300,000	2,666,700	3,966,700	0.106491%
14	SYSMART CORPORATION	3,457,000	0	0	0	0	3,457,000	0.092807%
15	PETRON CORPORATION EMPLOYEES RETIREMENT PLAN	0	0	0	2,000,000	0	2,000,000	0.053692%
16	PETRON CORPORATION EMPLOYEES RETIREMENT PLAN	0	0	2,000,000	0	0	2,000,000	0.053692%
17	EVERETT STEAMSHIP	1,903,330	0	0	0	0	1,903,330	0.051097%

Rank	Name of Stockholders	Common	Series "1" Preferred Shares	Series "2-A" Preferred Shares	Series "2-B" Preferred Shares	Series "2-C" Preferred Shares	Total No. of Shares	Percentage of outstanding
18	CORPORATION EDUARDO M. COJUANGCO JR.	1,718,679	0	0	0	0	1,718,679	0.046140%
19	SAN MIGUEL CORP. RETIREMENT PLAN FIP	0	0	590,000	994,800	0	1,584,800	0.042546%
20	PAC RIM REALTY & DEVELOPMENT CORP.	912,050	0	667,000	0	0	1,579,050	0.042391%
	TOTAL	2,233,859,393	279,406,667	700,903,760	87,018,030	248,298,500	3,549,486,350	95.289973%
	OTHER STOCKHOLDERS	144,665,585	0	20,108,640	3,410,170	7,260,900	175,445,295	4.710027%
	TOTAL	2,378,524,978	279,406,667	721,406,,667	90,428,200	255,559,400	3,724,931,645	100.00000%

Market Price of and Dividends on the Common Equity of SMC and Related Shareholder Matters

Market Information

The common equity of SMC is listed on the PSE. The high and low sales prices for each period are indicated in the table below.

The common and Series “1” preferred equity of SMC are traded on the PSE. The high and low closing prices for each quarter of the last three (3) fiscal years and for the first quarter of 2015 are as follows.

<u>2012</u>										
	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-A”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>	
	High	Low	High	Low	High	Low	High	Low	High	Low
1 st	123.00	110.00	80.00	76.60	N/A	N/A	N/A	N/A	N/A	N/A
2 nd	117.00	111.00	79.10	74.50	N/A	N/A	N/A	N/A	N/A	N/A
3 rd	115.00	110.00	78.10	73.00	75.10	74.90	80.00	74.50	76.00	75.00
4 th	111.00	100.00	75.50	75.50	75.20	74.50	81.50	74.00	77.90	74.50

<u>2013</u>										
	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-A”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>	
	High	Low	High	Low	High	Low	High	Low	High	Low
1 st	125.00	103.20	N/A	N/A	75.00	74.65	77.00	74.50	79.25	74.50
2 nd	125.00	83.00	N/A	N/A	80.50	74.95	82.00	75.75	84.00	77.50
3 rd	94.50	65.50	N/A	N/A	77.75	74.50	79.60	75.00	81.50	74.95
4 th	88.00	57.30	N/A	N/A	77.30	75.60	77.50	75.40	79.80	76.80

<u>2014</u>										
	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-A”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>	
	High	Low	High	Low	High	Low	High	Low	High	Low
1 st	76.00	54.50	N/A	N/A	77.00	75.00	78.95	76.00	81.00	77.50
2 nd	87.00	74.65	N/A	N/A	76.10	74.30	78.90	74.90	81.85	75.00
3 rd	83.00	76.90	N/A	N/A	76.00	74.20	76.50	74.50	78.00	75.00
4 th	78.95	72.00	N/A	N/A	96.90	75.30	79.00	76.00	82.50	77.00

<u>2015</u>										
	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-A”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>	
	High	Low	High	Low	High	Low	High	Low	High	Low
1 st	81.00	66.70	N/A	N/A	76.80	75.00	89.50	78.00	84.50	78.00

The closing prices as of July 31, 2015, the latest practicable trading date, are as follows:

Common	₱56.30
Series “2-A” Preferred	₱75.50
Series “2-B” Preferred	₱84.90
Series “2-C” Preferred	₱84.50

The approximate number of shareholders as of July 31, 2015 is 37,695.

Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC to common shareholders amounted to ₱1.40 per share in 2014.

Cash dividends declared by the Board of Directors of SMC to all Series “2” – Subseries “2-A”, Subseries “2-B” and Subseries “2-C” preferred shareholders amounted to ₱5.625, ₱5.71875 and ₱6.00 per share, respectively, in 2014.

Dividends may be declared at the discretion of the Board of Directors and will depend upon the future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations and other factors the Board of Directors may deem relevant.

The table below sets forth the amount of dividends declared and paid since 2012.

Common Shares

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2012	Cash	0.35	January 20	February 6	February 20
	Cash	0.35	April 18	May 4	May 28
	Cash	0.35	July 24	August 10	September 3
	Cash	0.35	October 11	October 26	November 9
	Cash	0.35	December 13	January 4, 2013	January 30, 2013
Total:		1.75			
2013	Cash	0.35	April 11	April 26	May 6
	Cash	0.35	June 11	June 28	July 15
	Cash	0.35	September 19	October 18	November 8
	Property*	1 for 10	October 17	November 5	January 2
	Cash	0.35	December 12	January 17, 2014	February 7, 2014
Total:		1.40			
2014	Cash	0.35	April 10	April 29	May 16
	Cash	0.35	June 10	June 27	July 21
	Cash	0.35	September 18	October 17	November 7
	Cash	0.35	December 11	January 7, 2015	February 2, 2015
Total:		1.40			
2015	Cash	0.35	April 22	May 8	May 20
Total:		0.35			

Preferred Shares — Series 1

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2012	Cash	1.50	March 28	April 17	May 11
	Cash	1.50	June 14	June 29	July 23
	Cash	1.50	August 13	August 31	September 10
	Cash	1.50	August 13	September 11	October 5
Total:		6.00			

Preferred Shares — Series 2A

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013	Cash	1.40625	November 14	December 20	January 4
	Cash	1.40625	January 17	March 20	April 4
	Cash	1.40625	May 10	June 18	July 3
		1.40625	August 12	September 16	October 1
	Cash	1.40625	November 11	December 13	December 27
Total:		7.03125			
2014	Cash	1.40625	November 11	March 14	April 10
	Cash	1.40625	May 12	June 13	June 27
	Cash	1.40625	May 12	September 11	September 26
	Cash	1.40625	November 10	November 28	December 23
Total:		5.625			
2015	Cash	1.40625	November 10	February 27	March 25
	Cash	1.40625	May 14	May 29	June 11
Total:		2.8125			

Preferred Shares — Series 2B

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013	Cash	1.4296875	November 14	December 20	January 4
	Cash	1.4296875	January 17	March 20	April 4
	Cash	1.4296875	May 10	June 18	July 3
	Cash	1.4296875	August 12	September 16	October 1
	Cash	1.4296875	November 11	December 13	December 27
Total:		7.1484375			
2014	Cash	1.4296875	November 11	March 14	April 10
	Cash	1.4296875	May 12	June 13	June 27
	Cash	1.4296875	May 12	September 11	September 26
	Cash	1.4296875	November 10	November 28	December 23
Total:		5.71875			
2015	Cash	1.4296875	November 10	February 27	March 25
	Cash	1.4296875	May 14	May 29	June 11
Total:		2.859375			

Preferred Shares — Series 2C

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013	Cash	1.50	November 14	December 20	January 4
	Cash	1.50	January 17	March 20	April 4
	Cash	1.50	May 10	June 18	July 3
		1.50	August 12	September 16	October 1
	Cash	1.50	November 11	December 13	December 27
Total:		7.50			
2014	Cash	1.50	November 11	March 14	April 10
	Cash	1.50	May 12	June 13	June 27
	Cash	1.50	May 12	September 11	September 26
	Cash	1.50	November 10	November 28	December 23
Total:		6.00			
2015	Cash	1.50	November 10	February 27	March 25
	Cash	1.50	May 14	May 29	June 11
Total:		3.00			

Similarly, the subsidiaries of SMC may declare dividends at the discretion of their respective boards of directors and will depend upon the future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from their respective subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations and other factors their respective boards of directors may deem relevant.

Sale of Unregistered or Exempt Including Securities Constituting an Exempt Transaction

There were no securities sold by SMC within the past three (3) years which were not registered under the SRC, except for the following:

Name of Security Sold	Underwriters	Date of Sale	Amount of Securities	Basis for Exemption
Series "1" Preferred Shares.....	N/A	March 30, 2015	₱1,397,033,335.00 at par value; ₱ 20,955,500,025.00 at issue price of ₱75.00	Section 10 (k) and (l) of the SRC

Other securities issued by SMC within the same period are common shares under the Long-Term Incentive Plan for Stock Options and employee stock purchase plan pursuant to Section 10.2 of the SRC.

SMC has filed a notice with the SEC and has not obtained a written confirmation for the foregoing exempt transactions.

Effect on Common Equity Holders

The Offer Shares will not have any dilutive effect on the rights of the holders of the common shares of SMC, as these are non-voting, non-convertible and non-participating.

Foreign Equity Holders

As of July 31, 2015, the percentage of the total outstanding capital stock of SMC held by foreigners is 2.16%.

Directors and Executive Officers

Board of Directors

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr.....	80	Filipino	Chairman and Chief Executive Officer
Ramon S. Ang.....	61	Filipino	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza.....	85	Filipino	Director
Leo S. Alvez.....	72	Filipino	Director
Aurora T. Calderon.....	61	Filipino	Director
Joselito F. Campos, Jr.....	64	Filipino	Director
Ferdinand K. Constantino.....	63	Filipino	Director
Menardo R. Jimenez.....	82	Filipino	Director
Alexander J. Poblador.....	61	Filipino	Director
Horacio G. Ramos.....	70	Filipino	Director
Thomas A. Tan.....	61	Filipino	Director
Iñigo U. Zobel.....	58	Filipino	Director
Winston F. Garcia.....	57	Filipino	Independent Director
Reynato S. Puno.....	75	Filipino	Independent Director
Margarito B. Teves.....	71	Filipino	Independent Director

The members of the Board of Directors were elected during the Annual Stockholders meeting of the Company on June 9, 2015.

Eduardo M. Cojuangco, Jr. is the Chairman of the Board and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He is also the Chairman of the Executive Committee of the Company. He also holds the following positions in other publicly listed companies: Chairman of the Board and Chief Executive Officer of Ginebra San Miguel Inc.; and Chairman of the Board of San Miguel Pure Foods Company, Inc. and Petron Corporation. He is also the Chairman of the Board of ECJ & Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc., and a Director of Caiñaman Farms, Inc. He attended the University of the Philippines – Los Baños College of Agriculture and California Polytechnic College in San Luis, Obispo, U.S.A.

Ramon S. Ang is the Vice Chairman since January 28, 1999, President and Chief Operating Officer since March 6, 2002 of the Company. He is also a Member of the Executive Committee and Nomination and Hearing Committee of the Company. He also holds, among others, the following positions in other publicly listed companies: President and Chief Executive Officer of Top Frontier Investment Holdings Inc. and Petron Corporation; Chairman of the Board of San Miguel Brewery Inc. and San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange), and Liberty Telecoms Holdings Inc.; Vice Chairman of the Board of Ginebra San Miguel, Inc., and San Miguel Pure Foods Company, Inc.. He is also the Chairman of the Board and CEO of SMC Global Power Holdings Corp., Chairman and President of San Miguel Holdings Corp. and San Miguel Equity Investments Inc.; Chairman of the Board of Sea Refinery Corporation, San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, San Miguel Properties, Inc., Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc., and Atea Tierra Corporation. He is also the sole director and shareholder of Master Year Limited and the Chairman of Privado Holdings, Corp. He formerly held the following positions: President and Chief Operating Officer of PAL Holdings, Inc., Philippine Airlines, Inc.; Director of Air Philippines Corporation; Chairman of the Board of Cyber Bay Corporation; and Vice Chairman of the Board and Director of Manila Electric Company. Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

Estelito P. Mendoza was first elected as a Director of the Company on October 30, 1991 and served until April 21, 1993. He was re-elected as Director of the Company on April 21, 1998 to present. He is a Member of the Executive Committee, Audit Committee, and the Chairman of the Nomination and Hearing Committee of the Company. He is also a Director of Petron Corporation, and Philippine National Bank, Philippine Airlines, Inc. and Chairman of Prestige Travel, Inc. He was formerly a director of the Manila Electric Company Atty. Mendoza, a former Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Governor of the Province of Pampanga, heads the E.P. Mendoza Law Office, and was also formerly

Chairman of the Board of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank. He graduated from the University of the Philippines College of Law cum laude. He also holds a Master of Laws degree from Harvard Law School.

Leo S. Alvez has been a Director of the Company since February 27, 2002 and a Member of the Audit Committee and Nomination and Hearing Committee of the Company. He is also a Director of Ginebra San Miguel, Inc. and a former Director of San Miguel Pure Foods Company, Inc., both of which are publicly listed companies. Ret. Major General Alvez is a former Security Consultant to the Prosecution Panel of the Senate Impeachment Trial of President Joseph Estrada (2000-2001), Vice Commander of the Philippine Army (1998), and Division Commander of the 7th Infantry Division (1996-1998). He is a graduate of the Philippine Military Academy and has a Masters in Business Administration degree from the University of the Philippines.

Aurora T. Calderon has been a director of the Company since June 10, 2014. She is also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011. She is a member of the Executive Compensation Committee of the Company. She holds the following positions in other publicly listed companies, namely: Director and Treasurer of Top Frontier Investment Holdings, Inc.; and Director of Petron Corporation. She is also a member of the board of directors of SMC Global Power Holdings Corp., Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corp., Thai San Miguel Liquor Co., San Miguel Equity Investments Inc., Bank of Commerce, and Kankiyo Corporation. She is the President and the Director of Total Managers, Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated from the University of the East with a degree in BS Business Administration, major in Accountancy, magna cum laude. In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries.

Joselito D. Campos, Jr. has been a Director since May 31, 2010. He is a member of the Executive Compensation Committee. He is the Managing Director and Chief Executive Officer of Del Monte Pacific Ltd., President and Chief Executive Officer of Del Monte Philippines, Inc. He is also the Chairman of the Board and Chief Executive Officer of the NutriAsia Group of Companies, Chairman of the Board of Fort Bonifacio Development Corp. and Vice Chairman of the Board of Ayala Greenfield Development Corp. He is also a Director of FieldFresh Foods (P) Ltd. He was the former Chairman of the Board and Chief Executive Officer of United Laboratories, Inc. and its regional subsidiaries and affiliates. He is also the Honorary Consul in the Philippines for the Republic of Seychelles. He is Chairman of the Metropolitan Museum of Manila and a Trustee of the Asia Society in the Philippines, the Philippines-China Business Council, the Philippine Center for Entrepreneurship and a member of the WWF (World Wildlife Fund) for Nature - Philippines. He graduated with a degree in BS Commerce, Major in International Business from the University of Santa Clara, California and a Masters in Business Administration from Cornell University, New York.

Ferdinand K. Constantino has been a Director of the Company since May 31, 2010. He is a member of the Executive Committee, Audit Committee, Executive Compensation Committee and Nomination and Hearing Committee. He is Senior Vice President, Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions in other publicly-listed companies, as follows: Director of San Miguel Brewery Inc., Top Frontier Investment Holdings Inc. and Petron Malaysia Refining & Marketing Bhd, a company publicly listed in Malaysia. He is also the Director and Vice Chairman of the Board of SMC Global Power Holdings Corp., President of Anchor Insurance Brokerage Corporation; Director of San Miguel Yamamura Packaging Corporation, San Miguel Foods Inc., Citra Metro Manila Tollways Corporation and Northern Cement Corporation; and Chairman of the San Miguel Foundation, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009); Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of SMC during the last five years. He holds a degree in AB Economics from the University of the Philippines and completed academic requirements for an MA Economics degree.

Menardo R. Jimenez has been a Director of the Company since February 27, 2002 and the Chairman of the Executive Compensation Committee and a Member of the Executive Committee of the Company. He is also a Director of San Miguel Pure Foods Company, Inc., a publicly listed company, and Magnolia, Inc. His other positions include: Chairman of the Board of the United Coconut Planters Bank; President and Chief

Executive Officer of Albay-Agro Industrial Corporation; Chairman of Majent Management and Development Corporation; Chairman of Fibers Trading, Inc., Coffee Bean and Tea Leaf Holdings, Inc., and Meedson Properties Corporation, among others. He is a graduate of Far Eastern University with a degree of Bachelor of Science in Commerce and is a certified public accountant.

Alexander J. Poblador has been a Director of the Company since September 1, 2009 and a member of the Nomination and Hearing Committee of the Company. He is the Founding Partner and Chairman of the Executive Committee of Poblador Bautista & Reyes Law Office. Atty. Poblador is a practicing lawyer, specializing in the fields of commercial litigation, international arbitration, real estate finance and project development, bankruptcy and corporate reorganization. He is a graduate of the University of the Philippines with a degree in Bachelor of Laws cum laude, class valedictorian, and Bachelor of Arts in Political Science cum laude. He also holds a Master of Laws degree from the University of Michigan, at Ann Arbor, School of Law (De Witt Fellow).

Horacio C. Ramos has been a Director of the Company since June 10, 2014. He is the President of Clariden Holdings, Inc. He was formerly the Secretary of the Department of Environment and Natural Resources from February to June 2010, and was the Director of Mines from 2006 to 2010. He holds the degree of Bachelor of Science in Mining Engineering from the Mapua Institute of Technology in 1967, a Graduate Diploma in Mining and Mineral Engineering from the University of New South Wales, Australia in 1976, and a Master of Engineering in Mining Engineering also from the University of New South Wales, Australia in 1978.

Thomas A. Tan was elected as a Director of the Company on June 14, 2012. He is the President and General Manager of SMC Shipping and Lighterage Corporation and President of Saturn Cement Corporation and Sakamoto International Packaging Corp. He obtained a degree in Bachelor of Science, major in Physics in 1974 from the Ateneo de Manila University and a Masters in Business Management from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

Iñigo U. Zobel has been a Director of the Company since October 2009 and was an Independent Director of the Company from May 5, 1999 until October 2009. He is a member of the Executive Committee of the Company. He holds the position of Chairman of the Board of Top Frontier Investment Holdings Inc., a publicly listed company. He is also the Chairman of the Board and President of IZ Investment Holdings, Inc., and E. Zobel, Inc.; Director of E. Zobel Foundation, Inc. Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly a Director of PAL Holdings, Inc. and Philippine Airlines, Inc., and President and Chief Operating Officer of Air Philippines Corporation. He was formerly an Independent Director of San Miguel Brewery Inc., San Miguel Pure Foods Company, Inc., San Miguel Properties, Inc., and Ginebra San Miguel, Inc. He attended Santa Barbara College, California, U.S.A.

Winston F. Garcia has been a Director of the Company since February 1, 2001, and a Member of the Audit Committee and Executive Compensation Committee of the Company. He has been an independent director of the Company since May 9, 2006. He is currently the President of Golden Garfields Development Corporation. Atty. Garcia was President and General Manager of the Government Service Insurance System and was Vice Chairman of its Board of Trustees. He also held the following positions: Chairman of the National Reinsurance Corporation of the Philippines, GSIS Mutual Fund, Inc., Asean Forum, Incorporated and Philippine Social Security Association; Director of Philippine National Construction Corporation, and Philippine Health Insurance Corporation; Board Member of Asean Social Security Association; and a Member of the International Insurance Society, Inc., International Social Security Association, and Federation of Afro Insurers and Reinsurers. Atty. Garcia has been a practicing lawyer since 1983. He is a graduate of the San Beda College of Law, and has a Bachelor of Arts in Philosophy from the University of Santo Tomas and Associate in Arts degree in Southwestern University.

Reynato S. Puno was elected to the Board as an Independent Director of the Company on January 20, 2011 and a member of the Executive Compensation Committee and Nomination and Hearing Committee of the Company. He is also an independent director of San Miguel Brewery Hong Kong Ltd., a company publicly listed in the Hong Kong Stock Exchange, Union Bank of the Philippines, Inc. and Apex Mining Corporation. He is also the President of the Philippine Bible Society, Chairman of the Board of the Gerry Roxas Foundation, Chairman of the Environmental Heroes Foundation, Vice Chairman of World Vision, Vice Chairman of the Board of the GMA Kapuso Foundation, Director of Marcventure Holdings, Inc., and The New Standard. He was the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Supreme Court as an Associate Justice on June 1993 and was previously

Associate Justice of the Court of Appeals (1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

Margarito B. Teves was elected as an Independent Director of the Company on June 14, 2012 and is the Chairman of the Audit Committee. He is also an Independent Director of Petron Corporation, a publicly listed company, Atlantic Aurum Investments Philippine Corporation, AB Capital Investment Corp., Alphaland Corporation, Alphaland Balesin Island Club, Inc., Alphaland MarinaClub, Inc., The City Club at Alphaland Makati Place, Inc., and Atok-Big Wedge Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of the Board of Think Tank Inc. He was Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Senior Management

The table below sets forth the executive officers of SMC as of the date of this Prospectus.

Name	Age	Citizenship	Position
Ferdinand K. Constantino.	63	Filipino	Senior Vice President – Chief Finance Officer
Virgilio S. Jacinto.....	58	Filipino	Senior Vice President – General Counsel, Compliance Officer and Corporate Secretary
Joseph N. Pineda.....	51	Filipino	Senior Vice President – Deputy Chief Finance Officer
Aurora T. Calderon.....	60	Filipino	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer
Sergio G. Edeza.....	57	Filipino	Senior Vice President – Head of Treasury
Roberto N. Huang.....	66	Filipino	President- San Miguel Brewery, Inc.
Carlos Antonio M. Berba..	50	Filipino	Managing Director – San Miguel Brewing International Ltd..
Bernard D. Marquez.....	46	Filipino	President – Ginebra San Miguel Inc.
Francisco S. Alejo III.....	66	Filipino	President – San Miguel Pure Foods Company Inc.
Ferdinand A. Tumpalan...	54	Filipino	President – San Miguel Yamamura Packaging Corporation
Lubin B. Nepomuceno....	64	Filipino	General Manager– Petron Corporation
Alan T. Ortiz.....	61	Filipino	President – SMC Global Power Holdings Corp.
Elenita D. Go.....	54	Filipino	General Manager – SMC Global Power Holdings Corp.
Lorenzo G. Formoso.....	53	Filipino	Head of Infrastructure Business

Virgilio S. Jacinto is the Corporate Secretary, Senior Vice-President and General Counsel and Compliance Officer of SMC (since October 2010). He is also the Corporate Secretary and Compliance Officer of Top Frontier and Ginebra San Miguel, Inc. He is a Director of San Miguel Brewery Inc. and Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as SMC General Counsel in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Mr. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines cum laude where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard Law School. He holds various directorships in various local and offshore subsidiaries of SMC.

Joseph N. Pineda is the Senior Vice President and Deputy Chief Finance Officer of SMC. He was formerly Vice President prior to his promotion on July 27, 2010 and has been the Deputy Chief Finance Officer since December 2005. He was previously Special Projects Head of SMC since January 2005. He is a director of Ginebra San Miguel Inc. and the Philippine Dealing System Holdings, Corp. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Masters in Business Administration degree from De La Salle University. In addition, Mr. Pineda holds directorships in various SMC domestic and international subsidiaries.

Sergio G. Edeza is the Senior Vice President and Head of Treasury of SMC. Prior to joining SMC, Mr. Edeza was a Director of Merchant's Bank (2008), President (2007) and Director (2008) of Money Market

Association of the Philippines, Executive Vice President and Treasurer of Rizal Commercial Banking Corporation, Treasury Consultant of YGC Corporate Services, and President and CEO of PhilEXIM Guarantee Corporation. He was also Treasurer of the Republic of the Philippines from February 16, 2001 to February 16, 2004. Mr. Edeza is a Certified Public Accountant and a Career Service Professional. He obtained his Bachelor of Science in Commerce degree and Master of Business Administration degree from the De La Salle University, and was accepted at the John F. Kennedy School of Government at Harvard University. In addition, Mr. Edeza holds various directorships in various SMC subsidiaries.

Roberto N. Huang is the President of San Miguel Brewery, Inc. He is also a member of the Executive Committee of Ginebra San Miguel, Director of San Miguel, Brewing International Limited and San Miguel Brewery Hong Kong Limited (Hong Kong), and Chairman and President of Iconic Beverages, Inc., Brewery Properties Inc, and Brewery Landholdings, Inc. He also served as General Manager of San Miguel Brewery Inc. (2007-2009); Director of Ginebra San Miguel Inc. (2004-2008), San Miguel Pure Foods Company, Inc. (2004-2008); President of San Miguel Beverages, Inc. (2007); and President of Coca-Cola Bottlers Philippines, Inc., Cosmos Bottling Corporation and Philippine Beverage Partners, Inc. (2003-2007). Mr. Huang holds a Bachelor's Degree in Mechanical Engineering from Mapua Institute of Technology and completed academic requirements for a Master's Degree in Business Administration from De La Salle University.

Carlos Antonio M. Berba has been Managing Director of San Miguel Brewing International Ltd. since 2008. He is also currently Director of San Miguel Brewery Inc. and Deputy Chairman of San Miguel Brewery Hong Kong Limited (Hong Kong), a Commissioner of PT Delta Djakarta Tbk (Indonesia) ("PT Delta") and Chairman and Director of other subsidiaries of San Miguel Brewing International Ltd. He previously served SMC as President of the San Miguel Beer Division (2006); and Vice President, CFO for International Beer Operations and Director for Business Planning and Information Management, San Miguel Beer Division (2002-2006). Mr. Berba holds a Bachelor's Degree in Electrical Engineering from the University of the Philippines, a Master's Degree in Japanese Business Studies from the Japan America Institute of Management Science & Chaminade University of Honolulu, and a Master's Degree in Business Administration from the Wharton School, University of Pennsylvania.

Bernard D. Marquez is the President of Ginebra San Miguel Inc. since May 12, 2011 and is a member of the Executive Committee and Nomination and Hearing Committee of GSMI and Executive Compensation Committee. He is currently a director of Thai San Miguel Liquor Co., Ltd ("TSML"). He previously held the following positions: General Manager of TSML (January 2010-March 2011); Business Manager of the non-alcoholic beverage business of Ginebra San Miguel Inc. (July-December 2009); Assistant Vice President and Business Manager of San Miguel Beverages, Inc. (March 2007-June 2009) and Assistant Vice President and Business Planning and Development Manager of Coca-Cola Bottlers Philippines, Inc. (August 2004-February 2007).

Francisco S. Alejo III is the President (since 2005) and a Director (since 2001) of San Miguel Pure Foods Company Inc. He also holds the following positions: Vice Chairman of the Board of San Miguel Foods, Inc.; San Miguel Mills, Inc.; The Purefoods-Hormel Company, Inc., Magnolia, Inc. and San Miguel Super Coffeemix Co., Inc.; and Chairman of Sugarland Corporation and a Director of Ginebra San Miguel, Inc.

Ferdinand A. Tumpalan has been President of San Miguel Yamamura Packaging Corporation since 2005. He is also President of San Miguel Yamamura Asia Corporation, San Miguel Paper Packaging Corporation, Mindanao Corrugated Fibreboard Inc., CanAsia, Inc., SMC Yamamura Fuso Molds Corporation, and San Miguel Yamamura Packaging International Ltd.. He is a former President of the Packaging Products Division of SMC in 2005.

Lubin B. Nepomuceno is the General Manager of Petron Corporation since February 10, 2015 and was previously the President since February 19, 2013. He is also a member of its Executive Committee, Audit and Risk Management Committee and Compensation Committee. He holds various board and executive positions in Petron and has held various board and executive positions in various SMC domestic and international subsidiaries. He holds a Bachelor of Science degree in Chemical Engineering and a Masters in Business Administration degree from De La Salle University.

Alan T. Ortiz is the President of SMC Global Power Holdings Corp. since August 31, 2010 and a member of its Audit Committee and Nomination and Hearing Committee following his election on September 2, 2011. Previously, he was a Director of the Manila Electric Company. He is currently the Managing Partner of CEOs

Inc., a Director and Treasurer of Global Resource for Outsourced Workers, Inc., and an Assistant Professor in the Department of Economics/Political Science of the Ateneo de Manila University.

Elenita D. Go is the General Manager of SMC Global Power Holdings Corp. She joined SMC Global Power Holdings Corp. in June 2011 as head of its Sales and Trading Group. She was also a Member of the Board of Directors of Meralco from November 2009 until June 2010. From April 2008 until October 2010, Ms. Go was the head of the Corporate Procurement Unit of San Miguel Corporation. Ms. Go obtained her Masters in Business Administration degree from Ateneo de Manila - Graduate School of Business and her Bachelor of Science degree in Electrical Engineering from Mapua Institute of Technology.

Lorenzo G. Formoso III is the Head of the Infrastructure Business. Previously, he was a consultant of the Company for Infrastructure, Transportation and Telecommunications from July 2009 to August 2010. He was previously Assistant Secretary of the Department of Transportation and Communication of the Philippine Government from September 2006 to June 2009 and Deputy Commissioner of the Commission on Information and Communications Technology. He obtained his Juris Doctor degree from University of California, Davis School of Law and a degree in Bachelor of Arts in Philosophy from the University of the Philippines.

Board Committees

Executive Committee

The Executive Committee is currently composed of six directors, which includes the Chairman of the Board of Directors and Chief Executive Officer, and the Vice-Chairman of the Board of Directors, President and Chief Operating Officer. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee.

The Committee acts within the power and authority granted upon it by the Board of Directors and is called upon when the Board of Directors is not in session to exercise the powers of the latter in the management of the Company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the Company has lawful interest, to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the company or entities in which it has interests and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board of Directors or by law.

Audit Committee

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

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

The Company intends to comply with SEC Memorandum Circular No. 4 Series of 2012 on the adoption of an Audit Committee charter.

Nomination and Hearing Committee

The Nomination and Hearing Committee is currently composed of six voting directors— one of whom is independent, Mr. Reynato S. Puno—and one (1) non-voting member in the person of the Corporate Human Resources Head of the Company. Atty. Estelito P. Mendoza is the Chairman of the Committee.

Among others, the Nomination and Hearing Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the Manual on Corporate Governance of the Company (the “Manual”), the Amended Articles of Incorporation and Amended By-laws of the Company and applicable laws, rules and regulations.

Executive Compensation Committee

The Executive Compensation Committee of the Company is composed of six directors, two of whom are independent in the persons of Mr. Winston F. Garcia and Mr. Reynato S. Puno. Mr. Menardo R. Jimenez is Chairman of the Committee.

The Executive Compensation Committee advises the Board of Directors in the establishment of formal and transparent policies and practices on directors and executive remuneration and provides oversight over remuneration of senior management and other key personnel—ensuring consistency with the culture, strategy and control environment of the Company.

It designates the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully.

Significant Employees

The Company has no individual employee who is not an executive officer but who is expected to make a significant contribution to the business.

Corporate Governance

Manual on Corporate Governance

The Manual was approved by the Board of Directors on August 16, 2002 and amended on March 30, 2010 and March 27, 2014. The monitoring of the implementation of the evaluation system of SMC to measure and determine the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer.

Compliance and Monitoring System

The Compliance Officer is appointed by the Board of Directors. He is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual and the rules and regulations of the relevant regulatory agencies, and ensures adherence to corporate principles and best practices. The Compliance Officer holds the position of a Vice President or its equivalent and has direct reporting responsibilities to the Chairman of the Board of Directors. The Compliance Officer has certified that the Company has substantially adopted all the provisions of the Manual on Corporate Governance.

Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company and its stockholders.

Shareholder and Investor Relations

The Company responds to information request from the investing community and keep shareholders informed through timely disclosures to the PSE and SEC, annual shareholders meeting, investors briefing and conferences, the website of the Company and responses to email and telephone queries. The disclosures of the Company and other filings with the PSE and SEC are available for viewing and download from the website of the Company.

The Company through the Investor Relations Group under Corporate Finance holds regular briefings and meetings with investment and financial analysts.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of SMC have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in SMC.

Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer, Mr. Eduardo M. Cojuangco, Jr., and senior executive officers of the Company are as follows:

Name	Year	Salary	Bonus	Others	Total
Total Compensation of the Chief Executive Officer and Senior Executive Officers ⁴	2015 (estimated)	₱170.7 Million	₱131.9 Million	₱31.7 Million	₱334.3 Million
	2014	₱156.3 Million	₱192.2 Million	₱41.1 Million	₱389.6 Million
	2013	₱145.9 Million	₱173.6 Million	₱42.6 Million	₱362.1 Million
All other officers and directors as a group unnamed.....	2015 (estimated)	₱181.5 Million	₱51.1 Million	₱38.6 Million	₱271.2 Million
	2014	₱154.6 Million	₱68.7 Million	₱39.5 Million	₱262.8 Million
	2013	₱138.9 Million	₱37.9 Million	₱35.0 Million	₱211.8 Million
Total.....	2015 (estimated)	₱352.2 Million	₱183.08 Million	₱70.3 Million	₱605.5 Million
	2014	₱310.9 Million	₱260.9 Million	₱80.6 Million	₱652.4 Million
	2013	₱284.8 Million	₱211.5 Million	₱77.6 Million	₱573.9 Million

Section 10 of the Amended By-Laws of the Company provides that the Board of Directors shall receive as compensation no more than 2.0% of the profits obtained during the year after deducting therefrom general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. The Company provides each director with reasonable per diem of ₱50,000 and ₱20,000 for each Board and Committee meeting attended, respectively.

The Long-Term Incentive Plan for Stock Options of the Company grants stock options to eligible senior and key management officers of the Company as determined by the Committee administering the said Plan. Its purpose is to further and promote the interests of the Company and its shareholders by enabling the Company to attract, retain and motivate senior and key management officers, and to align the interests of such officers and the Company's shareholders.

On November 10, 2005, the Company approved the grant of stock options to 1,096 executives and middle managers of about 4.43 million shares based on the closing price of the Company's shares, computed in accordance with the Long-Term Incentive Plan for Stock Options. Also on March 1, 2007, the Parent Company approved the grant of options to 822 executives consisting of 18.31 million shares. On June 25, 2009 and June 26, 2008, the Parent Company approved the grant of options to 755 executives consisting of

⁴The Chief Executive Officer and senior executive officers of the Company for 2015 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, and Casiano B. Cabalan, Jr. while for 2014, and 2013, they are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Virgilio S. Jacinto, Joseph N. Pineda, and Maria Cristina Menorca.

5.77 million shares and to 742 executives consisting of 7.46 million shares, respectively. Options to purchase 13,722,480 shares and 13,340,202 shares in 2013 and 2014, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled about 3,024,920 and 382,278 shares in 2013 and 2014, respectively.

There were no employment contracts between the Company and a named executive officer. There were neither compensatory plans nor arrangements with respect to a named executive officer.

Other Arrangements

There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

Employment Contract

In lieu of an employment contract, the directors are elected at the annual meeting of stockholders for a one (1) year term. Any director elected in the interim will serve for the remaining term until the next annual meeting.

Warrants or Options

There are no warrants or options on the Offer Shares held by Directors or Officers.

Security Ownership of Management and Certain Record and Beneficial Owners

Owners of more than 5.0% of the Company's voting⁵ securities as of July 31, 2015 were as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common.....	Top Frontier Investment Holdings Inc. ⁶ 5th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Iñigo Zobel, Filipino, Director of the Company, and Ramon S. Ang, Filipino, the President and Chief Operating Officer of the Company, are beneficial owners of 59.96% and 26.03.% ⁷ of the outstanding common stock of Top Frontier, respectively.	Filipino	1,573,100,340	42.23%

⁵Common stockholders have the right to vote on all matters requiring stockholders' approval. The holders of the Series "2" Preferred shares shall not be entitled to vote except in matters provided for in the Corporation Code: amendment of articles of incorporation; adoption and amendment of by-laws; sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution.

⁶The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of May 31, 2015, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,100,340 shares of the Company which represent about 66.14% of the outstanding common capital stock of the Company.

⁷As of May 31, 2015, through Privado Holdings, Corp. and Master Year Limited, both stockholders of record of Top Frontier

Common.....	PCD Nominee Corporation (Filipino) Makati City	Various individuals/entities	Filipino	48,181,021	26.36%
Series "2" Preferred Shares.....	PCD Nominee Corporation (Filipino) Makati City	Various individuals/entities	Filipino	933,701,632	
Common.....	Privado Holdings, Corp. Room 306 Narra Buuilding, 2776 Pasong Tamo Extension, Makati City	Ramon S. Ang, Filipino, as beneficial owner of 100% of the outstanding capital stock of Privado. ⁸	Filipino	368,140,516	9.88%

The following are the number of shares comprising the capital stock of the Company (all of which are voting shares) owned of record by Chief Executive Officer, the directors, key officers of the Company, and nominees for election as director, as of July 31, 2015:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Preferred		
Eduardo M. Cojuangco, Jr.....	1,718,679 (D)		Filipino	1,718,679 (0.05%)
Ramon S. Ang.....	757,873 (D)		Filipino	368,898,389 (9.90%)
	368,140,516 (I) ⁹			
Leo S. Alvez.....	10,000 (D)		Filipino	19,326 (0.00%)
	9,326 (I)			
Aurora T. Calderon.....	22,600 (D)		Filipino	22,600 (0.00%)
Joselito D. Campos, Jr.....	9,149 (D)		Filipino	9,149 (0.00%)
Ferdinand K. Constantino.....	187,500 (D)	200,000 (D)	Filipino	387,500 (0.01%)
Winston F. Garcia.....	5,000 (D)		Filipino	5,000 (0.00%)
Menardo R. Jimenez.....	5,000 (D)		Filipino	5,000 (0.00%)
Estelito P. Mendoza	31,972 (D)		Filipino	31,972 (0.00%)
Alexander J. Poblador.....	5,000 (D)		Filipino	5,000 (0.00%)
Reynato S. Puno.....	5,000 (D)		Filipino	5,000 (0.00%)
Horacio C. Ramos.....	5,000 (D)		Filipino	5,000 (0.00%)
Thomas A. Tan.....	5,000 (D)		Filipino	5,000 (0.00%)
Margarito B. Teves.....	5,000 (D)		Filipino	5,000 (0.00%)
Iñigo U. Zobel.....	16,171 (D)		Filipino	937,898,593 (25.18%)
	937,882,422 (I) ¹⁰			
Virgilio S. Jacinto.....	25,622 (D)		Filipino	25,622 (0.00%)
Joseph N. Pineda.....	42,600 (D)		Filipino	42,600 (0.00%)

Voting Trust Holders of 5.0% or more

There is no person holding more than 5.0% of the Company's voting securities under a voting trust arrangement.

Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

⁸As of May 31, 2015.

⁹Through his 100% shareholdings in Privado Holdings Corp.

¹⁰Through his 59.62% shareholdings in Top Frontier Investment Holdings, Inc.

Certain Relationships and Related Transactions

Related Party Transactions

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, 2015 and December 31, 2014:

	Reporting Period	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, 2015	₱ -	₱ -	₱ 5,677	₱ -	On demand or less than 4 to 6 years;	Unsecured;
	December 31, 2014	₱ 26	₱ -	₱ 5,677	₱ 551	Interest and non-interest bearing	No impairment
Retirement Plans	March 31, 2015	46	-	12,810	-	On demand;	Unsecured;
	December 31, 2014	216	-	12,686	-	Interest bearing	No impairment
Associates	March 31, 2015	498	-	679	113	On demand;	Unsecured;
	December 31, 2014	2,066	98	7,473	159	Interest and non-interest bearing	No impairment
	March 31, 2015	-	-	-	19,413	Less than 1	Unsecured and
	December 31, 2014	-	-	-	16,640	to 10 years; Interest bearing	secured
JVC	March 31, 2015	-	40	673	-	On demand;	Unsecured;
	December 31, 2014	-	83	674	1	Non-interest bearing	No impairment
Shareholders in subsidiaries	March 31, 2015	104	41	221	2,791	On demand;	Unsecured;
	December 31, 2014	107	15	20	347	Non-interest bearing	No impairment
Others	March 31, 2015	42	-	74	5,487	On demand;	Unsecured;
	December 31, 2014	92	-	6,931	46	Non-interest bearing	No impairment
Total	March 31, 2015	₱690	₱81	₱20,134	₱ 27,804		
Total	December 31, 2014	₱2,507	₱ 196	₱33,461	₱ 17,744		

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

Selected Financial Information and Other Data

Prospective investors should read the selected financial information presented below in conjunction with the consolidated financial statements of SMC and the notes to those consolidated financial statements included as Appendices “A” and “B” of this Prospectus. Prospective investors should also read “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

The summary financial and operating information of SMC presented below as of and for the years ended December 31, 2014, 2013 and 2012 were derived from the consolidated financial statements of SMC, audited by RG Manabat & Co. (formerly Manabat Sanagustin & Co.) and prepared in compliance with PFRS. The financial and operating information of SMC presented below as of and for the three months ended March 31, 2015 and 2014 were derived from the unaudited consolidated financial statements of SMC prepared in compliance with Philippine Accounting Standards (“PAS”) 34, “Interim Financial Reporting” and reviewed by RG Manabat & Co. in accordance with Philippine Standards on Reviewing Engagements (“PSRE”) 2410, “Review of Interim Financial Information performed by the Independent Auditors of the Entity.” The information below should be read in conjunction with the consolidated financial statements of SMC and the related notes thereto, which are included in Appendices “A” and “B” of this Prospectus. The historical financial condition, results of operations and cash flows of SMC are no guarantee of its future operating and financial performance.

	For the years ended December 31,			For the three months ended March 31,	
	2012	2013	2014	2014	2015
		(Audited)		(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales.....	₱ 699,916	₱ 748,241	₱782,434	₱194,911	159,171
Cost of sales.....	595,581	631,856	669,641	166,513	128,526
Gross profit.....	104,335	116,385	112,793	28,398	30,645
Selling and administrative expenses.....	(52,600)	(60,971)	(57,018)	(12,810)	(14,092)
Interest expense and other financing charges.....	(29,800)	(30,970)	(29,710)	(7,424)	(7,603)
Interest income.....	4,253	3,539	4,012	991	1,209
Equity in net earnings (losses) of associates and joint ventures.....	2,638	(967)	1,255	(323)	136
Gain on sale of investments and property and equipment.....	4,549	41,192	777	132	(122)
Other income (charges) – Net.....	12,689	(13,780)	6,307	(1,222)	(787)
Income before income tax.....	46,064	54,428	38,416	7,742	9,386
Income tax expense.....	8,406	3,700	10,284	1,726	3,351
Net income.....	<u>₱37,658</u>	<u>₱50,728</u>	<u>₱ 28,132</u>	<u>₱6,016</u>	<u>₱6,035</u>
Attributable to:					
Equity holders of the Parent Company.....	₱ 26,806	₱ 38,053	₱14,692	₱2,154	₱2,318
Non-controlling interests.....	10,852	12,675	13,440	3,862	3,717
	<u>₱37,658</u>	<u>₱ 50,728</u>	<u>₱ 28,132</u>	<u>₱ 6,016</u>	<u>₱6,035</u>
Earnings per common share attributable to equity holders of the Parent Company basic.....	<u>₱ 8.72</u>	<u>₱13.43</u>	<u>₱ 3.61</u>	<u>₱0.26</u>	<u>₱0.33</u>
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 8.67	₱ 13.36	₱ 3.59	₱0.26	₱0.33

	As of the years ended December 31,			As of the three months ended March 31,
	(Audited)			(Unaudited)
	(in millions except per share figures or where otherwise indicated)			
	2012	2013	2014	2015
Consolidated Statements of Financial Position Data				
Assets				
Total current assets.....	₱ 372,891	₱ 489,006	₱ 539,235	₱495,862
Total noncurrent assets.....	670,079	681,081	677,815	746,621
Total assets.....	<u>₱ 1,042,970</u>	<u>₱ 1,170,087</u>	<u>₱ 1,217,050</u>	<u>₱1,242,483</u>
Liabilities and Equity				
Current liabilities				
Total current liabilities	<u>₱ 268,710</u>	<u>₱ 335,546</u>	<u>₱ 354,411</u>	<u>₱337,931</u>
Total noncurrent liabilities	<u>425,323</u>	<u>468,764</u>	<u>473,158</u>	<u>515,406</u>
Equity				
Equity attributable to equity holders of the Parent Company.....	252,249	237,707	240,462	242,100
Non-controlling interests	96,688	128,070	149,019	147,046
Total equity	<u>348,937</u>	<u>365,777</u>	<u>389,481</u>	<u>389,146</u>
Total liabilities and equity	<u>₱ 1,042,970</u>	<u>₱ 1,170,087</u>	<u>₱ 1,217,050</u>	<u>₱1,242,483</u>

	For the years ended December 31,			For the three months ended March 31,	
	(Audited)			(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
	2012	2013	2014	2014	2015
Cash Flow Data					
Net cash provided by (used in):					
Operating activities.....	₱ 15,763	₱49,739	₱ 29,417	₱9,857	₱8,272
Investing activities	(56,262)	(27,219)	27,520	22,826	7,173
Financing activities.....	37,843	42,563	9,904	717	(39,324)
Effect of exchange rates changes in cash and cash equivalents.....	(701)	1,023	152	304	680
Net increase/(decrease) in cash and cash equivalents.....	(3,357)	66,106	66,993	33,704	(23,199)
Cash and cash equivalents at beginning of year.....	128,864	125,507	191,613	191,613	258,606
Cash and cash equivalents at end of period	<u>₱125,507</u>	<u>₱ 191,613</u>	<u>₱ 258,606</u>	<u>₱ 225,317</u>	<u>₱235,407</u>

Management's Discussion and Analysis of Results of Operations and Financial Condition

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of the SMC Group for the three-year period ended December 31, 2014 and the reviewed unaudited consolidated financial statements as of for the three months ended March 31, 2015. The following discussion is lifted from the 2014 annual report (SEC Form 17-A) and the quarterly report as of March 31, 2015 (SEC Form 17-Q) filed with the SEC and should be read in conjunction with the attached audited consolidated statements of financial position of the SMC Group as of December 31, 2014 and 2013 and March 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014 and the three months ended March 31, 2015. All necessary adjustments to present fairly the consolidated financial position of the SMC Group as of December 31, 2014 and the financial performance and cash flows for the year ended December 31, 2014 and for all the other periods presented, have been made.

FY 2012 – 2014 RESULTS

I. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Measurement

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

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

Functional and Presentation Currency

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

Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards and Interpretation Adopted in 2014

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

- Recoverable Amount Disclosures for Non-financial Assets (*Amendments to PAS 36, Impairment of Assets*). These narrow-scope amendments to PAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The adoption of these amendments did not have an effect on the consolidated financial statements.
- Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32, Financial Instruments*). The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of these amendments did not have an effect on the consolidated financial statements.
- Measurement of Short-term Receivables and Payables (*Amendment to PFRS 13, Fair Value Measurement*). The amendment clarifies that, in issuing PFRS 13 and making consequential amendments to PAS 39 and PFRS 9, *Financial Instruments*, the intention is not to prevent entities from measuring short-term receivables and payables with no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The adoption of this amendment did not have an effect on the consolidated financial statements.
- Novation of Derivatives and Continuation of Hedge Accounting (*Amendments to PAS 39, Financial Instruments: Recognition and Measurement*). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). The adoption of these amendments did not have an effect on the consolidated financial statements.
- Philippine Interpretation IFRIC 21, *Levies*. The interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date even if it has no realistic opportunity to avoid the triggering event. Other standards should be applied to determine whether the debit side is an asset or expense. Outflows within the scope of PAS 12, *Income Taxes*, fines and penalties and liabilities arising from emission trading schemes are explicitly excluded from the scope. The adoption of this interpretation did not have an effect on the consolidated financial statements.

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

II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables.

YEARS ENDED DECEMBER 31

	2014	2013	2012
		(In Millions)	
Sales	₱782,434	₱748,241	₱699,916
Gross Profit	112,793	116,385	104,335
Selling and Administrative Expenses	(57,018)	(60,971)	(52,600)
Operating Income	55,775	55,414	51,735
Financing Charges - Net	(25,698)	(27,431)	(25,547)
Equity in Net Earnings (Losses) of Associates and Joint Ventures	1,255	(967)	2,638
Gain on Sale of Investments and Property and Equipment	777	41,192	4,549
Other Income (Charges) - Net	6,307	(13,780)	12,689
Net Income	28,132	50,728	37,658
Net Income Attributable to Equity Holders of the Parent Company	14,692	38,053	26,806

2014 vs. 2013

In 2014, the consolidated sales revenues of San Miguel Corporation reached ₱782,434 million, 5% higher than the previous year, as majority of the businesses of SMC posted healthy revenue growth on the back of robust volumes and higher selling prices.

Consolidated operating income amounted to ₱55,775 million, 1% higher than last year. The core businesses posted strong results, led by the double-digit growth from the food business and the profit delivery of the liquor business, a turnaround from last year loss. For the new businesses, the Energy business delivered optimum performance while Petron Corporation (Petron) was challenged by declining crude oil prices.

As a result, consolidated net income amounted to ₱28,132 million, of which ₱14,692 million is attributable to the equity holders of the parent company. SMC recognized one-time gains in 2013 from the sale of the Manila Electric Company (Meralco) shares, which brought net income to ₱50,728 million at that time. Taking out the effect of these one-off items, SMC posted a recurring net income of ₱27,891 million, 244% higher than last year. The following are the highlights of the performance of the individual business segments:

BEVERAGE

San Miguel Brewery Inc. (SMB)

San Miguel Brewery Inc.'s consolidated volumes reached 207.3 million cases, a 2% improvement from the previous year, when volumes slowed as a result of the implementation of the new excise tax structure beginning in 2013. Volume improvement was driven mainly by growth across the domestic market--particularly in the Visayas region and demand-generating programs.

SMB has put in place an effective price management program, which resulted in the increase in sales revenues by 5% to ₱79,005 million.

SMB remained focused on managing its fixed costs and implementing cost efficiency measures. Beer International in particular was able to realize significant improvements in its operations. As a result, consolidated operating income rose 2% to ₱22,079 million.

Beer Domestic

2014 was a recovery year for SMB's domestic operations. Volumes of 172.5 million cases grew 3% over last year, while sales revenues reached ₱64,303 million and operating income of ₱20,773 million, growing by 6% and 2%, respectively. The improvement in sales performance was achieved through intensified implementation of demand-generating programs and cost-efficiency measures. Red Horse Beer remained the number 1 strong beer in the country and asserted dominance through the "Kaya Mo Na", Pambansang Muziklaban and Pasiklaban barangay activations. San Miguel Pale Pilsen's "iconic" positioning was reinforced through "Bilib" thematic campaign and the "Sarap MagBabad" summer program, among others.

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

Gold Eagle Beer improved sales through its well-focused "Sama-Sama Mag-Jamming, Sama-Sama Mag-Gold Eagle Beer" campaign in the Visayas and Mindanao. On the other hand, Lifestyle Brews, San Miguel Premium All-Malt, Super Dry and Cerveza Negra, brand image continued to improve with "Ingredients" and "Awards" campaigns. Newly-launched San Mig Zero started to make its contribution to the SMB portfolio, proving that campaigns focused on strengthening visibility and trial-generating activations were well-received by consumers.

Meanwhile, San Miguel Flavor Beer's market continued to expand through the success of "Game Tayo" digital campaign, "Talk" TVC and store penetration programs.

Beer International

San Miguel Beer International operations posted ₱14,702 million in revenues in 2014, slightly higher than the previous year mainly driven by modest growth in sales of its branded products. This was despite lower volumes resulting from discontinued private label volumes.

In South China, volumes of the San Miguel brand in targeted expansion areas continued to register double-digit growth, partly offset by lower volumes in the core markets due to distribution gaps. Total volumes however, grew due to higher local brand volumes and increased exports production. North China operations, on the other hand, continued to be challenged by intense competition.

SMB Hong Kong (SMBHK) volume ended flat due to the termination of the distribution agreement for certain premium brands, and the pro-democracy demonstrations (from September to December) in the country which resulted in weaker domestic volumes. Improvements in margins, together with higher exports slightly offset the effects of lower volumes in operating profitability.

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

Vietnam registered a double-digit growth in its domestic volumes, spearheaded by San Mig Light and W1N Bia which grew 7% and 21%, respectively.

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

Exports volumes for San Miguel brands grew 9% on the back of steady growth in the UAE, Taiwan, Korea and the US and new markets in Africa and Australia. This, however, was outweighed by lower private label volumes, resulting to a 9% volume decline in total exports.

Liquor and Spirits

Ginebra San Miguel Inc. (GSMI) achieved milestone results in 2014, a year which marked its flagship brand Ginebra San Miguel's 180th year of gin excellence. GSMI delivered a strong performance,

registering an operating profit of ₱358 million, a turnaround from previous year's operating loss of ₱793 million.

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

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

As a result, domestic liquor volume grew 4% to 22.1 million cases. Consequently, revenues reached ₱15,511 million, 8% higher than in 2013.

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

Inspired by the momentum generated in 2014, growth prospects for this year will be hinged on volume growth, with focus in securing relevance to its core drinkers and generating incremental consumption. The launch of the sequel to the "Ganado sa Buhay" thematic campaign will strengthen the dominance of the flagship brand Ginebra San Miguel in the gin category. The introduction of Primera Light brandy and the re-launch of GSM Blue, both lower proof alcohol products, will create an appeal to a younger consumer segment. These programs together with sustained cost improvement programs are expected to sustain profit growth of the business.

FOOD

San Miguel Pure Foods Company Inc. (SMPFC) registered another growth year in 2014 as revenues reached ₱102,999 million, a 3% increase over 2013. This was mainly driven by the strong performance of its Agro-Industrial and Flour Milling businesses. Volumes were spurred by on-going innovation programs and expanded distribution network, further strengthened by improvements in its established branded products, development of new variants and supported by innovative marketing and promotional activities.

The impact of Typhoon Glenda and the congestion in Manila's main ports made operating conditions relatively difficult. Nevertheless, operating income grew by 17% to ₱6,463 million, on the back of strong performance of poultry and fresh meats businesses, which benefitted from favorable selling prices, better farm efficiencies and improved availability of cassava. The Milling business also contributed to operating income growth with increased sales volume and lower wheat cost.

San Miguel Pure Foods' established strategies and unwavering focus were key in mitigating effects of such uncontrollable forces and allowed the company to deliver a solid 2014 performance. Its vertically-integrated business model remains to be a fundamental strategy in controlling costs in all levels of production. The expansion of exclusive retail outlets, such as the Magnolia Chicken stations, Monterey Meatshops and Kambal Pandesal, continued to increase their contribution in sales. SMPFC also continued to increase brand equity through product innovations and brand-building initiatives.

Agro-Industrial

The Agro-Industrial business posted revenues of ₱69,648 million, up by 6%, with all segments contributing to the growth. Revenues from poultry and fresh meats grew on the back of favorable selling prices. On the other hand, revenues from the feeds business increased by 7%, driven by higher volumes in hogs, broiler and duck feeds.

Value-Added

2014 was relatively challenging for the Value-added Meats business which was affected by high trade inventory at the beginning of the year and the port congestion problem during the 2nd half of the year that had an adverse impact on logistics costs and raw materials availability.

Revenues, however, still grew 1% to ₱15,069 million given by higher selling prices, sales performance of new products and increased convenient food offerings such as bone-in fried chicken, canned chicken and meaty spaghetti sauce. The native line segment was also expanded showcasing SMPFC's Magnolia chicken.

Milling

The Milling operations ended the year with revenue of ₱9,916 million, 5% growth versus last year, on the back of an overall 2% volume growth led by the value - added flour products and additional revenues from the new Grains Terminal operations.

Third-party owned and operated Kambal Pandesal bakery outlets continue to grow at a remarkable rate, reaching 447 stores in December 2014, from only 168 outlets in the prior year. Using high quality ingredients from SMPFC's Milling and Branded Value-Added businesses, Kambal Pandesal bakeries brought delicious bread products such as Pan de Keso, Pan de Hotdog and Pan de Kape to the masses at affordable prices.

Dairy and Others

The Dairy, Fats and Oils business registered revenues of ₱7,787 million, a 9% growth on the back of strong volume growth from butter, margarine and cheese. New flavors launched strengthened the "Best of the Philippines" line that allowed Magnolia ice cream to make its contribution.

Meanwhile, the coffee business, under the San Mig Coffee brand, focused on its core products and realized revenue growth of 24% for its Sugarfree variant.

PACKAGING

While several external factors made 2014 a challenging year for San Miguel Yamamura Packaging Group (SMYPG), SMYPG remained focused on protecting its profitability and as a result, turned in improved margins for the year.

Operating income grew 11% to ₱2,305 million, even as revenues declined 4% to ₱24,226 million. Lower requirements from beverage industry customers translated to lower orders for bottles, metal caps and crates, which affected both topline and bottomline performance of these segments.

However, SMYPG's long-established efficiency improvement and cost-containment programs, coupled with improved performance from paper, PET and exports, allowed them to deliver a higher operating performance compared to previous year.

Glass. Glass remained the biggest revenue contributor, despite the decline in volumes due to lower bottle requirements from beer and softdrinks customers in the first half of the year. This, however, was cushioned by increase in sales from other beverage customers in the second half. Exports from China and Vietnam also remained to be very strong.

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

Metal. Demand for metal cans remained stable in 2014, though affected by lower requirements from beverage customers.

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

Plastics. Lower demand for crates in the plastic business was overshadowed by the significant improvement in the pallet leasing business, which grew more than three-folds in revenues.

Paper. It was a banner year for the paper business achieving the highest historical performance in volumes and revenues. Better carton deliveries was driven by higher demand from export fruit companies that propelled sales which translated to double-digit growth in operating income.

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

Strong product developments were initiated with new products for the beer and softdrinks industries. The PET facility installed a flexible line that will serve both cold and hot-filled beverages, providing quality packaging to both juices and carbonated drinks.

Malaysia. Malaysia operations' plastic film business ended the year with favorable volume and revenue versus last year while its flexibles business was faced with higher raw materials prices, amid intense competition.

Australia. Cospak also had a banner year as cost-containment programs delivered almost four times growth in operating income. This was complemented by higher volumes from wine customers which boosted revenues.

ENERGY

It was a banner year for SMC Global Power Holdings Corp. (SMC Global) as profitability soared by 26% in operating income at ₱25,899 million. This was mainly driven by higher bilateral volumes, with consolidated offtake volumes reaching 17,001 Gigawatt hours (GWh), 5% higher than last year.

Apart from the addition of the 140 Megawatts (MW) capacity from the Limay co-generation power plant, the power business benefitted from improved efficiencies in its other major plants, amid higher demand for power, especially during the summer months. These, complemented by higher average Philippine Wholesale Electricity Spot Market (WESM) prices, translated to consolidated revenues of ₱84,294 million, a 14% jump from last year.

The Sual Power Plant sold a total of 7,132 GWh of electricity, 1% higher than last year while revenues grew 3% to ₱32,758 million. Capacity utilization of the plant during the summer months was at its highest level, reaching 90% average utilization rate, as better performance of the plant took advantage of high market demand for power.

Offtake volumes of 8,863 GWh, 5% higher than previous year, brought ₱40,077 million in revenues for the Ilijan power plant. This is on account of higher bilateral volume nominations driven by the increased demand for electricity.

San Roque power plant offtake volumes reached 841 GWh, 6% higher than last year, despite lower water dam reservoir level than expected. Together with ancillary service contribution, revenues reached ₱6,488 million, a 41% growth from 2013.

SMC Global Power's new ventures have also started to contribute in its total performance.

The Limay Co-generation power plant added 537 GWh in offtake volumes and revenues of ₱5,629 million, with the full commercial operations of the 140 MW in 2014 or an additional 70 MW from previous year.

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

FUEL AND OIL

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

Petron, however, managed to end the year with a 4% growth in revenues posting ₱482,535 million, despite lower selling prices. This was driven by the 6% growth in consolidated sales volume of 86.5 million barrels. Philippine operations sold 51.5 million barrels, up 9%, benefiting from higher demand from the retail sector supported by the service station expansion program and robust industrial and LPG sales. Malaysia operations contributed 35.0 million barrels, on the back of strong industrial and retail sales.

Petron also ended the year with an operating profit of ₱7,605 million, amid record losses being posted industry-wide. Petron's risk management programs mitigated effects of the volatility in the market, reducing inventory losses by half.

In this volatile and uncertain year, Petron maintained its strategic focus and marked the year with the completion of the US\$2-billion Refinery Master Plan 2 (RMP-2) project. This is a key milestone for Petron as it now operates on a higher plane, changing the mechanics on how it runs the business. The upgrade allows full utilization of its 180,000 barrel-per-day Bataan refinery and significantly increases the production of high-margin products such as gasoline and petrochemicals. It also enables use of cheaper crude oil. The project likewise allows the local production of more efficient, superior, and environment-friendly fuels to meet Euro IV standards.

Retail network expansion in the Philippines also continued in 2014, with total number of service stations approximately 2,200. The project allows for increased channels for Petron's products to reach underserved markets across the country which is a key driver of domestic volume growth.

In Malaysia, the rebranding and upgrading project has been completed successfully for the existing service stations. Petron is also expanding the retail network in this market, with about 20 new service stations currently under construction.

INFRASTRUCTURE

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

Thus far, the company has opened about 63 kilometers of the 88.6-kilometer of the Tarlac-Pangasinan-La Union Expressway (TPLEX), running all the way from Tarlac to Urdaneta City in Pangasinan. As of year-end 2014, TPLEX has served about 8,500 average daily vehicles bound for the Northern Luzon area, providing faster and more convenient travel to motorists. The remaining stretch up to Rosario, La Union, is estimated to be completed by end of 2015.

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

Also at the start of 2014, the Group broke ground for the much awaited Skyway Stage 3, which involves the construction of a 14-km elevated expressway, with 8 exit ramps, starting from the existing Skyway from Buendia in Makati to Balintawak, Quezon City. The project is vital in improving the traffic situation in Metro Manila, providing an alternate, direct route for motorists traveling for North to South and vice-versa. Completion of this project is slated for 2017.

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

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

STAR Tollway registered double-digit growth of 13% from the previous year with average daily traffic of about 33,000 vehicles. This growth is expected to continue as improvements on the tollway have been completed, including the construction of additional lanes in the Lipa to Batangas stretch.

The Group's airport project in Caticlan is also on schedule. The extension of the Boracay Airport runway to 1.8 km, which is targeted for completion by middle of this year, will enable it to accommodate larger aircrafts. Improvements will also allow for night landing, which will further help boost tourism. A new and bigger terminal will likewise be constructed to accommodate the projected increase in tourist arrivals.

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

REAL ESTATE

San Miguel Properties Inc. (SMPI) registered ₱756 million in total revenues, 6% higher than in 2013, as booked sales for projects increased, given the positive response to its residential projects that target mid to high-end clients.

The company expects this growth to continue with the delivery of long-awaited projects in 2015, such as the Makati Diamond Residences. Also due for turnover within the year, are One Dover View in Mandaluyong and Emerald 88 in Pasig. Completion of Doverhill model unit in San Juan early this year, along with the launch of Picolo Square, a residential building project in General Trias, should also bring in more sales in the future.

2013 vs. 2012

Consolidated revenues rose 7% to ₱748,241 million, 72% of which is derived from the new businesses of the Group. Revenues from the new businesses grew 9% in 2013 while the core beverages, food and packaging businesses grew at a more modest rate of 2%.

Consolidated operating income grew 7%, reaching ₱55,414 million, on the back of strong margins from the beer and power businesses and the sustained performance of Petron and SMPFC.

Gains from the sale of the Meralco shares of stock amounting to almost ₱40,423 million provided a hedge against the effects of the appreciation of the US dollar in the second half of 2013, completely offsetting foreign exchange losses. As a result, the Group's bottom line grew by 42%, with consolidated net income attributable to the equity holders of the Parent Company reaching ₱38,053 million.

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

BEVERAGE

SMB

It was a challenging year for SMB. The new excise tax structure implemented starting January 1, 2013, compounded by natural calamities and power supply shortage, challenged the Philippine operations, resulting in slowdown of volumes to 204 million cases, 9% lower than 2012. Nonetheless, SMB managed to match 2012 performance by posting revenues of ₱75,053 million. More importantly, SMB was able to protect its profitability and maintain healthy margin levels, delivering ₱21,554 million in income from operations.

Despite slowdown in volumes, SMB maintained operating margins within 2012 levels due to efforts on fixed cost management and operational efficiencies improvements for both domestic and international operations.

Beer Domestic

2013 was marked by a new excise tax regime for the alcoholic beverage industry, prompting alcoholic players to raise selling prices which led to the general slowdown of consumption of alcoholic drinks in 2013. Typhoons and earthquake, the power crisis and armed conflict in Mindanao as well as weak agriculture further tempered alcoholic consumption. To address the impact of the price hikes and boost sales, players escalated consumer and trade promotions and introduced new products which in turn heightened competition in the industry. As a result, volumes of SMB slowed in 2013 following the implementation of a price increase for its major brands in February 2013 and adverse external developments.

Despite the challenges, SMB strengthened its leadership in the beer industry and sustained its dominance in the total alcoholic market. Focus was directed towards key volume drivers and smaller but more widespread activations such as “Milyun-Milyong Panalo” nationwide under-the-crown promo and Oktoberfest barangay street parties which broadened consumer reach and benefited more areas while increasing cost efficiency.

Red Horse Beer remained the country’s favorite extra strong beer, reinforced by “Origins” thematic campaign, Pambansang Muziklaban Rock Challenge and Pasiklaban barangay activations. Flagship brand San Miguel Pale Pilsen reinforced its image as the Filipino icon and standard of taste for alcoholic drinks highlighted in its “Amanda” thematic campaign, “Sarap Mag Babad” summer program and the “Pilsen Time Na” activations across the country, among others.

Meanwhile, SMB shifted the communication positioning for San Mig Light to “Only 100 Calories” story. To support this positioning, San Mig Light launched several marketing initiatives including the “One Word” campaign, “Bucket Nights” promo outlet-based “Party All Night” events, digital activations, and consumer and penetration initiatives.

SMB also strengthened the position of its Lifestyle Brews, namely, San Miguel Premium All-Malt, Super Dry and Cerveza Negra, through the “Hands” TV commercial, cinema ad placements, consumer promos, 2013 full year digital campaign, visibility programs, and the “Bites and Brews” bar activations. On the other hand, economy brand Gold Eagle Beer continued to strengthen its value proposition by focusing in rural areas and ownership of “Jamming” storyline.

San Miguel Flavored Beer meanwhile continued to do well, cornering a larger share of the market through the “Playtime” bar tour, the “Talk” ad, webisode program, and sari-sari store penetration initiative, and merchandising drive.

In March, San Mig Zero was officially introduced in the market, backed by awareness and trial-generating programs. This latest addition to SMB’s portfolio aims to tap specific market segments particularly consumers who are committed to a healthy lifestyle. Enhancements were introduced on the supply chain to support volumes, brand-specific initiatives and cost effectiveness. These include improvements in penetration, availability and retailer-based servicing, launch of internet ordering, installation and modification of production equipment and process optimization, among others.

SMB was not spared from the impact of natural disasters that hit the country as typhoons and an earthquake in southern Philippines, caused damage to facilities and affected employees and business partners, thereby disrupting operations. These served to highlight the resilience of SMB’s business and the spirit of fellowship and camaraderie within SMB.

Amid the numerous challenges, SMB continued to deliver a solid financial performance. Higher selling prices resulted in revenues of ₱60,761million, matching levels in 2012. Beer Domestic’s profitability remained strong, with margins at remarkable levels as a result of continuing cost management and efficiency programs.

Beer International

With revenues reaching almost ₱14,333 million, 2% higher than the previous year, 2013 turned out to be one of San Miguel Beer International's strongest thus far. Sales volumes were higher across most markets, with the turnaround of SMBHK, steady growth in Indonesia, and steady improvements in South China and Thailand.

Operating income grew 58% significantly higher than 2012 on the back of margin improvements and fixed cost rationalization, particularly more efficient advertising and promotion spending, as well as volume growths in some of its subsidiaries. Most units, except for North China and Vietnam, posted improvements in 2013 versus 2012, led by the turnaround in SMBHK, steady growth in Indonesia, as well as the improvement in South China and Thailand.

Throughout SMB's overseas markets, the goal was to ensure that the volume generated also achieves growth in profit levels to develop a long-term, sustainable business. Improvements were achieved through targeted price increases, coupled with a continued focus on cost control and the efficient use of assets.

Led by the Anker and Carlsberg brands, volumes in Indonesia grew on the back of territory expansion programs and better-targeted marketing initiatives. In November 2013, SMB matched an industry-wide price increase that was implemented by other rival brewers in the first quarter of 2013.

Despite lower volumes, Beer International posted a strong profit recovery in Hong Kong with operating profits rising 32 times higher than in 2012. This turnaround was achieved through the restructuring of its distribution strategy, which resulted in the expansion of sales channels and a stronger territory focus in terms of sales management. Its leadership position was further strengthened by the launch of strategic programs aimed at enhancing San Miguel's brand equity and reinforcing its bond with customers and consumers.

In Thailand, volumes grew despite the ongoing political unrest and an excise tax increase. In particular, improved outlet penetration greatly benefitted San Mig Light, the fastest-growing brand in this market.

Vietnam operations saw improvements in domestic volumes, driven by an increase in sales for the San Miguel brand and W1N Bia. Neighborhood outlet expansion programs have been successful, as Vietnam's distributor group has implemented an incentive program for W1N Bia.

In China, the operations have been restructured and re-focused to ensure that SMB capture volume growth in this large market. While SMB continued to face challenges in North China, SMB performance in South China continued to improve with significantly reduced losses versus 2012. The new going-to-market and distribution strategy worked well, improving SMB's products' reach. At the same time, the clustering of SMB's business areas and activities also increased operating efficiency.

Meanwhile, Beer International Exports continued to grow, with the United Arab Emirates, South Korea, Angola and Qatar all registering marked improvement from 2012.

Liquor and Spirits

With the imposition in January 2013 of a new excise tax regime effectively doubling tax rates for the hard liquor industry, GSMI continued to struggle in the face of a very difficult operating environment. Competition was fierce, as players stepped up their marketing and trade promotions to compensate for the excise tax increase. To stay afloat, GSMI was compelled to increase retail prices, resulting in lower volume sales in the first half of 2013. Volumes recovered in the third quarter with the gin products growing by double-digits over the previous quarters in 2013.

Encouragingly, GSMI continued to strengthen its hold on the gin market, with the implementation of the "Lahing Ginebra" campaign, which proved a huge success in Luzon. Market share of the flagship brand grew nearly 3% over 2012.

GSMI's non-alcoholic segment of the business appears to have gained traction, with volumes growing 20% compared to 2012. This is a result of efforts to improve its distribution network, which increased its coverage of the market.

GSMI's consolidated revenues matched 2012 levels at ₱14,399 million, as GSMI's pricing strategy allowed it to largely maintain sales revenues in the domestic liquor segment. Supported by robust volume sales growth, revenues of the non-alcoholic beverage segment grew nearly double-digits.

Costs of major materials were significantly lower in 2013 due to better distillery efficiencies and an improved buying strategy. These reduced alcohol usage cost by 3% and increased usage of second hand bottles. Lower volumes brought about by higher excise taxes, however, resulted in a higher operating loss for 2013, at ₱793 million.

Buffeted by a strong second half, GSMI is looking to further reinforce its strategy of capitalizing on its flagship, while at the same time aggressively promoting other gin brands to grow volumes in both its liquor and non-alcoholic business segments.

FOOD

Consolidated revenues for SMPFC improved 4% over 2012, reaching ₱99,773 million with virtually all segments, led by the value-added business cluster, contributing to this growth. Volumes increased across most categories, spurred by on-going innovation programs and an expanded distribution network. Overall, the Food Group strengthened its brands by improving established products, developing successful new variants and support these with innovative marketing and activations.

Operating income likewise improved 6% to ₱5,510 million, on account of better margins due to higher selling prices of meats, improved availability of cassava, breaks in prices of dairy raw materials and better efficiencies.

In November 2013, SMPFC inaugurated its Golden Bay Grain Terminal in Mabini, Batangas, the most modern bulk grain terminal in the country today. Capable of accommodating larger vessels, this new facility will allow SMPFC to save on freight and terminal fees. The full benefits of this project will be realized in the coming years as capacity is maximized.

Agro-Industrial

The agro-industrial segment delivered a 4% growth in revenues driven by higher volumes and selling prices. Revenues of the poultry and fresh meats business grew by 5% despite a challenging year for the poultry industry as supply grew faster than market demand. The fresh meats business performed strongly on account of improvements in hog growing efficiencies and favorable selling prices. On the other hand, revenues from the feeds business increased by 3% resulting from better sales mix and the double-digit volume growth of gamefowl and aquatic feeds.

Value-Added

Revenues of the value-added meats segment jumped 9% over 2012. This was mostly driven by the continued success of the core brands such as Tender Juicy, Purefoods and Star. These, together with the aggressive brand-building initiatives and new product launches, allowed SMPFC's sales to grow faster than industry.

Milling

Revenues of the milling segment grew by 4% on account of higher flour sales volume despite lower selling prices reflecting the drop in wheat cost. This, coupled with the growth in value-added flour blends and premixes translated to an operating income improvement for the segment. In 2013, the number of third party-owned and operated neighbourhood "Kambal Pandesal" bakery outlets using SMPFC's premixes reached the 150 mark from 61 outlets in 2012. This is expected to continue to grow in the future.

Dairy and Others

The dairy, fats and oils achieved revenue growth of 4% in 2013, driven by the modest performance of its mature core lines of butter and margarine and the aggressive growth of the emerging lines of jelly snacks, milk, all-purpose cream, cooking oil, and salad aids. On the other hand, ice cream segment also

delivered a good performance, despite industry contraction, on account of higher volumes from export and food service channels. Operating income of the dairy segment grew significantly due to breaks in dairy raw material prices on top of the volume gains.

San Miguel Super Coffeemix Co., Inc. continued to reap the benefits of aggressive advertising and promotion such as TV placements, radio advertisements, and digital campaigns. Both new product launches and wider distribution reach also contributed to the overall sales revenue growth of 18%. Moreover, the re-naming of the Food Group's PBA franchise to the San Mig Coffee Mixers, significantly heightened brand awareness.

PACKAGING

SMC's packaging group brought in revenues of ₱25,187 million in 2013, on the back of continued customer-penetration programs. The packaging group was able to grow markets for its various business units, with growth being strongest in the exports segments, at 23%. Product innovations also enabled the packaging group to tap new customers to suitably address their packaging needs.

Early in 2013, San Miguel Yamamura Packaging Corporation (SMYPC) sealed a partnership with Poland's CanPack SA for a metal container plant in General Trias, Cavite. Aiming to compete globally and meet the changing customers' needs, the facility will undergo modernization to produce down-gauged 202 cans.

Across other facilities, SMYPC also implemented a capacity-building and equipment modernization program. In the case of the San Fernando Glass plant, this resulted in record-high capacity utilization.

Glass. Glass remains the most preferred packaging format in Asia, and as such, it continues to be SMYPC's strongest segment, accounting for the biggest share in total revenues. In order to protect the market share, SMYPC modernized one of their glass facilities and acquired the ISO 22000 Food Safety Certification. As a result, exports of glass from China to the US grew by 15.0% while new markets were developed in Asia.

Metal. Despite higher metal can volumes, the metals segment declined due to slower demand for metal closures from major customers, compounded by the shutdown of facilities of some of its pharmaceutical customers.

Plastics. The plastics segment turned in strong results, both in terms of growth in revenues and profitability. It continued to benefit from the first-to-market advantage enjoyed by E-mats, a product innovation designed specifically for use as poultry flooring. Together with sustained sales of plastic crates, the segment was able to grow its market share by 31%.

Paper. The paper segment, on the other hand, posted the most significant revenue improvement at 16%, on the back of higher demand for cartons which translated to better volumes. An expansion program undertaken in 2012 also allowed the paper segment to double its production capacity.

PET. The PET segment registered double-digit revenue growth as volume sales for preforms increased. Major customers for beverage filling were also retained.

Malaysia. Malaysia operations maintained revenue performance on the back of reliable volumes from plastic films and woven products.

ENERGY

SMC Global executed on its strategy to increase its capacity and extend its reach to areas outside Luzon, where it is currently the largest power producer.

In 2013, SMC Global broke ground for new coal-fired power plants in Malita, Davao and Limay in Bataan. Set for completion by early 2016, these generation plants will initially provide an additional 600 MW to SMC Global's current 2,615 MW capacity.

In September 2013, SMC Global also acquired the co-generation power plant of Petron. The co-generation power plant added an initial 70 MW to total capacity. Another 70 MW unit currently under construction will be commercially available by the second half of 2014.

Meanwhile, SMC Global's existing power plants delivered consolidated revenues of ₱74,044 million, slightly lower than 2012 due to lower WESM prices mainly from supply months of November and December 2013, where an Energy Regulatory Commission order voided WESM prices and instead imposed regulated prices. Total off-take volumes of 16,163 GWh were up slightly against the previous year due to the improvement in Sual's utilization.

The power business' profitability improved with a 20% growth in income from operations at ₱20,541 million due to lower generation costs.

Revenues from the Sual coal-fired power plant declined 5% to ₱31,795 million due to lower WESM prices, coupled with lower bilateral demand and sales price, which was brought about by a change in Meralco's price rate structure. Operating income, however, surpassed 2012 levels by 47% to ₱13,130 million, given lower power purchases, and the lower cost of coal.

Revenues for the Ilijan power plant declined 5% to ₱38,469 million, due to lower Meralco nominations, as well as lower average WESM sales prices. Offtake volume totaled 8,459 GWh, lower by 3% as a result of lower demand from Meralco. Consequently, operating income was behind 2012 at ₱4,522 million.

The San Roque multi-purpose hydroelectric plant registered ₱4,605 million in revenues, lower than 2012 given the re-computation of the WESM prices to lower levels. This translated to a 28% decline in operating income, which reached ₱2,491 million.

FUEL AND OIL

Petron's consolidated revenues grew 9% to ₱463,638 million in 2013, mainly attributed to the full consolidation of Petron Malaysia, which contributed ₱183,141 million in revenues, versus nine months in 2012.

Total volumes reached 81.5 million barrels, a 10% increase from 74.3 million barrels in 2012. Aside from the full consolidation of Petron Malaysia which sold 34.4 million barrels, retail volumes in the Philippine operations also grew by nearly 3%.

Income from operations reached ₱11,684 million, higher by 49% with Philippine operations growing substantially by 48% at ₱9,470 million. Refining margins improved as regional crude prices was less volatile in 2013. In addition, Petron Malaysia added ₱2,214 million, an increase of 50% from 2012.

Petron's major project, the Refinery Master Plan 2 or RMP-2 is near full completion at the end of 2013. The US\$2-billion project allowed Petron to convert low margin outputs to high value products and operate at almost its full refining capacity of 180,000 barrels per day, significantly increasing production of high-value products and petrochemicals. Petron's refinery will be the only one in the country capable of producing products that meet Euro-IV standards. Full commercial operation of the project is slated by 2015.

The service station network expansion project is also in full gear. By the end of 2013, Petron already hit 2,200 gasoline stations thereby giving stronger market presence and reach.

Petron has also successfully re-branded nearly 300 stations in Malaysia as of end- 2013. Petron aims to complete the re-branding of the remaining stations in the network by end 2014. Malaysian operations also put up 10 new stations as part of its retail network expansion program.

INFRASTRUCTURE

The year saw SMC make great strides in infrastructure, particularly in tollways, as it opened the very first greenfield tollway project and began construction early in 2013 of two other major, priority projects.

SMC opened the first 22.65 kilometers of the total 88.58-kilometer length of TPLEX, from Tarlac to Paniqui and allowed free access to vehicles traveling north during the soft opening from November 1, 2013 to January 4, 2014. The inauguration of the said section was held on December 23, 2013, which was attended by President Benigno S. Aquino. By the second half of 2014, SMC expects to complete Phase 1 of the project, which runs all the way to Carmen, Pangasinan. It is estimated that the remainder of the project up to Rosario, La Union will be operational by early 2016.

In May 2013, SMC won the concession to build and operate the Ninoy Aquino International Airport (NAIA) Expressway for a period of 30 years. This project involves the construction of an 8.8-kilometer toll road that will connect the Skyway system to Philippine Amusement and Gaming Corporation (PAGCOR) City and Roxas Boulevard and provide fast access to NAIA Terminals 1, 2 and 3. SMC broke ground for this project early in 2013 and is targeting its completion by 2016.

The NAIA Expressway is a vital component of the infrastructure master plan of SMC. It extends the reach of the Skyway and South Luzon Expressway (SLEX). With the addition of NAIA Expressway Project, SMC effectively integrates the roads in the south, which can provide a more efficient and synergistic tollway system.

In 2013, SMC also consolidated the STAR Tollway business. This investment extends SMC's reach further in the Southern Luzon tollway system. With this, SMC is now involved in the operations and maintenance of the 42-kilometer expressway that connects SLEX in Sto. Tomas, running through to Batangas City. Currently, the said tollroad is undergoing expansion and rehabilitation to increase convenience and safety of motorists traveling to the south of Metro Manila.

On January 22, 2014, SMC also broke ground for Skyway 3, another major project that will be of beneficial to the public. This project, done in partnership with PT Citra Lamtoro Gung Persada, involves the construction of a 14-kilometer elevated expressway, with 8 exit ramps, which will extend the existing Skyway from Buendia in Makati all the way to the North Expressway via Balintawak, decongesting some of our major thoroughfares, particularly the Epifanio de los Santos Avenue.

Finally, the extension of the Boracay Airport runway is on schedule. The preparatory works are ongoing at the site, with the start of construction targeted by the first half of 2013. Preparatory works for the new terminal will also proceed by the fourth quarter of 2013. Once the project is complete by 2016, the Boracay Airport will be able to accommodate larger aircrafts, boosting tourism not just to the country's top tourist destination, but also to the rest of the Visayas region.

REAL ESTATE

SMPI took in ₱1 billion in reservation sales, a record-high, on strong demand and interest for its new residential projects in Metro Manila, namely, One and Two Dover View in Mandaluyong and Doverhill in San Juan.

In 2014, SMPI will continue to focus on generating revenues from existing SMC assets by developing quality residential projects. By the last quarter of 2014, SMPI is expected to complete construction of a serviced apartment in Legaspi, Makati.

III. FINANCIAL POSITION

A. The following are the major developments in 2014:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

BEVERAGE

GSMI

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

SMB

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

TELECOMMUNICATIONS

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

In May and June 2014, BellTel acquired 100% of the outstanding and issued shares of stock of SLDC and DPI, respectively, from various individuals for a total consideration of ₱1,264 million.

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

MINING

South Western Cement Corporation (SWCC)

On October 15, 2014, the Parent Company through San Miguel Equity Investments Inc. (SMEI), as buyer, and Clariden Holdings, Inc. (Clariden), as seller, executed the following: (i) the Deed of Absolute Sale of Shares covering 100% of the outstanding and issued shares of stock of SWCC for a total consideration of ₱61 million; and (ii) the Deed of Assignment of Receivables covering the receivables of Clariden in SWCC amounting to ₱209 million.

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

On December 5, 2014, the Parent Company through SMEI subscribed to additional 110,000 common shares of SWCC for ₱16 million. The said subscription was fully paid, and the subject shares of stock were issued to SMEI on February 24, 2015.

INVESTMENTS IN ASSOCIATES

Receipt of the Remaining Balance of the Proceeds from the Sale of Shares of Stock of the Manila Electric Company (Meralco)

On July 19, 2013, the Parent Company, sold 64,333,330 shares of common stock in Meralco at ₱270.00 per share.

On September 30, 2013, the Parent Company, together with SMPFC and SMC Global, entered into a Share Purchase Agreement with JG Summit Holdings, Inc. (JG Summit), for the sale of the remaining 305,689,397 shares of stock of Meralco for ₱71,837 million. The Parent Company received ₱40,400 million as down payment in 2013. The remaining balance amounting to ₱31,437 million was received by the Group on March 25, 2014.

As a result of the sale, the Group recognized a gain of ₱40,423 million in 2013.

Divestment of the Equity Interests in Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (PAL Express) and Other Related Investments and Advances

On October 23, 2014, the conditions as set forth in the joint agreement signed by the Parent Company, together with SMEI, and the Lucio Tan Group on September 12, 2014, were satisfied by all of the parties. The joint agreement covers the following: (i) sale of the 49% equity interest in Trustmark and Zuma, including indirect ownership interests of 43.23% and 48.98% in PAL and PAL Express, respectively; and (ii) sale of the equity interest and cancellation of subscription rights on the

shares of stock of Fortunate Star Limited.

The Group received a total of US\$874 million or an equivalent of ₱38,616 million and recognized a gain of ₱491 million.

Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings, Corp. (KWPP)

In accordance with the agreement of the Parent Company through PowerOne Ventures Energy Inc. (PVEI), a subsidiary of SMC Global, and Korea Water Resources Corporation (K-Water) to enter into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by Power Sector Assets and Liabilities Management Corporation (PSALM) to K-Water, PVEI deposited US\$26 million to an escrow account.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US\$39 million as full payment of the share purchase price. The payment was funded in part by the deposit in escrow.

In accordance with the entry of SMC Global into Angat Hydro and KWPP, K-Water and the Company are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, SMC Global agreed to pay K-Water a support fee amounting to 3% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant.

Angat Hydro was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations, electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with EPIRA Law (RA 9136: "Electric Power Industry Reform Act of 2001").

BORROWINGS AND EQUITY TRANSACTIONS

BEVERAGE

Completion of the ₱15 Billion Fixed Rate Bond Offering by SMB

On February 7, 2014, the BOD of SMB approved the issuance of Philippine peso-denominated bonds of up to ₱15,000 million, subject to an option on the part of SMB to increase the amount by up to ₱5,000 million in case of an oversubscription, with a minimum tenor of 7 years and a maximum of 15 years, to support the redemption of the Series B of the Series ABC bonds, maturing on April 4, 2014.

Pursuant to such approval and registration statement rendered effective by the SEC on March 17, 2014, SMB offered for sale to the public on March 17 to 25, 2014, the Philippine peso fixed rate bonds in the aggregate principal amount of ₱15,000 million, consisting of Series G bonds in the aggregate principal amount of ₱12,462 million with a term of 7 years and interest rate of 5.50% per annum and Series H bonds in the aggregate principal amount of ₱2,538 million with a term of 10 years and interest rate of 6.0% per annum (Series GH Bonds).

Interest on the Series GH Bonds is paid every April 2 and October 2 of each year (each an Interest Payment Date). SMB may also (but shall be likewise not be obligated to) redeem all (and not a part only) of the outstanding Series GH Bonds on the 11th Interest Payment Date for the Series G bonds, and on the 14th, 16th or 18th Interest Payment Dates for the Series H bonds.

The Series GH Bonds were issued and listed on the PDEX on April 2, 2014.

On December 5 and 16, 2014, the BOD of SMB (through the Executive Committee in the December 16, 2014 meeting) approved the conduct of a consent solicitation process for the holders of record

as of December 15, 2014 of the Series C bonds, Series D bonds, Series E bonds and Series F bonds (Record Bondholders) for the amendment of the negative covenants in the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to align the same with the negative covenants of the Series GH Bonds, and allow SMB to engage, or amend its articles of incorporation to engage, in the business of manufacturing, selling, distributing, and/or dealing, in any and all kinds of beverage products (Negative Covenant Amendment). SMB obtained the consents of Record Bondholders representing 90% of the outstanding aggregate principal amount of the Series C bonds and 81.05% of the outstanding aggregate principal amount of the Series D bonds, Series E bonds and Series F bonds for the Negative Covenant Amendment. The supplemental agreements amending the trust agreements covering the Series C bonds, Series D bonds, Series E bonds and Series F bonds to reflect the Negative Covenant Amendment were executed by SMB and the respective trustees of the said bonds on February 2, 2015.

FUEL AND OIL

Drawdown of US\$475 Million Loan by Petron

On May 14, 2014, Petron signed and executed the US\$300 million loan facility. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. The total amount was drawn in 2014 and the proceeds were used to refinance existing debt and for general corporate purposes. Petron completed the syndication of the facility, and increased the facility amount to US\$475 million on September 29, 2014. Drawdowns related to the additional US\$175 million were made on October 24 and November 6, 2014. Amortization in seven (7) equal amounts will start in May 2016, with final amortization due in May 2019.

Issuance of Series 2 Preferred Shares by Petron

On November 3, 2014, the Parent Company through Petron, issued 10,000,000 Series 2 Preferred Shares, inclusive of the 3,000,000 shares issued upon the exercise of the oversubscription option, with a par value of ₱1.00 per share and an offer price of ₱1,000.00 per share. The Series 2 Preferred Shares were issued in two subseries ("Series 2A Preferred Shares" and "Series 2B Preferred Shares") and are peso-denominated, cumulative, non-voting, non-participating and non-convertible.

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

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

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

ENERGY

Issuance of the US\$300 Million Undated Subordinated Capital Securities by SMC Global

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

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

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

occurrence of certain other events.

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

PARENT COMPANY

Redemption by SMC of the Remaining Balance of the Exchangeable Bonds Amounting to US\$213 Million

Pursuant to the resolution of the BOD of the Parent Company authorizing management to refinance its existing financial obligations under such terms and conditions which are favorable and advantageous to the Parent Company, the Parent Company solicited the consent of the bondholders to tender their bonds for repurchase. On various dates in 2013, the Parent Company has repurchased Bonds having an aggregate principal amount of US\$363 million. The aggregate cash amount paid by the Parent Company based on the aggregate principal amount of the Bond repurchased, as well as accrued interest, is US\$398 million. The Group recognized a loss on redemption of exchangeable bonds amounting to ₱1,500 million in 2013.

A total of US\$24 million and US\$22 million worth of exchangeable bonds representing 9,794,587 and 8,717,014 common shares of the Parent Company were exchanged at issue prices ranging from ₱80.44 to ₱113.24 as of December 31, 2014 and 2013, respectively.

On May 5, 2014, the Parent Company redeemed the remaining balance of the exchangeable bonds amounting to US\$213 million, in accordance with the terms and conditions of the said exchangeable bonds.

B. The following are the major developments in 2013:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

FUEL AND OIL

Petrochemical Asia (HK) Limited (PAHL)

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

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

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

INFRASTRUCTURE

Vertex Tollways Devt. Inc. (Vertex) and Optimal Infrastructure Development, Inc. (Optimal)

On May 6, 2013, the Department of Public Works and Highways (DPWH) awarded Optimal, a wholly-owned subsidiary of SMHC, the financing, design, construction and operation of the NAIA Expressway Project through the Notice of Award issued on April 19, 2013. The NAIA Expressway Project links the three NAIA terminals to the South Metro Manila Skyway (Skyway), the Manila-Cavite Toll Expressway and the Entertainment City of the Philippine Amusement and Gaming Corporation (PAGCOR). The concession period is thirty years and the project cost is approximately ₱23,805 million.

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

Expressway Project.

On June 5, 2013, Vertex paid an upfront fee of ₱11,000 million to the DPWH for the NAIA Expressway Project. The concession agreement was signed on July 8, 2013.

On October 1, 2013, the BOD and stockholders of Vertex resolved and approved the increase in authorized capital stock from ₱100 million divided into 100,000,000 common shares to ₱16,500 million divided into 16,500,000,000 common shares, both with a par value of ₱1.00 per share. Of the total increase, SMHC subscribed to 8,600,000,000 common shares for a total subscription price of ₱12,900 million or ₱1.50 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on November 27, 2013 and was approved on December 13, 2013.

On September 1, 2014, SMHC entered into Subscription Agreements with the following: (a) Vertex - for the subscription of 1,335,268,279 common shares for a total subscription price of ₱2,003 million or ₱1.50 per share and initially paid ₱733 million; and (b) Optimal - for the subscription of 2,000 common shares out of the unissued capital stock for a total subscription price of ₱2 million or ₱1,000.00 per share.

Sleep International (Netherlands) Cooperatief U.A. (Sleep) and Wiselink Investment Holdings, Inc. (Wiselink)

In 2013, the Parent Company through SMHC, acquired 58.31% membership interest in Sleep and 50% of the outstanding capital stock of Wiselink, for a total consideration of ₱1,098 million.

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

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

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

Private Infra Dev Corporation (PIDC)

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

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

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

Sale of Citra Metro Manila Tollways Corporation (CMMTC)

On September 27, 2013, the Parent Company through Terramino Holdings, Inc. (THI), a wholly-owned subsidiary of SMHC, entered into a Deed of Sale of Shares with Atlantic Aurum Investments Philippines Corporation (AAIPC), a wholly-owned subsidiary of Atlantic Aurum Investments B.V. (AAIBV), for the sale of 25,409,482 common shares of CMMTC, representing THI's 37.33% ownership interest for a total consideration of ₱13,759 million. As a result of the sale, CMMTC ceased to be a subsidiary of the Group as of the date of the sale.

The Group recognized a loss amounting to ₱654 million as a result of the transaction.

BEVERAGE

Voluntary Delisting of SMB Shares from the PSE and the Buy Back of all their Publicly Listed Shares through a Tender Offer.

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

A total of 51,425,799 SMB common shares at an offer price of ₱20.00 per common share, were tendered and accepted by SMB for payment, equivalent to 0.3337% of the total issued and outstanding shares of SMB, and were accordingly recorded as SMB's treasury shares. The common shares of SMB were delisted from the PSE effective May 15, 2013.

MINING

Sale of Clariden Holdings, Inc. (Clariden) to Top Frontier Investment Holdings, Inc. (Top Frontier)

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

On August 30, 2013 (the Closing Date), the Parent Company and Top Frontier executed the following: (i) the Deed of Absolute Sale of Shares covering 100% of the Clariden shares for a total consideration of ₱2,135 million; and (ii) the Deed of Assignment of Receivables covering the Parent Company's receivables in Clariden and its subsidiaries amounting to ₱725 million. On September 6, 2013, the Parent Company and Top Frontier, with the conformity of Clariden, executed the Deed of Assignment of Subscription Rights for ₱604 million.

Pursuant to the Agreement, the consideration for the sale of the Clariden shares and the assignment of subscription rights are collectible as follows: (i) ₱427 million on September 9, 2013; and (ii) the remaining balance of ₱2,312 million is collectible in two parts: (a) ₱1,099 million, inclusive of 5.75% interest per annum, is collectible at the end of the 5th year from Closing Date; and (b) ₱1,213 million, inclusive of 6.0% interest per annum, is to be collected at the end of the 7th year from Closing Date.

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

The remaining balance of the consideration amounted to ₱3,037 million.

As a result of the sale, Clariden ceased to be a subsidiary of the Group. The Group recognized a gain amounting to ₱866 million in 2013.

ENERGY

SMC PowerGen Inc.

On September 23, 2013, the Parent Company through SPI, a wholly-owned subsidiary of SMC Global, acquired from Petron the 2 x 35 Megawatt (MW) Co-Generation Solid Fuel-Fired Power

Plant (Power Plant Phase 1) and all other pertinent equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant (Power Plant Phase 2) in Limay, Bataan.

PACKAGING

San Miguel Yamamura Australasia Pty. Ltd. (SMYA)

On October 1, 2013, the BOD of San Miguel Yamamura Packaging International Limited (SMYPIL) approved the acquisition of the remaining 35% shares in SMYK from James Huntly Knox and SMYK employees holding Management Incentive Shares for US\$14 million.

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

REAL ESTATE

Voluntary Delisting of SMPI Shares from the PSE and the Buy Back of all their Publicly Listed Shares through a Tender Offer

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

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

Out of the 1,072 shares tendered by the minority shareholders, only 309 shares were transferred and recorded as treasury shares for an equivalent transaction value of ₱41 million.

INVESTMENTS IN ASSOCIATES

Distribution of Common Shares of Top Frontier as Property Dividend

On October 17, 2013, the BOD of the Parent Company approved the declaration, by way of property dividends, of 240,196,000 common shares of Top Frontier to the SMC common shareholders of record (the "Receiving Shareholders") as of November 5, 2013. The SEC approved the property dividend declaration on November 19, 2013, and the Certificate Authorizing Registration was issued by the BIR on December 26, 2013.

The Receiving Shareholder received one common share of Top Frontier for every ten common shares of the Parent Company. Fractional shares below ten were dropped. The fair value of the Top Frontier shares is ₱178.00 per share, based on the Valuation and Fairness Opinion rendered by an independent advisor.

The property dividend distribution resulted in the Parent Company's public shareholders owning about 11.8% of Top Frontier. As a result of the property dividend distribution, the Group recognized a remeasurement gain on property dividends amounting to ₱4,812 million.

As a result of the dividend distribution, the remaining investment of the Parent Company in 2,561,031 common shares and 1,904,540 preferred shares of Top Frontier amounting to ₱35,829 were reclassified to "Available-for-sale financial assets" account in the 2013 consolidated statement of financial position.

Investment in Northern Cement Corporation (NCC)

On March 1, 2013, the Parent Company through SMYPC, completed the acquisition of 104,500,000 common shares, equivalent to 35% equity interest in NCC for ₱3,500 million.

NCC is primarily engaged in manufacturing, developing, processing, exploiting, buying and selling cement and/or other products derived therefrom.

BORROWINGS AND EQUITY TRANSACTIONS

PARENT COMPANY

Draw Down of Loan by SMC

On April 29, 2013, SMC has drawn US\$1,000 million from a loan facility agreement with a maturity period of 5 years to pay in full and refinance the US\$1,000 million loan availed in 2010. Also, on various dates in 2013, SMC availed a total of additional US\$670 million loan for general corporate purposes and to fund infrastructure investments. The loan has an interest rate of LIBOR plus margin.

Issuance of US\$ Denominated Notes by SMC

On April 19, 2013, SMC issued US\$800 million Notes from the US\$2,000 million Medium Term Note Programme which was listed in the Singapore Exchange Securities Trading Limited on the same date. The Notes bear interest at the rate of 4.875% per annum. The proceeds of the Notes were used for refinancing, working capital and general corporate purposes of the SMC Group.

ENERGY

Draw Down of Loan by SMC Global

In September 2013, SMC Global has drawn US\$500 million from the US\$650 million facility agreement with a 5-year floating rate. The loan proceeds were used to refinance SMC Global's existing US\$200 million 3-year term loan and to finance new investments in power-related assets. The credit line limit was amended on November 15, 2013 to increase the loan amount to US\$700 million.

Availment of Loan by SMC PowerGen Inc.

On September 30, 2013, SPI has drawn ₱12,300 million from the ₱13,800 million, 10-year term loan facility agreement with syndicate of banks with fixed interest rate of 6.3131%. The proceeds of the loan were used for the acquisition of the 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant (Power Plant Phase 1) and all other pertinent machinery, equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant (Power Plant Phase 2) in Limay, Bataan, from Petron.

FUEL AND OIL

Draw Down of Loan by Petron

In January 2013, Petron availed of the remaining US\$210 million of the US\$485 million five-year term loan facility which was signed and executed on October 31, 2012. The proceeds were used partly to finance the capital expenditure requirements of RMP-2 Project.

Issuance of Undated Subordinated Capital Securities by Petron

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

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

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at

principal amounts together with any accrued, unpaid or deferred distributions, at the option of Petron on or after August 6, 2018 or on any distribution payment date thereafter or upon the occurrence of certain other events.

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

INFRASTRUCTURE

Draw Down of Trans Aire Development Holdings Corp. (TADHC)

In April and December 2013, Trans Aire Development Holdings Corp. (TADHC) has drawn an additional of ₱1,601 million from the ₱3,300 ten-year term loan facility used for the financing of the Airport Project. The loan bears interest rate of PDST-F plus margin.

Draw Down of Loan by Star Infrastructure Development Corporation (SIDC)

In July and October 2013, SIDC has drawn ₱2,090 million from the ₱3,500 million ten-year term loan facility used to refinance its existing ₱1,136 million ten-year loan availed in 2007 and to finance the construction and development of Stage II, Phase II of the STAR Project. The loan bears an interest rate of PDST-F plus margin.

C. MATERIAL CHANGES PER LINE OF ACCOUNT

2014 vs. 2013

The Group's consolidated total assets as of December 31, 2014 amounted to ₱1,217,050 million, ₱46,963 million higher than 2013. The increase is primarily due to the higher balances of cash and cash equivalents, property, plant and equipment and other intangible assets.

Cash and cash equivalents increased by ₱66,993 million mainly due to receipt of the proceeds from the sale of equity interest in Trustmark and Zuma and other related investments and advances, collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit and the proceeds from issuance of undated subordinated capital securities of SMC Global.

Trade and other receivables decreased by ₱32,105 million mainly due to collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit.

Prepaid expenses and other current assets increased by ₱12,376 million mainly due to the increase in the net input Value-added Tax (VAT) of: a) Petron as a result of the importations of crude and finished products; b) SMC Global due to payments made for the purchase of materials and equipment and payment of labor for the construction of the new power plants; and c) Infra Group for the purchase of services, supplies and equipment related to the construction of TPLEX, NAIA Expressway, STAR and Boracay Airport Projects; and advances to suppliers of Petron Singapore Trading Pte., Ltd. and to the contractors of Vertex (NAIA Expressway Project) and PIDC (section 2 of TPLEX Project).

The increase in assets held for sale and the corresponding decrease in AFS financial assets pertains to the reclassification of the carrying value of investment in shares of stock of Indophil Resources NL from AFS financial assets.

Investments and advances decreased by ₱23,227 million in 2014 mainly due to the sale of the investment in shares of stock of Trustmark and Zuma and cancellation of subscription rights on investments and advances related to PAL and PAL express.

Property, plant and equipment increased by ₱28,129 million primarily due to the additional capital expenditures on the RMP 2 Project of Petron, the refurbishment of retail stations of Petron Malaysia, Phase 2 of the power plant in Limay, Bataan and the Greenfield project - new power plants in Davao and Limay, Bataan – Phase 1 of the Energy business.

Investment properties decreased by ₱533 million mainly due to the reclassification of the cost of Makati Diamond Residences Project of SMPI to property, plant and equipment, net of the acquisition of a property in Malabon by Brewery Properties, Inc. for future expansion of Polo Brewery.

Other intangible assets increased by ₱9,082 million mainly due to the recognition of additional toll road concession rights for the TPLEX Project, STAR Project, the NAIA Expressway Project and the Boracay Airport Project.

Deferred tax assets decreased by ₱957 million mainly due to the application of deferred taxes for NOLCO and MCIT of the Parent Company against taxable income in 2014.

Other noncurrent assets decreased by ₱14,692 million mainly due to the partial collection by Petron of its receivables from Petron Corporation Employees Retirement Plan.

Loans payable increased by ₱36,833 million in 2014 mainly due to the net availments made by Petron in 2014, to fund the importation of crude oil and petroleum products.

Dividends payable decreased by ₱410 million mainly due to the payment in 2014 of the outstanding dividends payable in 2013 by the Parent Company to its common stockholders.

The decrease in long-term debt of ₱4,509 million was mainly due to the redemption of the following: SMC exchangeable bonds and SMB bonds, net of availments used for the various capital projects of the Infrastructure, Energy and Fuel and Oil businesses.

Deferred tax liabilities decreased by ₱3,241 million primarily due to the reversal of deferred tax liability on the undistributed net earnings of foreign subsidiaries and the effect of recognition of remeasurement loss on the plan assets of Petron.

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

Other noncurrent liabilities decreased by ₱1,528 million mainly due to reclassification to current liabilities of the retention payable to the contractors of Petron's capital projects, net of the recognition of pension liability by Petron which resulted from the substantial reduction in the fair value of plan assets.

Reserve for retirement plan decreased by ₱1,977 million mainly due to the recognition of remeasurement loss on the plan assets of Petron.

Cumulative translation adjustments decreased by ₱612 million mainly due to the fair value adjustment on AFS financial assets, net of the share in other comprehensive income of associates and joint ventures.

Additional appropriations on retained earnings were made by SMC Global, SMCSL, SMPFC, SMYAC and SMITS mainly to finance future capital expenditures.

Non-controlling interests (NCI) increased by ₱20,949 million primarily due to the issuance of undated subordinated capital securities by SMC Global and issuance of Series 2 Preferred Shares of Petron.

Equity

The increase in equity in 2014 is due to:

<i>(In millions)</i>	2014
Income during the period	₱28,132
Addition to non-controlling interests and others	23,360
Issuance of capital stock	90
Other comprehensive loss	(4,016)
Cash dividends declared	(23,862)
	<u>₱23,704</u>

2013 vs. 2012

The Group's consolidated total assets as of December 31, 2013 amounted to ₱1,170,087 million, ₱127,117 million higher than 2012, mainly due to the proceeds from the availment of long-term debt which was used primarily to finance the capital expenditure projects of Petron and SMC Global.

Cash and cash equivalents increased by ₱66,106 million due to net proceeds from borrowings, issuance of undated subordinated capital securities by Petron, sale of investments in Meralco, net of a) Petron's major capital projects such as the RMP-2 Project and rebranding of service stations, b) payment of financing charges, finance lease liabilities and dividends, and c) investments in NCC, STAR Project and NAIA Expressway Project.

Trade and other receivables increased by ₱45,597 million mainly due to the Group's receivable on the sale of the investment in shares of stock of Meralco and Petron's higher government receivables from VAT.

Prepaid expenses and other current assets increased by ₱6,036 million mainly due to the increase in the excess input tax over VAT payable of Petron and SMHC's consolidation of PIDC.

Assets held for sale decreased by ₱575 million mainly due to the completion of the sale of Petron Mega Plaza in the second quarter of 2013.

Investments and advances decreased by ₱101,760 million mainly due to disposal of the investment in Meralco shares of stock, reclassification of SMC's investment in Top Frontier shares to AFS financial assets and declaration of Top Frontier common shares as property dividends.

AFS financial assets increased by ₱40,478 million mainly due to the reclassification of SMC's remaining investment in Top Frontier from investment in an associate to AFS financial assets.

Property, plant and equipment increased by ₱53,845 million mainly due to Petron's major capital projects at the Refinery specifically the RMP-2 Project, as well as Petron Malaysia's rebranding of service stations, SPI's ongoing construction for the Phase 2 of Units 3 & 4 of the Power Plant acquired from Petron, SMC Consolidated Power Corp.'s power plant project in Davao and Bataan, costs of Golden Bay Grain Terminal Corporation's (GBGTC) grain terminal in Batangas, and consolidation of PAHL's balance, net of depreciation in 2013.

Investment property increased by ₱396 million mainly due to additional construction costs of SMPI's Manila Diamond Residences Project.

Biological assets decreased by ₱386 million on account of regional subsidiary's reduction of sow level to temper the impact of industry's oversupply and rationalization of domestic subsidiary's contract breeders.

Goodwill decreased by ₱6,972 million mainly due to the sale of Terramino's investment in CMMTC, net of the recognition of goodwill upon the consolidation of Sleep, Wiselink and the Cypress Group.

Other intangible assets increased by ₱1,957 million mainly due to the upfront fee paid by Vertex to

DPWH for the NAIA Expressway Project, consolidation of the toll road concession rights in TPLEX and STAR Projects of PIDC and Cypress, respectively, net of the deconsolidation of CMMTC's toll road concession rights on the South Metro Manila Skyway.

Deferred tax assets increased by ₱5,300 million primarily due to the recognition of deferred tax on: a) SMC Global's excess of depreciation and interest over monthly PSALM payments and b) unrealized foreign exchange losses and net operating loss carry over (NOLCO) of SMC.

Other noncurrent assets increased by ₱17,779 million due to SMC's noncurrent receivables, SPI's noncurrent input VAT on the purchase of power plant from Petron, increase in retirement assets of Petron and SMC, and purchases of new bottles and shells by SMB.

Loans payable decreased by ₱7,871 million mainly due to net payments, net of the consolidation of PAHL's balance and translation adjustments.

Accounts payable and accrued expenses increased by ₱32,867 million due to the increase in the liability of Petron for crude oil importation.

Income and other taxes payable increased by ₱1,935 million mainly due to increase in output VAT payable of SMC Global, SMPFC and GSML.

Long-term debt increased by ₱83,452 million primarily due to the net availments made by SMC, SMC Global, Petron, SIDC and TADHC and translation adjustments, net of SMC's redemption of exchangeable bonds and deconsolidation of CMMTC's balance.

Deferred tax liabilities decreased by ₱1,914 million mainly due to the effect of recognition of lower deferred tax liability on the undistributed net earnings of foreign subsidiaries.

Other noncurrent liabilities increased by ₱1,849 million mainly due to higher retention payable to the contractors of Petron's capital projects.

Revaluation increment decreased by ₱703 million mainly due to the dilution of the ownership interest in SMB after the tender offer of shares held by the public and the acquisition of the remaining 35% non-controlling interest in SMYA by SMYPIL.

Reserve for retirement plan increased by ₱1,038 million mainly due to the recognition of actuarial gain on remeasurement of the defined benefit obligation by Petron.

Non-controlling interests increased by ₱31,382 million in 2013 mainly due to the recognition of NCI on the issuance of undated subordinated capital securities by Petron and the share of non-controlling interests in the Group's net income, net of dividends.

Equity

The increase in equity in 2013 is due to:

<i>(In millions)</i>	2013
Income during the period	₱50,728
Addition to non-controlling interests and others	26,483
Other comprehensive income	2,889
Issuance of capital stock - net	499
Cash dividends and distributions	(21,460)
Distribution of property dividends	(42,299)
	<u>₱16,840</u>

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2014	2013	2012
		<i>(In Millions)</i>	
Net cash flows provided by operating activities	₱29,417	₱49,739	₱15,763
Net cash flows provided by (used in) investing activities	27,520	(27,219)	(56,262)
Net cash flows provided by financing activities	9,904	42,563	37,843

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows provided by (used in) investing activities are as follows:

	December 31		
	2014	2013	2012
		<i>(In Millions)</i>	
Proceeds from sale of investments and property and equipment	₱66,913	₱72,962	₱24,568
Interest received	3,481	3,476	2,465
Decrease (increase) in other noncurrent assets and others	2,688	(14,323)	8,545
Dividends received from associates	5	3,857	4,949
Additions to property, plant and equipment	(38,951)	(65,865)	(52,917)
Additions to investments and advances	(6,314)	(26,814)	(23,159)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(302)	(512)	(18,591)
Payment of other liabilities	-	-	(2,122)

Net cash flows provided by (used in) financing activities are as follows:

	December 31		
	2014	2013	2012
		<i>(In Millions)</i>	
Net proceeds from (payments of) short-term borrowings	₱37,827	(₱12,008)	₱53,805
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	23,008	30,546	14,216
Increase (decrease) in non-controlling interests	205	(1,616)	(1,138)
Proceeds from issuance of capital stock and reissuance of treasury stock	7	69	129
Cash dividends paid	(24,273)	(21,405)	(18,345)
Payments of finance lease liabilities	(20,152)	(19,168)	(17,394)
Net proceeds from (payments of) long-term borrowings	(6,718)	66,145	120
Proceeds from issuance of Series "2" preferred shares	-	-	79,238
Redemption of Series "1" preferred shares	-	-	(72,788)

The effect of exchange rate changes on cash and cash equivalents amounted to ₱152 million, ₱1,023 million and (₱701 million) in December 31, 2014, 2013 and 2012, respectively.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Parent Company is restricted in the amount of ₱67,093, ₱67,166 and ₱67,336 in 2014, 2013 and 2012, respectively, representing the cost of common shares held in treasury.

The Group's unappropriated retained earnings includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

VI. 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" of the MD&A for the discussion of certain Key Performance Indicators.

	December 31	
	2014	2013
Liquidity:		
Current Ratio	1.52	1.46
Solvency:		
Debt to Equity Ratio	2.12	2.20
Asset to Equity Ratio	3.12	3.20
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.15%	15.53%
Interest Rate Coverage Ratio	2.97	2.50
Operating Efficiency:		
Volume Growth	3%	5%
Revenue Growth	5%	7%
Operating Margin	7.13%	7.41%

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

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

VII. OTHER MATTERS

▪ Events After the Reporting Date

a. *Acquisition of the 49% interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)*

On January 26, 2015, PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited (SMPFIL), a wholly-owned subsidiary of SMPFC incorporated in the BVI, signed an Agreement for the purchase from Hormel Netherlands B.V., of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owns the remaining 51% of SMPFI Limited. SMPFI Limited is the sole investor San Miguel Hormel (Vn) Co., Ltd., a company incorporated in Vietnam that engages in live hog farming and the production of feeds and fresh and processed meats. Following completion of the transaction, SMPFI Limited has become a wholly-owned subsidiary of SMPFIL.

b. *Acquisition of La Pacita IP Rights*

In February 2015, the acquisition by SMPFC of Felicísimo Martínez & Co. Inc.'s (FMC) IP Rights relating to FMC's La Pacita biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions and payment of the consideration for such IP Rights.

c. *Redemption of SMPFC of Outstanding Preferred Shares*

On February 3, 2015, the BOD of SMPFC approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of ₱1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of the treasury shares of SMPFC.

d. *Issuance of Series “2” Perpetual Preferred Shares (PFP2 Shares)*

On January 20, 2015, the PSE approved, subject to SEC approval and certain conditions, the application of SMPFC to list up to 15,000,000 PFP2 Shares with a par value of ₱10.00 per share to cover SMPFC’s preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered the Registration Statement of SMPFC covering the registration of up to 15,000,000 PFP2 Shares at an offer price of ₱1,000.00 per share (the “PFP2 Shares Offering”), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC’s application to list up to 15,000,000 PFP2 Shares with a par value of ₱10.00 per share to cover the PFP2 Shares Offering at an offer price of ₱1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by the BOD of SMPFC to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

A summary of the Terms of the Offer is set out below:

SMPFC, through the underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated PFP2 shares at an offer price of ₱1,000.00 per share during the period from February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD of SMPFC. The PFP2 Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The PFP2 Shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the PFP2 Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMPFC, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of ₱1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, the 15,000,000 PFP2 Shares of SMPFC with par value of ₱10.00 per share were issued and listed with the PSE.

e. *Acquisition of 44% Equity Interest in AAIBV and Exercise of Option to Acquire Additional 4.47%*

On March 5, 2015, a Notarial Deed of Transfer of Shares in accordance with the requirements of the laws of the Netherlands was executed whereby Padma transferred to SMHC the following: (i)

44% additional equity interest in AAIBV for a total purchase price of US\$158 million; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement.

With the purchase of additional 44% equity interest and the exercise of option for the 4.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is controlled by SMHC effective March 5, 2015.

- Contingencies

The Group is a party to certain lawsuits or claims (mostly labor-related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

- a. Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on “San Mig Light”, one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 “in order to obviate the necessity of issuing a Warrant of Dstraint and Garnishment and/or Levy”. The Parent Company’s external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Dstraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company’s pending claims for refund. As of December 31, 2014, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting the Parent Company’s petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of ₱926 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA En Banc and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Second Division of the Supreme Court a Petition for Review which was docketed as G.R. No. 205045. This case is now with the Third Division of the Court.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers

7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of ₱781 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied and the Commissioner elevated the decision to CTA En Banc for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA En Banc Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045. Both cases are now with the Third Division.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company's counsel and the BIR Commissioner, through the Office of the Solicitor General, have filed their respective Memoranda. The two cases are deemed submitted for decision.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400; on July 30, 2012, its fourth claim for refund under case number 8591; and on December 19, 2013, its fifth claim for refund with the CTA (2nd Division) under case number 8748. CTA case numbers 7973, 8209, 8400 and 8591 have all been decided by the respective CTA Divisions, where they are pending, in favor of the Parent Company. The counsel for the BIR Commissioner are now in the process of appealing to the CTA *En Banc* the decisions rendered by the CTA Divisions in CTA case numbers 7973 and 8400. On the other hand, the decision in CTA case number 8209 has been declared final and executory by the CTA Division concerned for failure on the part of the BIR Commissioner to file a Motion for Reconsideration on the decision. In CTA case number 8591, the BIR Commissioner filed a Motion for Reconsideration, which we opposed and which has been denied. With respect to CTA case number 8748, the same is still undergoing trial in the Second Division.

b. Deficiency Tax Liabilities

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on Iconic Beverages, Inc. (IBI) deficiency tax liabilities including interest and penalties for the tax year 2009. IBI treated the royalties earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to the 20% final tax. However, the BIR is of the position that said royalties are business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued last January 7, 2013, the BIR denied IBI's protest and reiterated the demand to pay the deficiency income tax including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case is docketed as CTA case number 8607 and is already submitted for discussion.

For the taxable year 2010, on November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate income tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA and the case was docketed as CTA case number 8813.

c. Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to Petron's use of ₱659 million worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CTA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, Petron filed its comment on the petition for review filed by the BIR. The petition is still pending as of December 31, 2014.

d. Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into an Memorandum of Understanding (MOU) with the City of Manila and the Department of Energy (DOE), agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance No. 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the Regional Trial Court (RTC) to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, Petron also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, Petron, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

In May 2009, the Mayor of Manila approved Ordinance No. 8187, which amended Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012 (August 24 Decision), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. On September 25, 2012, Petron sought clarification and partial consideration of the August 24 Decision and prayed for the nullification of the entire Ordinance No. 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by Petron. Petron filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila directed that the records of the case be forwarded to the Court of Appeals. On April 15, 2013, Petron received an Order dated April 1, 2013 requiring it to file its appellant's brief. Petron submitted its appellant's brief on July 29, 2013. On December 19, 2013, Petron, through its counsel, received the City of Manila's appellee's brief dated December 12, 2013. Petron filed its appellant's reply brief on February 11, 2014. As of December 31, 2014, the appeal remained pending.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. Petron, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila. Acting on a motion for reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by Petron, on March 10, 2015, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily include removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule.

On January 5, 2015, Petron filed a Manifestation of Understanding of the dispositive portion of the November 25 Decision of the Supreme Court declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan and requiring Petron, Shell and Chevron to submit to the RTC of Manila within 45 days from receipt of the November 25 Decision a comprehensive plan and relocation schedule. The manifestation conveyed the understanding of Petron that the submission of the comprehensive plan and relocation schedule as required by the Supreme Court is intended to assure that the Pandacan oil terminals would cease to operate in line with Ordinance 8119. On January 12, 2015, Shell filed a motion for reconsideration thereby preventing the November 25 Decision from becoming final.

e. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of

Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTC and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (RA No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against Petron. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar I and the former President and Chairman of Petron for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amounted to ₱292 million. Both cases are still pending as of December 31, 2014.

f. Generation Payments to PSALM

SPPC disputed the claims of PSALM for energy fees. The claims arose from differing interpretations of certain provisions in the IPPA Agreement related to generation payments, the fees payable to PSALM for the generation of power to customers. SPPC's management is in discussions with PSALM to secure a common understanding through amicable means. However, management and its legal counsel assessed that SPPC's bases for the amounts due to PSALM are consistent with the terms of the Ilijan IPPA Agreement. The information usually required is not disclosed on the grounds that it may prejudice the outcome of the discussion.

▪ *Master Year Limited (MYL)*

On September 30, 2013, Privado Holdings, Corp. (Privado) acquired 368,140,516 common shares of the Parent Company from MYL. The acquisition was transacted thru the PSE at ₱75.00 per share.

On February 14, 2014, Privado acquired 50,000 common shares of stock of the Parent Company at the PSE at ₱58.00 per share.

▪ *Philippine Foundation of Blessed Mary Mother of the Poor, Inc. (the Foundation)*

On January 11, 2011, SMPI entered into a contract with the Foundation, a non-profit religious organization, for the donation of a 33-hectare parcel of land located in Alfonso, Cavite (the Donated Property). The land title of the Donated Property was transferred in the name of the Foundation on April 28, 2011.

In accordance with the Deed of Donation, the Donated Property shall be used and devoted exclusively by the Foundation for the construction, operation and maintenance of its project, the Montemaria Oratory of the Blessed Virgin Mary (the Montemaria Project). The Montemaria Project will consist of a Shrine of the Blessed Virgin Mary, churches and chapels, Way of the Cross and such other structures and facilities for Roman Catholic religious purposes, and socio-civic and non-profit activities and programs of the Foundation.

Further, the Deed of Donation requires that the Montemaria Project must be at least 50% completed by 2015 and fully completed by 2020. If the Foundation will not be able to comply with this requirement, the Donated Property will revert back to SMPI.

On February 24, 2014, the Board of Trustees of the Foundation had resolved to return the Donated Property to SMPI. However, the Foundation has not formally returned the Donated Property as of December 31, 2014.

- *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2014 amounted to ₱38,770 million.

Amount authorized but not yet disbursed for capital projects as of December 31, 2014 is approximately ₱25,600 million.

- *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of ₱44.72 and ₱44.395 in 2014 and 2013, respectively, for consolidated statements of financial position accounts; and average rates of ₱44.39, ₱42.43 and ₱42.24 in 2014, 2013 and 2012, respectively, for income and expense accounts.

- *Temporary Restraining Order (TRO) Issued to Meralco*

On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of ₱5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC, is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC, and the Philippine Electricity Market Corporation ("PEMC"), acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of ₱32/kWh. The price will be effective for 90 days until a new cap is decided upon. As of December 31, 2013, the outcome of this case cannot be determined.

On January 16, 2014, the Supreme Court granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while San Miguel Electric Corp. recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment. The settlement of which shall be covered by a 24-month Special Payment Arrangement agreed with PEMC which took effect in June 2014. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders.

- *Electric Power Industry Reform Act of 2001*

RA No. 9136, otherwise known as the EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of the grid and/or 25% of the national installed generating capacity.

- Prepaid Expenses and Other Current Assets in the Consolidated Statements of Financial Position includes cash advances to company personnel to be used for official business trips and functions subject to liquidation.
- The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. Majority of the Board of Trustees of the Group's Retirement Plans who exercises voting rights over the shares and approves material transactions are employees and/or officers of the Parent Company and its subsidiaries.
- In 2013, SMPI entered into a Memorandum of Agreement for the sale of Prestigio Realty, Inc. (Prestigio) shares to a certain individual, thus reclassifying the investment amounting to ₱13 million as part of "Assets held for sale" account in the 2013 consolidated statement of financial position. As of December 31, 2014 the carrying amount of the investment in Prestigio is still maintained as part of Asset Held for Sale account in the 2014 consolidated statement of financial position since the Management believes that the sale will push through subject to the fulfillment of certain conditions.
- Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.
- 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.
- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- 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.

- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 25 (c) of the 2014 Audited Consolidated Financial Statements and “Contingencies” of Section VII above, that remain outstanding as of December 31, 2014. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- The effects of seasonality or cyclicalities on the interim operations of the Group’s businesses are not material.
- 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 December 31, 2014.

FIRST QUARTER 2015 RESULTS

I. 2015 SIGNIFICANT TRANSACTIONS

A. INVESTMENTS

Acquisition of 44% Equity Interest in Atlantic Aurum Investments B.V. (AAIBV) and Exercise of Option to Acquire Additional 4.47%

On March 5, 2015, a Notarial Deed of Transfer of Shares in accordance with the requirements of the laws of the Netherlands was executed whereby Padma transferred to San Miguel Holdings Corp. (SMHC) the following: (i) 44% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement. The total consideration for the additional 48.47% equity interest amounted to US\$224 million or ₱9,893 million.

With the purchase of additional 48.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is consolidated by SMHC effective March 5, 2015.

AAIBV has shareholdings in the companies that hold the concession rights to operate and maintain the South Luzon Expressway (SLEX) and the 16.38-kilometer (Stages 1 and 2) South Metro Manila Skyway (Skyway) and Stage 3 of the Skyway which connects the North Luzon Expressway and SLEX.

Acquisition of the 49% Interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)

In January 2015, San Miguel Pure Foods International, Limited (SMPFIL), a wholly-owned subsidiary of San Miguel Pure Foods Company Inc. (SMPFC), purchased from Hormel Netherlands B.V. (Hormel) the latter’s 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% of SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in San Miguel Hormel (Vn) Co., Ltd., a company incorporated in Vietnam which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats. Following the acquisition, SMPFI Limited has become a wholly-owned subsidiary of SMPFIL.

Acquisition of La Pacita Trademarks

In February 2015, the acquisition by SMPFC of Felicísimo Martínez & Co. Inc.’s (FMC) trademarks, formulations, recipes and other intangible properties (IP Rights) relating to FMC’s *La Pacita* biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions and the payment of the consideration for such IP Rights.

Divestment of the Shares of Stock of Indophil Resources NL (Indophil)

On January 23, 2015, the Indophil shares of stock held by Coastal View Exploration Corporation (Coastal View) were transferred to Alsons Prime Investments Corporation (Alsons) for AUD30 cents per share following the approval by the Supreme Court of Victoria and the shareholders of Indophil of the scheme of Arrangement proposed by Alsons. Coastal View received the payment on the sale of the investment amounting to AU\$ 14.41 million or ₱493 million on January 30, 2015.

B. FINANCING

Redemption of the 2010 Preferred Shares by Petron Corporation (Petron)

On November 7, 2014, the Board of Directors (BOD) of Petron approved the redemption of the 2010 Preferred Shares at a redemption price of ₱100.00 per share in accordance with terms and conditions of the issuance of the 2010 Preferred Shares. The redemption price of the 2010 Preferred Shares and all accumulated unpaid cash dividends was paid on March 5, 2015 to the stockholders of record as of February 18, 2015.

The redemption of the shares was financed by the proceeds of the issuance of Series “2” preferred shares on November 3, 2014.

Redemption of Outstanding Preferred Shares by SMPFC

On February 3, 2015, SMPFC’s BOD approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of ₱1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of SMPFC’s treasury shares.

Issuance of Series “2” Perpetual Preferred Shares (PFP2 Shares) by SMPFC

On January 20, 2015, the BOD of The Philippine Stock Exchange, Inc. (PSE) approved, subject to Securities and Exchange Commission (SEC) approval and certain conditions, the application of SMPFC to list up to 15,000,000 PFP2 Shares with a par value of ₱10.00 per share to cover SMPFC’s preferred shares offering at an offer price of ₱1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered SMPFC’s Registration Statement covering the registration of up to 15,000,000 PFP2 Shares at an offer price of ₱1,000.00 per share (the “PFP2 Shares Offering”), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC’s application to list up to 15,000,000 PFP2 Shares with a par value of ₱10.00 per share to cover the PFP2 Shares Offering at an offer price of ₱1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by SMPFC’s BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The PFP2 Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The PFP2 Shares may also be redeemed in whole and not in part, under certain conditions (i.e.,

accounting, tax or change of control events). Unless the PFP2 Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMPFC, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of ₱1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, SMPFC's 15,000,000 PFP2 Shares with par value of ₱10.00 per share were issued and listed with the PSE.

Availment of Long-term Debt

On March 6, 2015, SMC Global Power Holdings Corp. (SMC Global) made the final drawdown of US\$200 million (₱8,825 million) from the US\$700 million 5-year floating rate loan facility agreement, for the financing of ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes.

On February 27, 2015, Vertex Tollways Devt. Inc. (Vertex) has drawn ₱2,200 million loan for the financing of the ongoing construction of the Ninoy Aquino International Airport (NAIA) Expressway Project.

II. FINANCIAL PERFORMANCE

2015 vs. 2014

San Miguel Corporation's 2015 consolidated sales revenue for the first quarter amounted to ₱159,171 million, 18% lower than last year. 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. Infrastructure business also contributed higher revenues with the consolidation of South Luzon Expressway and Skyway starting March 2015.

Despite decrease in revenue, March year-to-date consolidated operating income amounted to ₱16,553 million, 6% higher than last year. Beverage, food, packaging, power 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 Hydropower Corporation, acquired in November 2014, 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 gain (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 Philippine Peso (PhP) against the United States Dollar (US\$) in March 2015 by ₱.02 versus the depreciation of the PhP by ₱0.42 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 ₱6,035 million, at par with last year. The corresponding net income attributable to equity holders of the Parent Company is ₱2,318 million, 8% higher than last year.

2014 vs. 2013

San Miguel Corporation's 2014 consolidated sales revenue for the first quarter amounted to ₱194,911 million, 9% higher than 2013. Petron and the energy business contributed double digit increase compared to 2013. Beverage, food and packaging businesses also contributed to the increased revenues versus 2013.

The corresponding consolidated operating income amounted to ₱15,588 million, almost at par with 2013 with many businesses showing improved performance. Compared to 2013, performance was tempered by weak regional refining margins for Petron and lower domestic glass and plastic volumes for packaging business.

The decline in equity in net earnings (losses) of associates and joint ventures was mainly due to the equity in earnings of the Manila Electric Company (Meralco) which was included in 2013's balance.

Interest expense in 2014 is lower than of the same period in 2013 mainly due to higher capitalized interest on loans used to finance the RMP-2 Project of Petron.

The further strengthening of the US dollar against the Philippine peso to end at ₱44.815 to a dollar on March 31, 2014 from ₱44.395 on December 31, 2013 resulted to foreign exchange losses, in contrast with the foreign exchange gains during the first quarter of 2013, bringing the reported net income attributable to equity holders of the Parent Company down to ₱2,154 million.

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

BEVERAGE

2015 vs. 2014

a. San Miguel Brewery Inc. (SMB)

SMB posted an 8% growth in sales revenues to ₱18,883 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 ₱16,197 million, 17% higher than last year.

Revenue from the international operations is behind last year 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 last year. Coupled with operating efficiency and cost management programs, operating income for the quarter amounted to ₱5,166 million, 10% better than last year.

b. Ginebra San Miguel, Inc. (GSMI)

Carrying its 2014 momentum, GSMI opened 2015 with a solid first quarter, posting an operating income of ₱94 million, significantly higher than last year. This resulted from lower costs of bottle and alcohol as well as improved distillery operations.

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

2014 vs. 2013

a. SMB

SMB and Subsidiaries' first quarter 2014 consolidated sales volume is lower than 2013's figures by 3%. The volume performance in January 2013 was on account of the trade build-up in anticipation of the February 1, 2013 price increase. This was partially offset by the uptrend in February and March volumes in 2014. SMB's sales revenue is ₱17,561 million for the first quarter of 2014.

Operating income posted at ₱4,678 million, 3% lower than 2013 levels. The improvement of the operations of Beer international from 2013, partially offset the effects of the lower domestic volumes.

b. GSMI

GSMI posted a solid performance for the first quarter of 2014 as hard liquor volume grew 10% over 2013 at 5.1 million cases. With the price increase implemented in January 2014, sales revenue grew 21% compared to the same quarter in 2013, bringing it up to a total of ₱3,595 million.

With strong volumes, and better margins, operating income reached ₱44 million, a huge turnaround from 2013's operating loss of ₱392 million.

FOOD

2015 vs. 2014

San Miguel Pure Foods' consolidated revenue for the first quarter of 2015 is up by 4% versus 2014 level to ₱25,091 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 year-to-date 2015 consolidated operating income amounted to ₱1,468 million, 10% above last year. This is brought about by the strong income performance of feeds and flour businesses.

2014 vs. 2013

SMPFC's consolidated revenues for the first quarter of 2014 amounted to ₱24,229 million, up by 5% compared to 2013 level. The commodity business grew by 9% on account of higher volumes for poultry, flour and feeds coupled by better selling prices for poultry and basic meats. The branded value-added business, on the other hand, increased by 4% with sales of core brands such as Purefoods, Star, Magnolia, and San Mig Coffee remained strong - though sales to the trade was affected by higher beginning inventory for value-added meats and ice cream. These resulted to consolidated operating income of ₱1,335 million, 46% higher than 2013. Improved efficiency for poultry and meat and contained fixed costs for the branded business also contributed to the improved operating performance.

PACKAGING

2015 vs. 2014

The San Miguel Yamamura Packaging Group's (SMYPG) consolidated revenues for the first quarter of 2015 amounted to ₱5,811 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 ₱479 million, 9% above last year.

2014 vs. 2013

SMYPG's consolidated revenues for the first quarter of 2014 amounted to ₱5,573 million, slightly higher than 2013. The polyethylene terephthalate (PET) packaging facilities are fully utilized in March with the increased requirements from Coke for both preforms and beverage filling businesses as well as water

preforms requirements of Universal Robina Corporation, bringing the PET business' revenue growing by 49% in the first quarter. The paper business also has a milestone performance in March 2014, achieving its highest monthly sales volume with demands from Nestle and banana exports, bringing the business' first quarter revenue higher by 35% compared to 2013. This was however, partly offset by decline in glass, plastic and metal businesses' revenues. This resulted to packaging group's first quarter operating income of ₱439 million, 16% lower than the same period in 2013. The decline compared to 2013 is mostly attributable to lower domestic glass and plastics volumes.

ENERGY

2015 vs. 2014

SMC Global's off take volume for the first quarter of 2015 was 3.8 million megawatt hours, 7% lower than last year. 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. This was partly offset by 6% increase in Sual's off take volume with higher bilateral and Wholesale Electricity Spot Market (WESM) volumes.

The resulting SMC Global's consolidated revenues was ₱19,757 million, 1% lower than last year. 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 power business' March year-to-date consolidated operating income amounted to ₱6,834 million, 3% higher than last year. The co-generation solid fuel fired power plant serving Petron in Limay contributed 9% to the total operating income.

2014 vs. 2013

SMC Global's offtake volume for the first quarter of 2014 is 1% above 2013. Compared to 2013, San Roque's volume was up by 36% with better dam water reservoir level. This was partly offset by limited generation capacity for Ilijan plant resulting from Malampaya gas restrictions in January and February 2014, and maintenance shutdown in March 2014. Coupled with higher bilateral and WESM prices versus 2013, consolidated revenues grew 14% to about ₱19,959 million.

With lower generation costs, the energy business' March 2014 consolidated operating income amounted to ₱6,640 million, 20% higher than 2013.

FUEL AND OIL

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 last year, 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 year-to-date 2015 consolidated revenues fell by 31% and ended at ₱86,744 million due to the decline in selling prices as regional prices fell. During this period, reference Dubai crude average was only USD52/bbl, half the average price of USD104/bbl from the same quarter last year.

With this, operating income also dipped by 13%.

2014 vs. 2013

Petron's consolidated revenues for the first quarter of 2014 reached ₱125,174 million, ahead from 2013 by 12%. This is on volumes of 20.8 million barrels, 4% higher than 2013 level. Petron Philippines contributed ₱75,386 million in revenue, while Petron Malaysia accounted for the remaining 40% of ₱49,788 million.

Even with increased volumes and higher selling prices, operating income for the first quarter of 2014 ended at ₱3,424 million, dropped by 8% from 2013. This is due to weak regional refining margins with product cracks against crude which was lower than 2013's level. The reduction in refining margins was however partly offset by a less volatile regional crude price which resulted in inventory holding gains.

III. FINANCIAL POSITION

2015 vs. 2014

The Group's consolidated total assets as of March 31, 2015 amounted to ₱1,242,483 million, ₱25,433 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 the SLEX and the 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 ₱23,199 million mainly due to the redemption of the 2010 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 ₱10,849 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 ₱8,561 million mainly due to lower crude/finished product inventory of Petron, net of the increase in the raw materials, and finished goods and in process inventory 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 ₱7,992 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 ₱200 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 ₱191 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by ₱17,453 million mainly due to the recognition of goodwill upon consolidation of the AAIBV Group.

Other intangible assets increased by ₱57,103 million mainly due to the consolidation of AAIBV Group's toll road concession rights to operate and maintain the South Luzon Expressway, South Metro Manila Skyway and Skyway Stage 3; recognition of additional toll road concession rights for the Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) Project, the NAIA Expressway Project, Boracay Airport Project and Southern Tagalog Arterial Road (STAR) Project and the acquisition of La Pacita trademarks by SMPFC.

Other noncurrent assets decreased by ₱5,728 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 ₱27,975 million in 2015 mainly due to the payments made by Petron and SMPFC.

Dividends payable decreased by ₱816 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. (Purefoods – Hormel) in March 2015.

The increase in long-term debt of ₱55,852 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 ₱5,367 million due to the consolidation of AAIBV Group's balance.

Other noncurrent liabilities increased by ₱1,042 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.

Revaluation increment increased by ₱328 million primarily due to the acquisition by SMPFIL from Hormel of the latter's 49% non-controlling interest in SMPFI Limited.

Cumulative translation adjustments decreased by ₱1,035 million mainly due to the translation adjustments on the net assets of foreign subsidiaries, particularly of Petron.

2014 vs. 2013

The Group's consolidated total assets as of March 31, 2014 amounted to ₱1,190,595 million, ₱20,508 million higher than 2013, mainly due to the net proceeds from availment of borrowings which were used primarily to finance the capital expenditure projects of Petron, SMC Global and the Infra Group and additional purchases of inventory.

Cash and cash equivalents (increased by ₱33,704 million) and trade and other receivables (decreased by ₱34,543 million) have almost compensating movements, mainly due to the collection of the remaining balance of the proceeds from the sale of Meralco shares from JG Summit Holdings, Inc.

Inventories increased by ₱9,556 million mainly due to higher finished product and crude oil importations of Petron and Petron Malaysia and higher inventory of cassava and soybean meal of San Miguel Foods, Inc. Additional purchases of cassava were made to take advantage of better prices during the harvest season. Higher costs and lower usage of soybean meal in March 2014, resulted to higher inventory.

Prepaid expenses and other current assets increased by ₱2,542 million mainly due to the increase in the balances of Petron in the following: a) excess of input Value-added Tax as a result of the importations of crude oil and finished products during the quarter, b) prepaid taxes due to advances on specific tax of finished products and prepaid insurance for depot and plants.

Investments and advances increased by ₱3,823 million in 2014 mainly due to the additional investments made by SMC and SMC Global.

Investment properties increased by ₱1,328 million mainly due to the acquisition of a property in Malabon by Brewery Properties, Inc. for future expansion of Polo Brewery, reclassification of the cost of certain parcel of land in Marikina from idle assets to investment properties of the Purefoods-Hormel and additional construction costs of the Makati Diamond Residences Project of San Miguel Properties, Inc.

Biological assets increased by ₱107 million mainly due to the increase in volume of breeding stock.

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

Deferred tax assets increased by ₱1,267 million mainly due to the recognition of deferred tax on the unrealized foreign exchange losses and net operating loss carry over of the Parent Company.

Other noncurrent assets decreased by ₱5,454 million mainly due to collection of noncurrent receivables from Petron Corporation Employees Retirement Plan and reclassification of the cost of certain parcel of land in Marikina from idle assets to investment properties of Purefoods - Hormel.

Accounts payable and accrued expenses increased by ₱6,147 million due to the increase in the liability of Petron for finished products and crude oil importation and increase in accrued interest payable of SMB, Petron and SMC due to higher loan levels.

Dividends payable increased by ₱799 million mainly due to the dividend declared by SMPFC on March 26, 2014 payable on May 12, 2014, net of the payment of the dividends payable by the Parent Company to its common and preferred stockholders.

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	March 31	
	2015	2014
Income during the period	₱6,035	₱6,016
Addition (reduction) to non-controlling interests and others	(30)	9
Issuance of capital stock	26	1
Other comprehensive income (loss)	(1,798)	752
Cash dividends and distributions	(4,568)	(5,493)
	(₱335)	₱1,285

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	March 31	
	2015	2014
Net cash flows provided by operating activities	₱8,272	₱9,857
Net cash flows provided by investing activities	7,173	22,826
Net cash flows provided by (used in) financing activities	(39,324)	717

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 investing activities included the following:

<i>(In millions)</i>	March 31	
	2015	2014
Cash and cash equivalents acquired from business combination net of cash paid	₱14,828	₱ -
Decrease in other noncurrent assets and others	5,951	1,776
Interest received	1,205	930
Proceeds from sale of investments and property and equipment	517	31,616
Dividends received from associates	7	-
Additions to property, plant and equipment	(13,344)	(7,593)
Acquisition of subsidiaries	(1,081)	-
Additions to investments and advances	(910)	(3,903)

Net cash flows provided by (used in) financing activities are as follows:

<i>(In millions)</i>	March 31	
	2015	2014
Proceeds from (payments of) short-term loans - net	(P27,053)	P 5,889
Redemption of preferred shares of subsidiaries	(25,000)	-
Payment of finance lease liabilities	(5,483)	(5,043)
Payment of cash dividends	(5,384)	(4,695)
Net proceeds from issuance of preferred shares of a subsidiary	14,885	-
Proceeds from long-term debt - net	8,128	4,565
Acquisition of non-controlling interest	557	-
Proceeds from issuance of capital stock	26	1

The effect of exchange rate changes on cash and cash equivalents amounted to P680 million and P304 million on March 31, 2015 and 2014, 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 2015	December 2014
<u>Liquidity:</u>		
Current Ratio	1.47	1.52
<u>Solvency:</u>		
Debt to Equity Ratio	2.19	2.12
Asset to Equity Ratio	3.19	3.12
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.16%	6.15%
Interest Rate Coverage Ratio	2.94	2.97
	Period Ended March 31	
	2015	2014
<u>Operating Efficiency:</u>		
Volume Growth	7%	4%
Revenue Growth	(18%)	9%
Operating Margin	10%	8%

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

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

* Annualized for quarterly reporting

External Audit Fees and Services

The Parent Company paid the external auditor Audit Fees amounting to ₱10 million in 2014 and ₱13 million in both 2013 and 2012. Said fees include compensation for audit services and other related services such as audit review and research work. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

The stockholders approve the appointment of the external auditors of the Company. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board of Directors and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the external auditors of the Company on accounting and financial disclosure.

Interest of Named Experts and Counsel

Legal Matters

All legal opinions/matters in connection with the issuance of the Offer Shares will be passed upon by Picazo Buyco Tan Fider & Santos ("Picazo Law") for the Company and SyCip Salazar Hernandez & Gatmaitan for the Joint Lead Underwriters ("Sycip Law"). Picazo Law and Sycip Law have no direct interest in the Company.

Picazo Law and Sycip Law may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that Picazo Law and Sycip Law provide such services to its other clients.

Independent Auditors

The consolidated financial statements of the Company as at and for the years ended December 31, 2012, 2013, and 2014 have been audited by R.G. Manabat & Co., a member firm of KPMG, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus. The condensed consolidated interim financial statements as of March 31, 2015 have been reviewed by R.G. Manabat & Co., in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Auditor of the Entity*.

The Audit Committee of the Company, reviews and monitors, among others, the integrity of all financial reports and ensures compliance with both internal financial management manual and pertinent accounting standards, including regulatory requirements. The Audit Committee also performs the following duties and responsibilities relating to the services of the Company's external auditors:

- Asses and monitor the (i) external auditor's professional qualifications, competence, independence and objectivity and require the external auditor to make the statements necessary under applicable auditing standards as regards its relationship and services to the Company, discussing any relationship or services which may derogate its independence or objectivity; and (ii) the effectiveness of the audit process in accordance with applicable standards.
- Obtain objective assurance from the external auditor that the conduct of the audit and the manner of the preparation of the financial statements comply with applicable auditing standards and rules of regulatory bodies, including exchanges on which the securities of the Company are listed.
- Review and approve the nature and scope of the audit plans of the external auditor, including scope, audit resources and expenses, and reporting obligations before the audit commences.
- Review the reports or communications of the external auditor and ensure that management or the Board will provide a timely response to the issues raised in such reports or communications.
- Ensure the development and implementation of policies on the engagement of an external auditor to supply non-audit work, including the fees payable therefor, and evaluate any non-audit work undertaken by the external auditor to ensure that the same does not conflict with its audit functions.

There is no arrangement that experts and independent counsels will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

Taxation

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Offer Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Offer Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Offer Shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Offer Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment applicable to a holder of the Offer Shares may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of the Preferred Shares.

PROSPECTIVE PURCHASERS OF THE OFFER SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines." A non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines. The term "dividends" under this section refers to cash or property dividends. "Tax Code" means the Philippine National Internal Revenue of 1997, as amended.

Taxes on Dividends on the Offer Shares

Individual Philippine citizens and resident aliens are subject to a final tax on dividends derived from the Offer Shares at the rate of 10%, which tax shall be withheld by the Company.

Non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 20% on the gross amount thereof, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual. A non-resident alien individual not engaged in trade or business in the Philippines is subject to a final withholding tax on dividends derived from the Offer Shares at the rate of 25% of the gross amount, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual.

The term "non-resident holder" means a holder of the Offer Shares:

- who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and
- should a tax treaty be applicable, whose ownership of the Offer Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

Dividends derived by domestic corporations (i.e., corporations created or organized in the Philippines or under its laws) and resident foreign corporations from the Offer Shares shall not be subject to tax.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30.0%, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30.0% rate for dividends paid to non-resident foreign corporations with countries of domicile having no tax treaty with the Philippines may be reduced to a special 15.0% rate if:

- the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or
- the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident foreign corporation for taxes deemed to have been paid in the Philippines equivalent to 15.0%.

The BIR has prescribed, through an administrative issuance, procedures for the availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non-resident holder of the Offer Shares (or its duly authorized representative) at least 15 calendar days (Revenue Memorandum Order 1-2000) prior to the first taxable event, or prior to the first and only time the income tax payor is required to withhold the tax thereon or should have withheld taxes thereon had the transaction been subject to tax.

The requirements for a tax treaty relief application in respect of dividends are set out in the applicable tax treaty and BIR Form No. 0901-D. These include proof of tax residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the non-resident holder of Offer Shares which states that the non-resident holder is a tax resident of such country under the applicable tax treaty. If the non-resident holder of Offer Shares is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

If tax at the regular rate is withheld by the Company instead of the reduced rates applicable under a treaty, the non-resident holder of the Offer Shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund. Moreover, in view of the requirement of the BIR that an application for tax treaty relief be filed prior to the first taxable event as previously stated, the non-resident holder of the Offer Shares may not be able to successfully pursue a claim for refund if such an application is not filed before such deadline.

Stock dividends distributed pro rata to any holder of shares are not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as share dividends by the holder is subject to either capital gains tax and documentary stamp tax or stock transaction tax.

Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

Country	Dividends (%)	Capital Gains Tax Due on Disposition of Shares Outside the PSE (%)
Canada	25 ^(a)	Exempt ^(h)
France	15 ^(b)	Exempt ^(h)
Germany	15 ^(c)	5/10 ⁽ⁱ⁾
Japan	15 ^(d)	Exempt ^(h)
Singapore	25 ^(e)	Exempt ^(h)
United Kingdom	25 ^(f)	Exempt ⁽ⁱ⁾
United States	25 ^(g)	Exempt ^(h)

Notes:

- 15.0% if the recipient company controls at least 10.0% of the voting power of the company paying the dividends.
- 10.0% if the recipient company (excluding a partnership) holds directly at least 10.0% of the voting shares of the company paying the dividends.
- 10.0% if the recipient company (excluding a partnership) owns directly at least 25.0% of the capital of the company paying the dividends.

- (d) 10.0% if the recipient company holds directly at least 10.0% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends.
- (e) 15.0% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year (if any) at least 15.0% of the outstanding shares of the voting shares of the paying company were owned by the recipient company.
- (f) 15.0% if the recipient company is a company which controls directly or indirectly at least 10.0% of the voting power of the company paying the dividends.
- (g) 20.0% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year (if any), at least 10.0% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation. Notwithstanding the rates provided under the Republic of the Philippines-United States Treaty, residents of the United States may avail of the 15.0% withholding tax rate under the tax-sparing clause¹¹ of the Tax Code provided certain conditions are met.
- (h) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.
- (i) Under the tax treaty between the Philippines and Germany, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5.0% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10.0% on the net capital gains realized during the taxable year in excess of ₱100,000.
- (j) Under the tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

In order for an exemption under a tax treaty to be recognized, an application for tax treaty relief on capital gains tax on the sale of shares must be filed by the income recipient before the deadline for the filing of the documentary stamp tax return, which is the fifth day from the end of the month when the document transferring ownership was executed.

The requirements for a tax treaty relief application in respect of capital gains tax on the sale of shares are set out in the applicable tax treaty and BIR Form No. 0901-C. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

Sale, Exchange or Disposition of Shares after the Offer Period

Capital gains tax

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares outside the facilities of the PSE, unless an applicable treaty exempts such gains from tax or provides for preferential rates, are subject to tax as follows: 5.0% on gains not exceeding ₱100,000 and 10.0% on gains over ₱100,000. An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities to obtain an exemption under a tax treaty. Such application must be filed before the deadline for the filing of the documentary stamp tax return – otherwise, the tax treaty exemption cannot be availed of. The transfer of shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

¹¹ The tax-sparing clause of the Tax Code may also apply to countries other than the United States, i.e. Switzerland.

Taxes on transfer of shares listed and traded at the PSE

A sale or other disposition of shares through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.5% of the gross selling price or gross value in money of the shares sold or otherwise disposed, unless an applicable treaty exempts such sale from said tax. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain tax treaties, the exemptions from capital gains tax discussed herein may not be applicable to stock transaction tax.

In addition, VAT of 12.0% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client.

Prospective purchasers of the Offer Shares should obtain their own tax advice in respect of their investment in relation to these developments.

Documentary Stamp Taxes on Shares

The original issue of shares is subject to documentary stamp tax of ₱1.00 on each ₱200.00 par value, or fraction thereof, of the shares issued. On the other hand, the transfer of shares is subject to a documentary stamp tax at a rate of ₱0.75 on each ₱200.00, or fractional part thereof, of the par value of the Shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the shares.

However, the sale, barter or exchange of Offer Shares should they be listed and traded through the PSE are exempt from documentary stamp tax.

In addition, the borrowing and lending of securities executed under the securities borrowing and lending program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority, are likewise exempt from documentary stamp tax. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

Estate and Gift Taxes

The transfer of the Offer Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5.0% to 20.0% if the net estate is over ₱200,000.00.

Individual registered holders, whether or not citizens or residents of the Philippines, who transfer the Offer Shares by way of gift or donation, will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2.0% to 15.0% if the total net gifts made during the calendar year exceed ₱100,000.00. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%. Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30.0%.

Estate and gift taxes will not be collected in respect of intangible personal property, such as shares, (1) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (2) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Corporate Income Tax

In general, a tax of 30% is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines) pursuant to R.A. 9337, except, among other things, (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds, and similar

arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 7.5% of such income.

Minimum Corporate Income Tax ("MCIT") of 2% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when MCIT is greater than the ordinary income tax for the taxable year.

Nevertheless, any excess of the MCIT over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Furthermore, subject to certain conditions, the MCIT may be suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, force majeure, or legitimate business reverses.

Regulatory Framework

The statements herein are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.

SMC

The Consumer Act

The Consumer Act of the Philippines, the provisions of which are principally enforced by the Department of Trade and Industry of the Philippines (“DTI”), seeks to: (i) protect consumers against hazards to health and safety; (ii) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (iii) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (iv) provide adequate rights and means of redress; and (v) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as (i) consumer product quality and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer’s health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labeling and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

Advertising Regulations

The Ad Standards Council Circulars in the Advertising Industry as formulated by the Ad Standards Council, a non-stock, non-profit organization, established by the Kapisanan ng mga Brodkaster ng Pilipinas, Philippine Association of National Advertisers and Association of Accredited Advertising Agencies handles the screening of all broadcast, out-of-home and print advertising and settlement of disputes regarding advertising content.

Foreign Investment Laws and Restrictions

Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 (“R.A. 8762”), was enacted into law on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

“Retail Trade” is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. The law provides that foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the DTI or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A — Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US\$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens;

- Category B — Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US\$2.5 million but less than US\$ 7.5 million may be wholly owned by foreigners except for the first two years after the effectivity of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity;
- Category C — Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US\$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US\$830,000; and
- Category D — Enterprises specializing in high-end or luxury products with a paid up capital of the equivalent in Philippine Pesos of US\$250,000 per store may be wholly-owned by foreigners.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- A minimum of US\$200 million net worth in its parent corporation for Categories B and C, and US\$50 million net worth in its parent corporation for Category D;
- Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one (1) store capitalized at a minimum of US\$25 million;
- Five-year track record in retailing; and
- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

Foreign Investment Act of 1991

The FIA liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term “Philippine National” is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly-owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation. A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

Local Government Code

The Local Government Code establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The Local Government Code general welfare clause states that every local government unit (“LGU”) shall exercise the powers expressly granted, those necessarily implied, as well as

powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, though its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Securities and Exchange Commission

Under the SRC, the SEC has jurisdiction and supervision over all corporations, partnerships or associations that are grantees of primary franchises, license to do business or other secondary licenses. As the government agency regulating the Philippine securities market, the SEC issues regulations on the registration and regulation of securities exchanges, the securities market, securities trading, the licensing of securities brokers and dealers and reportorial requirements for publicly listed companies and the proper application of SRC provisions, as well as the Corporation Code, and certain other statutes.

Department of Trade and Industry

The DTI is the primary government agency with the dual mission of facilitating the creation of a business environment wherein participants could compete, flourish, and succeed and, at the same time, ensuring consumer welfare. It is the enforcement of laws to protect and educate consumers that becomes the driving factor in the relationship of DTI and manufacturers, such as SMC.

Department of Labor and Employment

Department of Labor and Employment stands as the national government agency mandated to formulate policies, implement programs and services, and serve as the policy-coordinating arm of the Executive Branch of the Government in the field of labor and employment. The Department has exclusive authority in the administration and enforcement of labor and employment laws and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

Social Security System and PhilHealth

An employer, or any person who uses the services of another person in business, trade, industry or any undertaking is required under the Social Securities Act of 1997 (Republic Act No. 8282) ensure coverage of employees following procedures set out by the law and the Social Security System of the Philippines ("SSS"). The employer must deduct from its employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

PhilHealth is a government corporation attached to the Department of Health of the Philippines ("DOH") that ensures sustainable, affordable and progressive social health insurance pursuant to the provisions of RA 7875 or the National Health Insurance Act of 1995. Employers are required to ensure enrollment of its employees in a National Health Program being administered by the PhilHealth.

Bangko Sentral ng Pilipinas

The Bangko Sentral ng Pilipinas ("BSP") is the central bank of the Republic of the Philippines. It was rechartered on July 3, 1993, pursuant to the provisions of the 1987 Philippine Constitution and the New Central Bank Act of 1993. The BSP was established on January 3, 1949, as the country's central monetary authority. Among its functions is the management of foreign currency reserves, by maintaining sufficient international reserves to meet any foreseeable net demands for foreign currencies in order to preserve the international stability and convertibility of the Philippine peso.

The Beverage Business

Various government agencies in the Philippines regulate the different aspects of the beer manufacturing, sales and distribution business of the Company. Philippine national and local government legislation require

a license to sell alcoholic beverages and prohibit the sale of alcoholic beverages to persons below 18 years of age or within a certain distance from schools and churches.

The Bureau of Food and Drugs (under the DOH) administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people. Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The Department of Health also prescribed the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers.

The Food Business

Health Regulations

The Food and Drugs Administration (“FDA”) (under the DOH) administers and enforces the law, and issues rules and circulars, on safety and good quality supply of food, drug and cosmetic to consumers; and regulation of the production, sale, and traffic of the same to protect the health of the people.

Pursuant to this, food manufacturers are required to obtain a license to operate as such. The law further requires food manufacturers to obtain a certificate of product registration for each product.

The DOH (which includes the FDA, formerly known as the Bureau of Food and Drugs) is the government agency tasked to implement the Consumer Act with respect to food products. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers. Under the Consumer Act, the DOH also has the authority to order the recall, ban, or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

The Food Safety Act

In 2013, Republic Act No. 10611 (Food Safety Act of 2013) (the “Food and Safety Act”) was enacted into law to strengthen the food safety regulatory system in the country. The food safety regulatory system encompasses all the regulations, food safety standards, inspection, testing, data collection, monitoring and other activities carried out by the Department of Agriculture and the Department of Health, their pertinent bureaus, and the local government units.

The law aims to: (a) protect the public from food-borne and water-borne illnesses and unsanitary, unwholesome, misbranded or adulterated foods, (b) enhance industry and consumer confidence in the food regulatory system, and (c) achieve economic growth and development by promoting fair trade practices and sound regulatory foundation for domestic and international trade.

To protect consumer interest, the Food Safety Act seeks to prevent the adulteration, misbranding, fraudulent practices and practices which mislead the consumer, and prevent misrepresentation in the labelling and false advertising in the presentation of food. The Department of Agriculture and the Department of Health are mandated to set food safety standards, which are the requirements that food or food processors have to comply with to safeguard human health.

The law likewise mandates the use of Science-based risk analysis in food safety regulation and prescribes the adoption of precautionary measures when the available relevant information for use in risk assessment is insufficient to show a certain type of food or food product does not pose a risk to consumer health.

In addition, food imported, produced, processed and distributed for domestic and export markets should comply with the following requirements: (a) food to be imported into the country must come from countries with an equivalent food safety regulatory system; (b) Imported foods shall undergo cargo inspection and clearance procedures by the Department of Agriculture and the Department of Health at the first port of entry to determine compliance with national regulations; and (c) exported food shall at all times comply with national regulations and regulations of the importing country.

The Food Safety Act imposes the following responsibilities on food business operators: (a) food business operators shall be knowledgeable of the specific requirements of food law with respect to their activities in the food supply chain and the procedures adopted by relevant government agencies, and adopt, apply and be well informed of codes and principles for good practices; (b) in the event a food business operator considers or has reason to believe that food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it shall immediately initiate procedures to recall the product and inform the regulator; (c) food business operators shall allow inspection of their businesses and collaborate with the regulatory authorities to avoid risks posed by the food product/s which they have supplied; and (d) where the unsafe or noncompliant food product may have reached the consumer, it shall effectively and accurately inform the consumers of the reason for the withdrawal, and if necessary, recall the same from the market.

The FDDC Act

The Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the “FDDC Act”), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The FDA is the governmental agency under the DOH tasked to implement and enforce the FDDC Act.

The FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of food products which are adulterated or misbranded or which, although requiring registration pursuant to the FDDC Act, are not registered with the FDA; and (ii) the manufacture, importation, exportation, transfer or distribution of any food, cosmetic or household/urban hazardous substance by any natural or juridical person without the license to operate from the FDA required under the FDDC Act. Any person found in violation of any of the provisions of the FDDC Act shall be subject to administrative penalties or imprisonment or both. Furthermore, the FDA has the authority to seize such food products found in violation of the FDDC Act as well as ban, recall and withdraw any food product found to be grossly deceptive, unsafe, or injurious to the consuming public.

The Livestock and Poultry Feeds Act

The Philippine Livestock and Poultry Feeds Act and its implementing rules and regulations (the “Livestock and Poultry Feeds Act”), regulates and controls the manufacture, importation, labeling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry (the “BAI”) is the governmental office under the Department of Agriculture of the Philippines (“DA”) tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported, exported, traded, advertised, distributed, sold, or offered for sale, or held in possession for sale in the Philippines unless the same has been registered with the BAI. There must also be a separate registration for each type, kind, and form of feed or feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments is required to be renewed on a yearly basis.

The Livestock and Poultry Feeds Act also provides branding, labeling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

The Meat Inspection Code

The Meat Inspection Code of the Philippines (the “Meat Inspection Code”) establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labeling, packaging, branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The National Meat Inspection Service (“NMIS”), a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat

hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. On the other hand, the different local government units, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the construction, management and operation of slaughterhouses, meat inspection, and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments (including, but not limited to, slaughterhouses, poultry dressing plants, meat processing plants and meat shops) where food animals are slaughtered, prepared, processed, handled, packed, stored, or sold. It requires the inspection of food animals before it shall be allowed for slaughter in licensed private slaughterhouses in which meat or meat products thereof are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

The Meat Inspection Code provides for labeling, branding and packaging requirements for meat and meat products to enable consumers to obtain accurate information and ensure product traceability. The Meat Inspection Code also requires all meat establishments to (i) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and (ii) adopt Good Manufacturing Practices and Sanitation Standard Operating Procedures programs for the production, storage and distribution of its meat products. Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

The Price Act

Republic Act No. 7851 or the Price Act (the "Price Act") covers basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. It is primarily enforced and implemented by the DA and DTI.

Under the Price Act, the prices of basic commodities may be automatically frozen or placed under price control in areas declared as disaster areas, under emergency or martial law or in a state of rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of 60 days. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. The Price Act prohibits and penalizes illegal price manipulation through cartels, hoarding or profiteering. Any person found in violation of the provisions of the Price Act shall be subject to administrative penalties or imprisonment or both.

The Philippine Food Fortification Act

The Philippine Food Fortification Act of 2000 (the "PFF Act") provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food products. The fortification of food products is required to be undertaken by the manufacturers, importers and processors thereof. The FDA is the government agency responsible for the implementation of the PFF Act with the assistance of the different local government units which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and food service establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of said law.

Other Relevant Tax-Related Regulations

On July 21, 2014, the Food and Drug Administration issued FDA Circular No. 2014-017 which prescribed the procedure for the issuance of the Food and Drug Administration Certification for Animal Feeds and Products. The FDA issued the circular pursuant to BIR Revenue Memorandum Circular No. 55-2014 which required FDA certification that imported livestock and poultry feeds or ingredients thereof are not fit for human consumption before the same would be considered exempt from VAT.

The Packaging Business

Safety and Quality Regulations under the Consumer Act

The DTI is tasked to implement the Consumer Act with respect to labels and packaging of consumer products other than food products, and regulates product labeling, proper and correct description of goods, product labels with foreign characters/languages, data/information on product contents and origins and other similar matters.

Manufacturers, distributors, importers or repackers of consumer products are required to indicate in their labels or packaging, a parallel translation in the English or Filipino language of the nature, quality and quantity and other relevant prescribed information or instructions of such consumer products in a manner that cannot be easily removed, detached or erased. In addition to the information required to be displayed in the principal and secondary panels, DTI Administrative Order No. 01-08 mandates that all consumer products sold in the Philippines, whether manufactured locally or imported shall indicate and specify the (i) country of manufacture; (ii) required information of consumption duration safety; (iii) warranty of the manufacturer; (iv) weight content prior to packaging; (v) consumer complaint desk address; and (vi) all other information necessary for giving effect to a consumer's right to information.

The packaging of consumer products must not cause the purchaser to be deceived as to the contents, size, quantity, measurement or fill of the product. For consumer products which are packaged in such a way that the contents cannot be seen or inspected upon purchase, samples or labeling describing the product inside the package, in words, in pictorial or graphical representation or by similar means, shall be provided for the inspection of the purchaser. Such sample or description should accurately represent the product in the package.

With respect to the packaging and repackaging of food products, such activities are regulated by the DOH and the FDA as discussed above. Establishments engaged in these activities are required to comply with, among others, the current guidelines on good manufacturing practice in manufacturing, packing, repacking, or holding food promulgated by the DOH.

The Properties Business

Presidential Decree No. 957 (P.D. 957), the Subdivision and Condominium Buyer's Protective Decree, and Batas Pambansa Blg. 220 (B.P. 220) as amended, are the primary statutes which govern the development and sale of real estate projects such as subdivisions. These laws regulate subdivision projects including all areas included therein for residential, commercial, industrial and recreational purposes.

The Housing Land Use and Regulatory Board is the government agency with the jurisdiction to regulate real estate trade and business. In addition, subdivision plans for residential, commercial, industrial and other development projects are subject to the approval of the concerned local government unit ("LGU") where the project is located. Only upon the issuance of a development permit from the LGU may the development of the subdivision commence.

All subdivision plans are required to be filed with and approved by the HLURB. The HLURB shall approve the plan upon evaluation of the financial, technical, and administrative capabilities of the developer. Any alteration of the approved plan requires the approval of the HLURB and the written conformity or consent of the duly organized homeowners association of the development or a majority of the buyers.

The HLURB also issues licenses to sell to developers before any sale or disposition of the lots in the real estate development can be sold to the public. Individual dealers, brokers, and salesman of the company are

likewise required to register with the HLURB as provided under the Real Estate Service Act of the Philippines (Republic Act 9646).

Under P.D. 957, a developer of residential subdivisions with an area of one (1) hectare or more is required to reserve at least 30% of the gross land area of the subdivision for open same and common areas. Furthermore, 3.5% of the gross project area must be reserved for parks and playgrounds.

The Urban Development and Housing Act (R.A. 7279), as amended, further requires developers of proposed subdivision projects to develop for socialized housing an area at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB and other existing laws. To comply, developers may choose to develop for socialized housing an area equal to 20% of the total area of the main subdivision project or allocate and invest an amount equal to 20% of the main subdivision total project cost in the development of a new settlement through purchase of socialized housing bonds, slum upgrading, participation in a community mortgage program, the undertaking of joint-venture projects and the building of a large socialized housing project to build a credit balance.

The Realty Installment Buyer Act, (R.A. No. 6552), otherwise known as the “Maceda Law”, applies to all transactions or contracts involving the sale or financing of real estate through installment payments. The Maceda Law, affords buyers who have paid at least two (2) years of installment, a grace period of one (1) month for every year of paid installment to cure any payment default. In the event that the sale is cancelled, the seller must return to the buyer at least 50% of the total payments made by the buyer, with an additional 5% per annum in cases where at least five years of installment have been paid (but with the total not to exceed 90% of the total payments). Buyers who have paid less than two years of installment and who default on installment payments are given a 60-day grace period to pay all unpaid installment before the sale can be cancelled, without right of refund.

Zoning and Land Use

LGUs are authorized under the Local Government Code to enact zoning ordinances. These ordinances may restrict or limit the zoning and land use of parcels of land within the locality. LGUs may classify parcels of land as commercial, industrial, residential or agricultural. A procedure for change of land use is allowed, although the process may be lengthy and cumbersome.

Land classified for agricultural purposes as of or after June 15, 1988, cannot be converted to non-agricultural use without the prior approval of DAR.

Property Registration

The property registration system of the Philippines confirms land ownership and is binding on all persons, including the Government. Once registered, title to the parcel of land can no longer be challenged unless it involves claims noted on the certificate of title. Title to registered lands may not be lost through adverse possession or prescription. The Property Registration Decree (P.D. 1529), as amended, codified the laws relative to land registration and is based on the generally accepted principles underlying the Torrens System.

Transfers or encumbrances on the parcel of land must be registered in the system, to bind third persons. A subsequent registration and a new Transfer Certificate of Title will be issued upon presentation of documents and settlement of taxes and fee. All documents evidencing conveyances of the subdivision should also be registered with the Register of Deeds. Title to the subdivision must be delivered to the purchaser upon full payment of the purchase price.

Nationality Restrictions

The Philippine Constitution limits ownership of land in the Philippines to Filipino citizens or to corporations the outstanding capital stock of which is at least 60% owned by Philippine Nationals. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning building and other permanent structures.

For as long as the Company or any of its Subsidiaries own land in the Philippines or continue to conduct property development in the Philippines, foreign ownership in the Company must not exceed 40% of the capital stock of the Company which is outstanding and entitled to vote.

Property Taxation

Real property taxes are payable annually based on the property's assessed value, which vary depending on the location, use and the nature of the property. Under the Local Government Code, real property tax must not exceed 2% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1% in all other areas. An additional special education fund tax of 1% of the assessed value of the property is also levied annually.

The Fuel and Oil Business

Downstream Oil Industry Deregulation Act

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Oil Deregulation Act"), provides the regulatory framework for the country's downstream oil industry.

Under the Oil Deregulation Act, any person or entity may import or purchase any quantity of crude oil and petroleum products from foreign or domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement, provided that, among others such person or entity complies with certain requirements such as giving of prior notice to the DOE for monitoring purposes. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Act in March 11, 1998 through Department Circular No. 98-03-004. The rules require any person or entity engaged in any activity in the downstream oil industry to comply with the notice, reportorial, quality, health, safety and environmental requirements set forth therein.

The DOE is the lead Philippine government agency overseeing the oil sector. With the enactment of the Oil Deregulation Act, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. The current function of the DOE is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Act include the following:

- monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;
- monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;
- maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;
- immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and
- in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

LPG Laws and Regulations

B.P. 33

B.P. 33, as amended by PD 1865, provides for certain prohibited acts inimical to public interest and national security involving petroleum and/or petroleum products. These prohibited acts include, among others, (i) illegal trading in petroleum and/or petroleum products, and (ii) underdelivery or underfilling beyond authorized limits in the sale of petroleum products or possession of underfilled liquefied petroleum gas cylinder for the purpose of sale, distribution, transportation, exchange or barter. For this purpose, the existence of the facts hereunder gives rise to the following presumptions:

- a. That cylinders containing less than the required quantity of liquefied petroleum gas which are not properly identified, tagged and set apart and removed or taken out from the display area and made accessible to the public by marketers, dealers, sub-dealers or retail outlets are presumed to be for sale;

- b. In the case of a dispensing pump in a petroleum products retail outlet selling such products to the public, the absence of an out-of-order sign, or padlocks, attached or affixed to the pump to prevent delivery of petroleum products therefrom shall constitute a presumption of the actual use of the pump in the sale or delivery of such petroleum products; and
- c. When the seal, whether official or of the oil company, affixed to the dispensing pump, tank truck or liquefied petroleum gas cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the liquefied petroleum gas cylinder is underfilled, or that the tank truck contains adulterated finished petroleum products or is underfilled.

The use of such pumps, cylinders or containers referred to in sub-paragraph (a), (b), and (c) above, to deliver products for sale or distribution shall constitute prima facie evidence of intent of the hauler, marketer, refiller, dealer or retailer outlet operator to defraud.

Under the said law, "illegal trading in petroleum and/or petroleum products" is understood to mean, among others, (1) the sale or distribution of petroleum products without license or authority from the Oil Industry Management Bureau ("OIMB"), (2) non-issuance of receipts by licensed oil companies, marketers, distributors, dealers, subdealers and other retail outlets, to final consumers; provided: that such receipts, in the case of gas cylinders, shall indicate therein the brand name, tare weight, gross weight, and price thereof, (3) refilling of liquefied petroleum gas cylinders without authority from the Oil Industry Management Bureau, or refilling of another company's or firm's cylinders without such company's or firm's written authorization, and (4) marking or using in such cylinders a tare weight other than the actual or true tare weight thereof.

"Underfilling" or "underdelivery" refers to a sale, transfer, delivery or filling of petroleum products of a quantity that is actually beyond authorized limits than the quantity indicated or registered on the metering device of container. This refers, among others, to the quantity of petroleum retail outlets or to liquefied petroleum gas in cylinder or to lube oils in packages.

R.A. 9514 - IRR

The Implementing Rules and Regulations of Republic Act No. 9514 or the Fire Code of 2008 also outlines requirements for storage and handling of LPG by outside bulk LPG stores and filling stations and the transportation of LPG which require among others, that during the unloading or transfer of LPG, the tank truck shall be located or parked clear of a public thoroughfare, unless the failure to transfer would create a hazard or it is impossible due to topography.

LPG Industry Rules

In January 2014, the Department of Energy issued Department Circular 2014-01-0001, or the Rules and Regulations Governing the Liquefied Petroleum Gas Industry (the "LPG Industry Rules"). The LPG Industry Rules apply to all persons engaged or intending to engage in the business of importing, refining, refilling, marketing, distributing, handling, storing, retailing, selling and/or trading of LPG.

A Standards Compliance Certificate ("SCC") from the OIMB is required before engaging in any LPG Industry Activity. The SCC is valid for a maximum of three (3) calendar years from date of issue and may be renewed. LPG Industry participants must also submit certain reports to the OIMB.

The LPG Industry Rules also imposes (i) minimum standards and requirements for refilling and transportation of LPG; (ii) qualifications and responsibilities for LPG Industry participants such as bulk suppliers, refillers, marketers, dealers, and retail outlets.

Brand owners whose permanent mark appears on the LPG cylinder are presumed under the rules as the owner thereof, irrespective of their custody, and shall ensure that its cylinders comply with all required quality and safety standards. The owner of the cylinders is also required to secure product liability insurance for any liability that may result from an unsafe condition of LPG cylinders.

Rules Pertinent to Auto-LPG Motor Vehicles

On 13 February 2007, the DOE issued DOE Circular No. DC 2007-02-0002 entitled "Providing for the Rules and Regulations Governing the Business of Supplying, Hauling, Storage, Handling, Marketing and Distribution of Liquefied Petroleum Gas (LPG) for Automotive Use" (the "Auto-LPG Rules"). The Auto-LPG

Rules govern the business of supplying, hauling, storage, handling, marketing and distribution of LPG for automotive use.

Under the rules, an Auto-LPG Industry Participant is required to secure from the DOE through the OIMB, an SCC before it can operate. The Auto-LPG also mandates all participants to observe a code of practice consisting of operational guidelines and procedures to ensure the safe operation in the auto LPG business. Illegal trading, adulteration and hoarding are likewise prohibited. Under the Auto-LPG Rules, the following shall constitute prima facie evidence of hoarding: (i) the refusal of Auto-LPG Dispensing Stations to sell LPG products for automotive use shortly before a price increase or in times of tight supply, and in both instances if the buyer or consumer has the ability to pay in cash for the product; (ii) the undue accumulation of Auto-LPG Dispensing Stations of LPG products for automotive use in times of tight supply or shortly before a price increase. For purposes of this Auto LPG Rules, "undue accumulation" shall mean the keeping or stocking of quantities of LPG products for automotive use beyond the inventory levels as required to be maintained by the Auto-LPG Dispensing Stations, for a period of thirty (30) days immediately preceding the period of tight supply or price increase.

The Land Transportation Office ("LTO") also issued Memorandum Circular No. RIB-2007-891 or the "Implementing Rules and Regulations in the Inspection and Registration of Auto-LPG Motor Vehicles". The Circular requires the device for the use of LPG as fuel by any motor vehicle to be installed only by the conversion/installing shop duly certified by the Bureau of Product and Standards ("BPS") of the DTI under its Philippine Standards Certification Mark ("PS Mark") scheme. The converted vehicle shall be subjected to an annual maintenance and inspection by the BPS certified conversion/installing shop. The BPS certified conversion/installing shop shall issue a corresponding Certificate of Inspection and Maintenance Compliance ("CIMC").

Oil Pollution Compensation Act of 2007

Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007, imposes strict liability on the owner of the ship for any pollution damage caused within the Philippine territory. Pollution damage is the damage caused outside the ship by contamination due to the discharge of oil from the ship, as well as the cost of preventive measures to protect it from further damage.

The law also provides that any person who has received more than 150,000 tons of "contributing oil" (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, "oil" includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received "contributing oil," for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person's subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons. Persons who received contributing oil are required to report the quantity of such oil received to the DOE. Contributing oil means crude oil and fuel oil as defined under Republic Act No. 9483.

Other Regulatory Requirements

Petroleum products are subject to Philippine National Standards specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the Philippine National Standards.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the Environmental Compliance Certificate ("ECC") issued by the Department of Natural Resources of the Philippines ("DENR") for service stations and for environmentally-critical projects. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending;

(b) storing/transshipment; (c) distribution/ operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper Philippine government authorities.

Other Relevant Tax-related Regulations

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3% to 5%, but was later reduced to 3% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3% import duty on crude oil shall be adjusted to 2%, 1% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate tariffs on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. Under the ASEAN Trade in Goods Agreement, crude oil and refined petroleum products imported from ASEAN Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

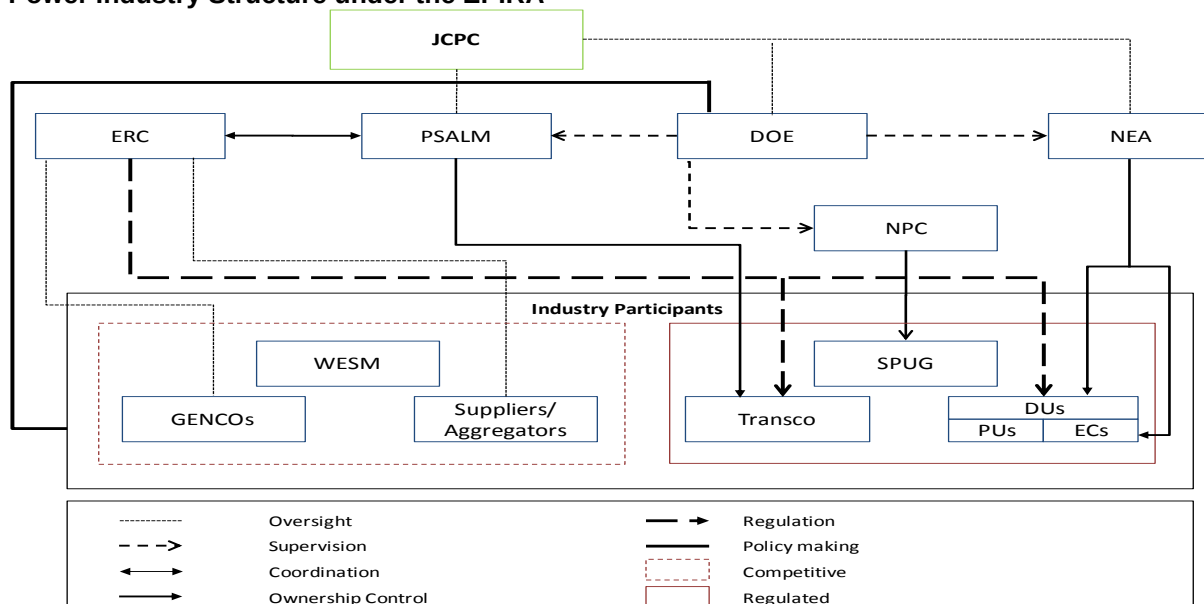
Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity.

The Energy Business

Organization and Operation of the Power Industry

The EPIRA established a framework for the organization and operation of the electric power industry in connection with its restructuring, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Power Industry Structure under the EPIRA



Note:

DUs: Distribution Utilities

ECs: Electric Cooperatives

GENCOs: Any entity authorized by the ERC to operate electricity generation facilities

JCPC: Joint Congressional Power Commission

PUs: Production Utilities

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Philippine government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and to broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to ensure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant government agencies, electric power industry participants, non-government organizations and electricity consumers, promulgated the Implementing Rules and Regulations of the EPIRA (the “EPIRA IRR”) on February 27, 2002.

The EPIRA IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely the DOE, NPC, National Electrification Administration (“NEA”), ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission and distribution sectors will remain regulated. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate government agencies under existing laws.

Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anti-competitive behavior. The ERC may impose fines and penalties for violation of the EPIRA and the EPIRA IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers and private distribution utilities, or through spot sale transactions in the Wholesale Electricity Spot Market ("WESM"). Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. Upon commencement of retail competition and open access, generation rates, except those intended for the "Captive Market" (i.e., a market of electricity end-users who may not choose their supplier of electricity), will cease to be regulated.

The generation sector converts fuel and other forms of energy into electricity. This sector, by utility, consists of the following: (i) NPC-owned and -operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned and -operated plants, all of which supply electricity to NPC; and (iii) IPP-owned and -operated plants that supply electricity to customers other than NPC. Successes in the privatization process of NPC continue to build up momentum for the power industry reforms.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to retail electricity suppliers through either bilateral contracts or the WESM as described below. Once the regime of retail competition and open access is implemented, generation companies may likewise sell electricity to eligible end-users. The ERC issued a resolution on January 24, 2007 prescribing the timeline for full retail competition and open access in Luzon. Pursuant to Section 31 of the EPIRA, such implementation is subject to the fulfillment of five conditions. The last of these conditions have been substantially fulfilled, namely: (1) the establishment of WESM; (2) unbundling of transmission and distribution wheeling charges; (3) initial implementation of the cross-subsidy removal scheme; and (4) privatization of at least 70% of the total capacity of the generating assets of NPC in Luzon and Visayas, with the successful asset turnover of the rebidding for the 600 MW Calaca coal-fired power plant in August 2009. To date, the one (1) condition that remains unsatisfied is the transfer to IPPAs the management and control of at least 70% of the total energy output of power plants under contract with NPC and the IPPs. The same was accomplished in 2011. No generation company is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectiveness of the EPIRA.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP agreements of NPC, which exclude the assets devoted to missionary electrification through the NPC Small Power Utilities Group ("SPUG"). NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

As of June 30, 2011, PSALM has privatized 25 operating/generating power facilities with an aggregate rated capacity of 3,468.23 MW accounting for 91.80% of the total 3,778.23 MW total rated capacity of NPC generating assets in the Luzon and Visayas grids. Major generation assets include the 748 MW Tiwi-Makban geothermal power plant, the 655 MW Limay combined-cycle power plant, the 600 MW Calaca coal-fired thermal power plant, the 600 MW Masinloc coal-fired thermal power plant, the 360 MW Magat hydro-electric power plant and the 305 MW Palinpinon-Tongonan geothermal power plant. In addition, as of June 30, 2011, IPPA agreements covering generation assets with an aggregate rated capacity of 4,213.75 MW, or approximately 85.90% of the total energy output of power plants under contract with NPC and IPPAs have been awarded. These include IPPA agreements for the 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the San Roque Power Plant, the 70 MW Bakun hydro-electric power plant, the 40 MW Benguet hydro-electric power plant and the 1,200 MW Ilijan combined-cycle gas-fired power plant.

In terms of market share limitations, no generation company is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas, or Mindanao and/or 25% of the total nationwide installed generating capacity. To date, there is no power generation company, including NPC, breaching the mandated ceiling. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the enactment of EPIRA.

Requirement of Public Offering for Generation Companies

Under Section 43(t) of the EPIRA, the ERC was mandated to issue rules and guidelines under which, among others, generation companies which are not publicly listed shall offer and sell to the public a portion of not less than 15.0% of their common shares of stock.

ERC Resolution No. 9, Series of 2011, the latest ruling of the ERC with regard to public offerings of generation companies and distribution utilities, adopted the rules to implement Section 43(t) of the EPIRA. Under the resolution, generation companies, among others, which are not publicly listed are required to sell to the public a portion of not less than 15.0% of their common shares of stock. If the authorized capital stock of a generation company is fully subscribed, such company must increase its authorized capital stock by 15.0% or sell or cause the sale of 15.0% of its existing subscribed capital stock in order to comply with the public offering requirement under the EPIRA.

Any offer of common shares of stock for sale to the public through any of the following modes may be deemed as a public offering for purposes of compliance with the public offering requirement under the EPIRA: (1) listing on the PSE; and (2) listing of the shares of stock in any accredited stock exchange or direct offer of the required portion of a company's capital stock to the public. For generation companies registered with the BOI under the Omnibus Investments Code, the public offering requirement may be complied with by a direct offer of the required portion of the registered enterprise's shares of stock to the public or through its employees through an employee stock option plan (or any plan analogous thereto), provided such offer is deemed feasible and desirable by the BOI.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP agreements that have not been disposed of by PSALM.

The Transmission Sector

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to the National Transmission Corporation ("TransCo"), which was created pursuant to the EPIRA to assume, among other functions, the operation of the electrical transmission systems throughout the Philippines. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("Grid Code"). TransCo is also mandated to provide Open Access to all industry participants. The EPIRA granted TransCo a monopoly over the high-voltage network and subjected it to performance-based regulations.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated common carrier business, the transmission wheeling charges of TransCo are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of a concession over, the transmission assets while the subtransmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of US\$3.95 billion. NGCP was officially granted the authority to operate the country's sole transmission system on January 15, 2009.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or PEMC. These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;

- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity;
- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and
- other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity (“CPCN”) from the ERC to operate as public utilities.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code (“Distribution Code”) (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules (“DSOAR”) and the performance standards set out in the EPIRA IRR.

The distribution sector is and will continue to be regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is subject to ERC approval. In addition, as a result of the Philippine government’s policy of promoting free competition and open access, distribution utilities are required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of retail open access.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines.

The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connected to a distribution system;
- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and
- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function is currently being undertaken solely by franchised distribution utilities. However, upon commencement of retail open access, the supply function will become competitive. The business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to the “Contestable Market” (i.e., a market of electricity end-users who have a choice on their supplier of electricity) is considered a business with a public interest dimension. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

Once retail competition and open access are implemented as mandated by the EPIRA, it is expected that the Contestable Markets may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. The EPIRA also contemplates that certain end-users will directly source power directly through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level. It has been planned that retail competition will gradually increase

over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

Role of the ERC

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive end-users, including self-generating entities;
- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator to ensure a greater supply and rational pricing of electricity;
- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the Contestable and Captive Markets;
- to fix user fees to be charged by TransCo/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;
- to review all power purchase contracts executed between NPC and IPPs, including the distribution utilities;
- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;
- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;
- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and
- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all government activities pertaining to energy projects;
- encouragement of private investment in the power industry sector and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and

- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine Senate and House of Representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;
- endorsement of the initial privatization plan of PSALM for approval by the President of the Philippines;
- ensuring transparency in the public bidding procedures adopted for the privatization of the generation and transmission assets of NPC;
- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA; and
- recommendation of necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

Competitive Market Devices

Wholesale Electricity Spot Market

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of retail competition and open access, within one (1) year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

In June 28, 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly trading period). These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

In November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM became operational in the Luzon grid on June 26, 2006. Prior to the commencement of the Luzon WESM commercial operations, the ERC issued the enforcement of 90% cap on the bilateral supply contracts of distribution utilities to address other issues that may arise during the commercial operations of the WESM. The ERC is responsible for monitoring the 90% cap on power sourced from bilateral PSCs of distribution utilities' total monthly demand. As of the date of this Prospectus, there were more than 200 entities registered as WESM members.

Retail Competition and Open Access

The EPIRA likewise provides for a system of retail competition and open access on transmission and distribution wires, whereby TransCo/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. Conditions for the commencement of the open access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;

- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

The Philippine government expects retail competition and open access to be implemented in phases. As far as Luzon is concerned, the WESM began operations in June 2006 and retail competition has already been introduced, with end-users who comprise the Contestable Market for this purpose already identified.

The ERC officially declared December 26, 2011 as the open access date, marking the commencement of the full operation of the competitive retail electricity market in Luzon and Visayas. This declaration (ERC Resolution No. 10 Series of 2011) was signed on June 6, 2011.

On October 24, 2011, through ERC Case No. 2011-009 RM, the ERC declared the deferment of the open access date. The ERC found that not all rules, systems, preparations, and infrastructures required to implement retail competition and open access have been put in place to allow a December 26, 2011 open access commencement. For instance, the accounting and billing system had not been finalized. The essential business-to-business system, an information technology structure that shall handle the information exchange among retail competition and open access participants, is also not yet in place. A final open access date has yet to be announced, but is expected to occur late in 2012.

Upon implementation of open access, the various contracts entered into by utilities and suppliers may potentially be “stranded”. Stranded contract cost refers to the excess of the contracted cost of electricity under eligible IPP contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that transmission and distribution wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one (1) year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility. The initial implementation of the cross-subsidy removal scheme was accomplished in 2001.

These arrangements are now in place, in satisfaction of the conditions for retail competition and open access.

The EPIRA likewise provides for a socialized pricing mechanism such as the lifeline rate subsidy to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of ten years, unless extended by law. Its application was extended for another 10 years by Republic Act No. 10150, which was approved on June 2011.

Implementation of the PBR

On June 22, 2009, the ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering Performance Based Regulation (“PBR”) for the fourth entry points, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation (“RORB”) that has historically determined the distribution charges paid by the distribution companies’ customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility’s efficiency factor. For each year during the regulatory period, a distribution utility’s distribution charge is adjusted upwards or downwards taking into consideration the utility’s efficiency factor set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to

customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the EPIRA IRR, President Arroyo enacted Executive Order No. 100 on May 3, 2002, to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements for the two most recent 12-months periods, if available, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

The ERC also governs the approval process for Power Supply Agreement ("PSAs") between distribution utilities and power suppliers. Under ERC Resolution No. 38, Series of 2006, Rule 20 (B), the ERC specified that the procedures established by the Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Rates (ERC Res. No. 11, s. 2005), shall also be applicable for PSAs of the distribution utilities. Aside from the regulatory certificates from the SEC, BOI, DOE, and the like, the ERC also requires additional documentary support for PSA approval. For instance, they require financial data such as debt-to-equity ratios, project costs, annual interests, weighted average cost of capital, bank loans, to name a few. The ERC also requires a specification of the cash flow on the initial costs, operating & maintenance expenses, Minimum Energy Offtake ("MEOT"), fuel costs, and the like. In addition, technical and economic characteristics of the generating plant such as the kWh generation (basis of maintenance allowance), installed capacity, mode of operation, and dependable capacity, also need to be presented for ERC approval.

Both resolutions specify that ERC must render a decision within 90 days from the date of filing of the application. If no decision is rendered within the 90 day period, the PSA shall be deemed approved, unless the extension of the period is due to extraordinary circumstances

Upon the introduction of retail competition and open access, the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction and operation, including environmental licenses and permits.

The Infrastructure Business

The Company has investments in companies which hold long term concessions on infrastructure projects awarded by the government. The rights and obligations of the Company, including regulatory requirements in connection with these projects are primarily governed by the respective concession agreements for each project.

Civil Aviation Authority Act of 2008

The Civil Aviation Authority of the Philippines (CAAP) is an independent regulatory body attached to the Department of Transportation and Communications (DOTC). The CAAP regulates the air transportation system in the Philippines, which includes the power to provide prescribe and revise safety standards for the operation of air navigation facilities located in the Philippines. Pursuant to its functions, it issued on May 27, 2011 the Philippine Civil Aviation Regulations (Board Resolution No. 2011-025). The standards include General Policies and Air Operator Certification and Administration.

Toll Regulatory Board

The TRB was created under P.D. No. 1112 for the regulation of toll facilities and operates as an attached agency of the DOTC. Pursuant to Executive Order No. 133 s. 2013, in relation to PD No. 1112, the TRB is authorized and empowered to enter into contracts or TOA in behalf of the ROP with qualified persons or entities, for the construction, operation and maintenance of toll facilities such as but not limited to national highways, roads, bridges, and public thoroughfares. The TOA is subject to the approval of the President of the Philippines and has a fixed term not exceeding 50 years.

The TRB is also the issuing authority of the Toll Operation Certificates ("TOC"). The TOC is the authority granted to qualified persons, to develop, improve, upgrade, expand, rehabilitate, reconstruct, modernize and/or construct/build and operate and maintain a toll facility. The TOC has a fixed term not exceeding 50 years and may be amended, modified or revoked by the TRB whenever the public interest so requires subject to the payment of just compensation, if any is due.

The privilege to operate toll facilities in the Philippines is limited by nationality restrictions. The Constitution provides that a franchise, certificate, or any other form of authorization for the operation of a public utility can only be granted to Filipino citizens or corporations or associations organized under Philippine laws at least sixty percent (60%) of whose capital is owned by Filipinos.

Among the operation and maintenance facilities of toll facilities which may form part of a TOC or a TOA, include (a) for operation: (i) toll collection system, (ii) traffic control system, (iii) tollroad patrol and vehicle control with communications system, (iv) facilities for assistance of disabled vehicles and in case of emergencies, (v) information service and message sign boards, (vi) vehicle regulation facilities, (vii) telephone and lighting facilities, and, (viii) emergency operations; and (b) for maintenance (i) patrolling and inspection facility, (ii) road cleaning and obstruction control, (iii) electricity and water supply, (iv) repavement facilities, steel bridge painting, bridge strengthening, interchange improvement, parking area improvement, slope protection, pavement painting and the like, (v) disaster prevention and reaction facilities, and (vi) environmental enhancement and protection.

Aside from the power to grant an administrative franchise, the TRB is also vested with the power to issue, modify and promulgate toll rates, and upon notice and hearing, to approve or disapprove petitions for the increase thereof. The procedures for approval of initial, adjusted or periodic toll rates as well as approval of provisional toll rates are governed by the 2013 Revised Rules of Procedure of the TRB.

Environmental Matters

The operations of the businesses of SMC are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

Environmental Impact Statement System Law

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain aECC prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "EMB"), determines whether a project is environmentally critical or located in an environmentally critical area and processes all

applications for an ECC. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("EIS") to the EMB while a non-environmentally critical project in an environmentally critical area is generally required to submit an Initial Environmental Examination (the "IEE") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. Some activities of the Company are classified as environmentally critical projects such as the construction of major roads and bridges and engaging in petroleum and petro-chemical for which EIS and ECC are mandatory.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

Clean Water Act

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act", was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

Said Act require owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes said owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. T

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the Maritime Industry Authority ("MARINA") and the Philippine Coast Guard. Both are agencies under the Philippine Department of Transportation and Communications.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all

enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA issued: (i) Circular No. 2007-01 which mandated the use of double-hull vessels for oil tankers, including those below 500 tons deadweight tonnage by the end of 2008 for transporting Black Products; and (ii) Circular No. 2010-01 for transporting White Products in certain circumstances by 2011.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills. Oil companies, oil explorers, natural gas explorers, power plants/barges and tanker owners are also required to develop shipboard oil pollution emergency plans to be approved by the PCG.

Moreover, both the Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

Philippine Clean Air Act

Republic Act No. 8749, otherwise known as the “Philippine Clean Air Act”, provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Clean Air Act provides for air quality standards and regulations against air pollution. It provides that the DENR shall have authority to issue permits as it may determine necessary for the prevention and abatement of air pollution. Said permits shall cover emission limitations for regulated air pollutants to help attain and maintain the ambient air quality standards. Under the implementing rules and regulations of the Clean Air Act, all sources of air pollution are required to obtain a valid Permit to Operate while new or modified sources must first obtain an Authority to Construct. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Air Act.

The Clean Air Act provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Clean Air Act mandates the sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by January 1, 2004 nationwide. The law also regulates the use of any fuel or fuel additives. Furthermore, the Clean Air Act prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or additive unless these have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for all types of fuel and fuel related products, to improve fuel consumption for increased efficiency and reduced emissions. The committee is guided by strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the DOE initiative on alternative fuels.

The Biofuels Act of 2006

Republic Act No. 9367, also known as “The Biofuels Act of 2006”, aims to reduce the dependence of the transport sector on imported fuel and, pursuant to such law, regulations mandate that all gasoline fuel sold by every oil company in the Philippines should contain a minimum 10% blend of bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In 2008, a Joint Administrative Order known as the “Guidelines Governing the Biofuel Feedstock Production and Biofuels and Biofuel Blends Production, Distribution and Sale” (the “Guidelines”) was issued by various Philippine government agencies. The Guidelines mandate oil companies to blend biodiesel with diesel and bioethanol with gasoline. The Guidelines further require oil companies to source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless

authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, an oil company's failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In 2011, the DOE issued Circular No. 2011-12-0013, entitled "Guidelines on the Utilization of Locally-Produced Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006" (the "Circular"). The Circular requires oil companies operating in the Philippines to submit to the DOE's Oil Industry Management Bureau certain reports in order for the Oil Industry Management Bureau to monitor the oil companies' compliance with the Circular, including a quarterly certification on compliance with local monthly allocations for the use of locally-sourced bioethanol during the previous quarter and the 10% mandated blend of biofuel by volume into all gasoline fuel distributed and sold.

Renewable Energy Act of 2008

Republic Act No. 9513, also known as "The Renewable Energy Act" aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, wind, hydro, geothermal, and energy sources through various tax incentives. The tax incentives granted to renewable energy developers under the law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for the sale of power-generated from these energy sources; (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday; (vi) tax exemption of carbon credits; and (vii) subject to prior approval of the DOE and under certain circumstances, tax credit on domestic capital equipment and services.

Other Laws

Other regulatory environmental laws and regulations applicable to the businesses of SMC include the following:

The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. Said Act is implemented by the DENR.

The Ecological Solid Waste Management Act of 2000 provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. Said Act prohibits, among others, the transporting and dumping of collected solid wastes in areas other than such centers and facilities prescribed thereunder. The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.

The Sanitation Code provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis. Said Code is implemented by the DOH.

The Philippine Stock Market

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Joint Lead Underwriters or any of their respective subsidiaries, affiliates or advisors in connection with sale of the Preferred Shares.

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine Government have resulted in the unification of the two bourses into The Philippine Stock Exchange, Inc. ("PSE"). The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one (1) in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the SEC granted the Self-Regulatory Organization ("SRO") status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of 97.8 million shares, of which 73,380,397 shares are outstanding. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the trading facilities of the PSE. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the Main Board or the Small and Medium Enterprises Board of the PSE. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as at the date thereof reflects the price movements of selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi is composed of shares of 30 selected companies listed on the PSE.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The table below sets out movements in the composite index from 1995 up to December 29, 2014 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ billions)	Combined Value of Turnover (in ₱ billions)
1995.....	2,594.2	205	1,545.7	379.0
1996.....	3,170.6	216	2,121.1	668.8
1997.....	1,869.2	221	1,251.3	586.2
1998.....	1,968.8	222	1,373.7	408.7
1999.....	2,142.9	225	1,936.5	781.0
2000.....	1,494.5	229	2,576.5	357.7
2001.....	1,168.1	231	2,141.4	159.6
2002.....	1,018.4	234	2,083.2	159.7
2003.....	1,442.4	236	2,973.8	145.4
2004.....	1,822.8	235	4,766.3	206.6

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ billions)	Combined Value of Turnover (in ₱ billions)
2005.....	2,096.0	237	5,948.4	383.5
2006.....	2,982.5	239	7,173.2	572.6
2007.....	3,621.6	244	7,977.6	1,338.3
2008.....	1,872.9	246	4,069.2	763.9
2009.....	3,052.7	248	6,029.1	994.2
2010.....	4,201.1	253	8,866.1	1,207.4
2011.....	4,372.0	245	8,697.0	1,422.6
2012.....	5,812.7	254	10,952.7	1,771.7
2013.....	5,889.8	257	11,931.3	2,546.3
2014.....	7,230.6	270	11,905.6	2,130.1

Source: PSE

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the electronic trading system of the PSE. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one (1) broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Trading on the PSE is a continuous session from 9:30 a.m. to 3:30 p.m. with a recess from 12:00 p.m. to 1:30 p.m. inclusive of a 10-minute extension at the end of the trading session during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from five (5) to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50% or down by 50% in one (1) day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the company or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated, subject again to the trading ban.

Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

Settlement

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the PSE and was organized primarily as a clearance and settlement agency for SCCP eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also trading participants of the Exchange;

- guaranteeing the settlement of trades in the event of a trading participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund, and;
- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three (3) trading days after transaction date ("T+3"). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book-entry system of the Philippine Depository & Trust Corporation's ("PDTC", formerly the Philippine Central Depository, Inc.). Each trading participant maintains a Cash Settlement Account with one of the seven (7) existing Settlement Banks of SCCP which are BDO Unibank, Inc., Deutsche Bank AG (Manila Branch), Hong Kong and Shanghai Banking Corporation (Manila), Maybank Philippines, Inc., Metropolitan Bank & Trust Company, Rizal Commercial Banking Corporation, and Union Bank of the Philippines. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("CCCS") system on May 29, 2006. CCCS employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

Scripless Trading

In 1995, the PDTC, (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, BDO Unibank, Inc., Deutsche Bank AG (Manila Branch), Hong Kong and Shanghai Banking Corporation (Manila), Maybank Philippines, Inc., Metropolitan Bank & Trust Company, Rizal Commercial Banking Corporation, and Union Bank of the Philippines.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation ("PCD Nominee"), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are canceled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of PCD Nominee through the PDTC participant will be recorded in the registry of the issuing corporation. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are canceled and confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in the amended rule on Lodgment of Securities of the PSE.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent on the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on listing date.
- On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the registry of the Issuer as of confirmation date.

Issuance of Stock Certificates for Certificated Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with the PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his shareholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering

the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of beneficial ownership in the shares to certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the transfer agent of the relevant company.

Appendix

- A. Reviewed Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2015
- B. Audited Consolidated Financial Statements as of and for the years ended December 31, 2014, 2013 and 2012
- C. List of properties owned and leased by SMC

**A. Reviewed Unaudited Consolidated Financial Statements
as of and for the three months ended March 31, 2015**

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2015 AND DECEMBER 31, 2014
(In Millions)

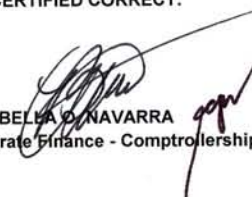
ASSETS

LIABILITIES AND EQUITY

	2015 Unaudited	2014 Audited		2015 Unaudited	2014 Audited
Current Assets			Current Liabilities		
Cash and cash equivalents (Notes 2, 8 and 9)	P 235,407	P 258,606	Loans payable (Notes 4, 8 and 9)	P 152,084	P 180,059
Trade and other receivables - net (Notes 2, 4, 8 and 9)	125,187	136,036	Accounts payable and accrued expenses (Notes 2, 4, 8 and 9)	116,557	121,844
Inventories (Note 2)	77,285	85,846	Finance lease liabilities - current portion (Notes 8 and 9)	16,184	16,219
Current portion of biological assets - net	3,219	3,320	Income and other taxes payable (Note 2)	13,836	13,303
Prepaid expenses and other current assets (Notes 2, 8 and 9)	45,966	46,088	Dividends payable	2,318	3,134
	487,064	529,896	Current maturities of long-term debt - net of debt issue costs (Notes 2, 4, 8 and 9)	36,952	19,852
Assets held for sale	8,798	9,339			
Total Current Assets	495,862	539,235	Total Current Liabilities	337,931	354,411
Noncurrent Assets			Noncurrent Liabilities		
Investments and advances - net (Note 2)	29,435	37,427	Long-term debt - net of current maturities and debt issue costs (Notes 2, 4, 8 and 9)	321,888	283,136
Available-for-sale financial assets (Notes 8 and 9)	41,418	41,459	Deferred tax liabilities (Note 2)	13,187	7,820
Property, plant and equipment - net (Notes 2 and 5)	461,169	453,961	Finance lease liabilities - net of current portion (Notes 8 and 9)	167,198	170,111
Investment property - net	3,843	3,643	Other noncurrent liabilities (Notes 2, 4, 8 and 9)	13,133	12,091
Biological assets - net of current portion	2,164	1,973	Total Noncurrent Liabilities	515,406	473,158
Goodwill - net (Note 2)	58,664	41,211	Equity		
Other intangible assets - net (Note 2)	102,217	45,114	Equity Attributable to Equity Holders of the Parent Company		
Deferred tax assets (Note 2)	15,063	14,651	Capital stock - common	16,417	16,415
Other noncurrent assets - net (Notes 2, 4, 8 and 9)	32,648	38,376	Capital stock - preferred	10,187	10,187
Total Noncurrent Assets	746,621	677,815	Additional paid-in capital	178,125	178,101
			Revaluation increment	1,089	761
			Reserve for retirement plan	(1,114)	(1,115)
			Cumulative translation adjustments	3,216	4,251
			Retained earnings:		
			Appropriated	52,086	52,088
			Unappropriated	121,975	119,655
			Treasury stock	(139,881)	(139,881)
				242,100	240,462
				147,046	149,019
			Non-controlling Interests (Note 2)	389,146	389,481
			Total Equity		
	P 1,242,483	P 1,217,050		P 1,242,483	P 1,217,050

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

CERTIFIED CORRECT:

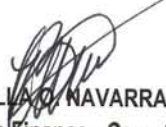

BELVA D. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2015 AND 2014
(In Millions, Except Per Share Data)

	2015 Unaudited	2014 Unaudited
SALES (Note 3)	P 159,171	P 194,911
COST OF SALES	<u>128,526</u>	<u>166,513</u>
GROSS PROFIT	30,645	28,398
SELLING AND ADMINISTRATIVE EXPENSES	(14,092)	(12,810)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(7,603)	(7,424)
INTEREST INCOME	1,209	991
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	136	(323)
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	(122)	132
OTHER CHARGES - Net	<u>(787)</u>	<u>(1,222)</u>
INCOME BEFORE INCOME TAX	9,386	7,742
INCOME TAX EXPENSE	<u>3,351</u>	<u>1,726</u>
NET INCOME	<u><u>P 6,035</u></u>	<u><u>P 6,016</u></u>
Attributable to :		
Equity holders of the Parent Company	P 2,318	P 2,154
Non-controlling interests	<u>3,717</u>	<u>3,862</u>
	<u><u>P 6,035</u></u>	<u><u>P 6,016</u></u>
Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6):		
Basic	P 0.33	P 0.26
Diluted	P 0.33	P 0.26

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

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BELLA D. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2015 AND 2014
(In Millions)

	2015 Unaudited	2014 Unaudited
NET INCOME	P 6,035	P 6,016
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
EQUITY RESERVE FOR RETIREMENT PLAN	3	(3)
INCOME TAX BENEFIT (EXPENSE)	(1)	1
SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net	<u>222</u>	<u>193</u>
	<u>224</u>	<u>191</u>
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(1,993)	859
NET LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(34)	(321)
INCOME TAX EXPENSE	<u>5</u>	<u>23</u>
	<u>(2,022)</u>	<u>561</u>
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	<u>(1,798)</u>	<u>752</u>
TOTAL COMPREHENSIVE INCOME - Net of tax	<u>P 4,237</u>	<u>P 6,768</u>
Attributable to :		
Equity holders of the Parent Company	<u>P 1,284</u>	<u>P 2,358</u>
Non-controlling interests	<u>2,953</u>	<u>4,410</u>
	<u>P 4,237</u>	<u>P 6,768</u>

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

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BELLA D. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2015 AND 2014
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company															Non-controlling Interests		Total Equity										
	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Reserve for Retirement Plan	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock		Total																
	Common	Preferred				Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated	Common	Preferred																	
As of January 1, 2015 (Audited)	P	16,415	P	10,187	P	178,101	P	761	P	(1,115)	P	4,071	P	180	P	52,088	P	119,655	P	(67,093)	P	(72,788)	P	240,462	P	149,019	P	389,481
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	-	(1,227)	-	-	-	-	-	-	-	-	(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	-	1	-	2	
Net loss on available-for-sale financial assets	-	-	-	-	-	-	-	(29)	-	-	-	-	-	-	-	(29)	-	-	-	-	-	-	(29)	-	-	-	(29)	
Other comprehensive income (loss)	-	-	-	-	-	-	1	(1,227)	192	-	-	-	-	-	-	(1,034)	-	-	-	-	-	-	(1,034)	-	(764)	-	(1,798)	
Net income	-	-	-	-	-	-	-	-	-	-	-	-	2,318	-	-	2,318	-	-	-	-	-	-	2,318	-	3,717	-	6,035	
Total comprehensive income (loss)	-	-	-	-	-	-	1	(1,227)	192	-	-	-	2,318	-	-	1,284	-	-	-	-	-	-	1,284	-	2,953	-	4,237	
Issuance of common shares	2	-	24	-	-	-	-	-	-	-	-	-	-	-	-	26	-	-	-	-	-	-	26	-	-	-	26	
Net reduction to non-controlling interests and others	-	-	-	-	-	-	328	-	-	-	-	-	-	-	-	328	-	-	-	-	-	-	328	-	(358)	-	(30)	
Reversal of 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)	P	16,417	P	10,187	P	178,125	P	1,089	P	(1,114)	P	2,844	P	372	P	52,086	P	121,975	P	(67,093)	P	(72,788)	P	242,100	P	147,046	P	389,146
As of January 1, 2014 (Audited)	P	16,414	P	10,187	P	178,085	P	764	P	862	P	4,079	P	784	P	28,230	P	138,256	P	(67,166)	P	(72,788)	P	237,707	P	128,070	P	365,777
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	309	-	-	-	-	-	-	-	-	-	-	-	-	-	309	-	550	-	859	
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	-	-	-	193	-	-	-	-	-	-	-	-	-	-	-	-	193	-	-	-	193	
Equity reserve for retirement plan	-	-	-	-	-	-	(2)	-	-	-	-	-	-	-	-	(2)	-	-	-	-	-	-	(2)	-	-	-	(2)	
Net loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(296)	-	-	-	-	-	(296)	-	-	-	-	-	-	(296)	-	(2)	-	(298)	
Other comprehensive income (loss)	-	-	-	-	-	-	(2)	309	(103)	-	-	-	-	-	-	204	-	-	-	-	-	-	204	-	548	-	752	
Net income	-	-	-	-	-	-	-	-	-	-	-	-	2,154	-	-	2,154	-	-	-	-	-	-	2,154	-	3,862	-	6,016	
Total comprehensive income (loss)	-	-	-	-	-	-	(2)	309	(103)	-	-	-	2,154	-	-	2,358	-	-	-	-	-	-	2,358	-	4,410	-	6,768	
Issuance of common shares	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1	
Net addition to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	9	
Appropriations - net	-	-	-	-	-	-	-	-	-	-	-	373	(373)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Cash dividends and distributions (Note 7):																												
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,369)	-	(3,369)	
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(300)	-	(300)	
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,824)	-	(1,824)	
As of March 31, 2014 (Unaudited)	P	16,414	P	10,187	P	178,086	P	764	P	860	P	4,388	P	681	P	28,603	P	140,037	P	(67,166)	P	(72,788)	P	240,066	P	126,996	P	367,062

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

CERTIFIED CORRECT:

BEILUN N. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2015 AND 2014
(In Millions)

	2015 Unaudited	2014 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 9,386	P 7,742
Adjustments for:		
Depreciation, amortization and others - net	4,771	8,106
Interest expense and other financing charges	7,603	7,424
Interest income	(1,209)	(991)
Equity in net losses (earnings) of associates and joint ventures	(136)	323
Loss (gain) on sale of property and equipment	122	(132)
Operating income before working capital changes	20,537	22,472
Changes in noncash current assets, certain current liabilities and others	(7,089)	(7,376)
Cash generated from operations	13,448	15,096
Interest and other financing charges paid	(4,572)	(3,988)
Income taxes paid	(604)	(1,251)
Net cash flows provided by operating activities	8,272	9,857
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	(910)	(3,903)
Additions to property, plant and equipment	(13,344)	(7,593)
Decrease in other noncurrent assets and others	5,951	1,776
Proceeds from sale of investments and property and equipment	517	31,616
Interest received	1,205	930
Dividend received from an associate	7	-
Net cash flows provided by investing activities	7,173	22,826
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	192,746	205,803
Long-term borrowings	10,969	6,035
Payments of:		
Short-term borrowings	(219,799)	(199,914)
Long-term borrowings	(2,841)	(1,470)
Payments of finance lease liabilities	(5,483)	(5,043)
Cash dividends paid	(2,301)	(789)
Cash dividends and distributions paid to non-controlling shareholders	(3,083)	(3,906)
Proceeds from issuance of capital stock	26	1
Redemption of preferred shares of subsidiaries	(25,000)	-
Acquisition of non-controlling interest	557	-
Net proceeds from issuance of preferred shares of a subsidiary	14,885	-
Net cash flows provided by (used in) financing activities	(39,324)	717
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	680	304
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,199)	33,704
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	258,606	191,613
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 235,407	P 225,317

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

CERTIFIED CORRECT:

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VP, Corporate Finance & Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2015
(Amounts in Millions)

	Total	Current	Past Due		
			1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	P 57,155	P 44,837	P 4,932	P 1,760	P 5,626
Non-trade	61,858	30,914	4,358	3,403	23,183
Others	14,687	14,687	-	-	-
Total	133,700	90,438	9,290	5,163	28,809
Less allowance for impairment losses	8,513				
Net	P 125,187				

SAN MIGUEL CORPORATION AND SUBSIDIARIES

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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as of and for the period ended March 31, 2015 and comparative financial statements for the same period in 2014 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 2015

The Group has adopted the following PFRS starting January 1, 2015 and accordingly, changed its accounting policies in the following areas:

- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:
 - Meaning of ‘Vesting Condition’ (*Amendment to PFRS 2, Share-based Payment*). PFRS 2 has been amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition.
 - Scope Exclusion for the Formation of Joint Arrangements (*Amendment to PFRS 3, Business Combinations*). PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements*, - i.e., including joint operations - in the financial statements of the joint arrangements themselves.
 - Disclosures on the Aggregation of Operating Segments (*Amendments to PFRS 8, Operating Segments*). PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments’

assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- Scope of Portfolio Exception (*Amendment to PFRS 13, Fair Value Measurement*). The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments*, - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.
- Definition of 'Related Party' (*Amendments to PAS 24, Related Parties*). The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans.
- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40)*. PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3.
- Classification and Measurement of Contingent Consideration (*Amendments to PFRS 3*). The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, rather than to any other PFRS. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss. Consequential amendments are also made to PAS 39 and PFRS 9 to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is amended to exclude provisions related to contingent consideration.

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, 2015 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:

- 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. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- Accounting for Acquisitions of Interests in Joint Operations (*Amendments to PFRS 11*). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- Clarification of Acceptable Methods of Depreciation and Amortization (*Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets*). The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates*). The amendments address an inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture between the requirements in PFRS 10 and PAS 28. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which 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*, to changes in methods of disposal that occur on or after January 1, 2016.
 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements (*Amendment to PFRS 7, Financial Instruments: Disclosures*). The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment is required to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
 - Disclosure of Information 'Elsewhere in the Interim Financial Report' (*Amendment to PAS 34*). The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is required to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
- Philippine Interpretation *IFRIC 15, Agreements for the Construction of Real Estate* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on

the recognition of revenue among real estate developers for sale of units, such as apartments or houses, ‘off plan’; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The Philippine Securities and Exchange Commission issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

2. Business Combinations

Infrastructure

- Atlantic Aurum Investments B.V. (AAIBV)

On March 5, 2015, a Notarial Deed of Transfer of Shares in accordance with the requirements of the laws of the Netherlands was executed whereby Padma Fund L.P. transferred to San Miguel Holdings Corp. (SMHC) the following: (i) 44% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement. The total consideration for the additional 48.47% equity interest amounted to US\$224 or P9,893.

With the purchase of additional 48.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is consolidated by SMHC effective March 5, 2015.

AAIBV has shareholdings in the companies that hold the concession rights to operate and maintain the South Luzon Expressway (SLEX) and the 16.38-kilometer Stage 1 and Stage 2 of the South Metro Manila Skyway (Skyway) and Stage 3 of the Skyway which connects the North Luzon Expressway and SLEX.

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

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

	2015
Assets	
Cash and cash equivalents	P22,007
Trade and other receivables - net	6,153
Inventories	21
Prepaid expenses and other current assets	2,338
Investments and advances - net	1,348
Property, plant and equipment - net	189
Other intangible assets - net	55,107
Deferred tax assets	120
Other noncurrent assets - net	104
Liabilities	
Accounts payable and accrued expenses	(21,402)
Income and other taxes payable	(866)
Long-term debt - net of debt issue costs	(47,635)
Deferred tax liabilities	(4,624)
Other noncurrent liabilities	(834)
Total Identifiable Net Assets at Fair Value	P12,026

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

	2015
Total consideration transferred	P9,893
Equity interest held before business combination	10,357
Non-controlling interest measured at proportionate interest in identifiable net assets	9,827
Total identifiable net assets at fair value	(12,026)
Goodwill	P18,051

Packaging

- Vinocor Worldwide Direct Pty. Ltd. (Vinocor)

Effective January 1, 2015, Cospak NZ Ltd. (New Zealand) and Premier Plastic Ltd. (New Zealand), both subsidiaries of San Miguel Yamamura Australasia Pty. Ltd. (SMYA), were merged to form the new company, Cospak Limited.

Additionally, on January 9, 2015, SMYA incorporated and registered in Australia a new entity, SMYV Pty Ltd. which acquired 100% of Vinocor's wine closure and customized wine bottle business on February 27, 2015 for AU\$14.3 million or P531 million.

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

	2015
Assets	
Inventories	P128
Prepaid expenses and other current assets	4
Property, plant and equipment - net	145
Total Identifiable Net Assets at Fair Value	P277

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

	2014
Total cash consideration transferred	P493
Total identifiable net asset at fair value	277
Goodwill	P216

Energy

- Ondarre Holding Corporation (Ondarre)

On February 10, 2015, SMC Global Power Holdings Corp. (SMC Global) acquired 100% of the outstanding and issued shares of stock of Ondarre, a landholding company, for a total consideration of P588 million.

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

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

If the foregoing acquisitions have occurred on January 1, 2015, management estimates that consolidated revenue would have been P161,446 and consolidated net income for the period would have been P6,092. In determining these amounts, management assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2015.

3. Segment Information

Operating Segments

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

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

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

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

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

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

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

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

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

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	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Sales																				
External sales	P22,517	P21,093	P25,091	P24,224	P4,727	P4,683	P17,695	P18,589	P85,512	P123,728	P2,887	P1,877	P403	P365	P339	P352	P –	P –	P159,171	P194,911
Inter-segment sales	33	63	-	5	1,084	890	2,062	1,370	1,232	1,446	-	-	-	-	3,108	1,290	(7,519)	(5,064)	-	-
Total sales	P22,550	P21,156	P25,091	P24,229	5,811	5,573	P19,757	P19,959	P86,744	P125,174	P2,887	P1,877	P403	P365	P3,447	P1,642	(P7,519)	(P5,064)	P159,171	P194,911
Results																				
Segment results	P5,260	P4,722	P1,468	P1,335	P479	P439	P6,834	P6,640	P1,882	P3,236	P659	(P76)	(P68)	(P64)	(P31)	(P978)	P70	P334	P16,553	P15,588

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, 2015 and December 31, 2014:

	Reporting Period	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, 2015	P -	P -	P5,677	P -	On demand or less than 4 to 6 years;	Unsecured;
	December 31, 2014	P26	P -	P5,677	P551	Interest and non-interest bearing	No impairment
Retirement Plans	March 31, 2015	46	-	12,810	-	On demand;	Unsecured;
	December 31, 2014	216	-	12,686	-	Interest bearing	No impairment
Associates	March 31, 2015	498	-	679	113	On demand;	Unsecured;
	December 31, 2014	2,066	98	7,473	159	Interest and non-interest bearing	No impairment
	March 31, 2015	-	-	-	19,413	Less than 1	Unsecured and
	December 31, 2014	-	-	-	16,640	to 10 years; Interest bearing	secured
JVC	March 31, 2015	-	40	673	-	On demand;	Unsecured;
	December 31, 2014	-	83	674	1	Non-interest bearing	No impairment
Shareholders in subsidiaries	March 31, 2015	104	41	221	2,791	On demand;	Unsecured;
	December 31, 2014	107	15	20	347	Non-interest bearing	No impairment
Others	March 31, 2015	42	-	74	5,487	On demand;	Unsecured;
	December 31, 2014	92	-	6,931	46	Non-interest bearing	No impairment
Total	March 31, 2015	P690	P81	P20,134	P27,804		
Total	December 31, 2014	P2,507	P196	P33,461	P17,744		

- Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.
- Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable.
- The amounts owed to associates include interest bearing loans to Bank of Commerce 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, 2015

	Land and Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
Cost									
January 1, 2015 (Audited)	P28,605	P49,743	P226,788	P50,532	P16,142	P124,365	P2,219	P135,978	P634,372
Additions	177	251	-	59	193	1,280	11	11,373	13,344
Disposals/reclassifications/acquisition of subsidiaries	548	(1,420)	-	-	(145)	(1,818)	177	501	(2,157)
Currency translation adjustments	(458)	(601)	-	(645)	(426)	(389)	-	(147)	(2,666)
March 31, 2015 (Unaudited)	28,872	47,973	226,788	49,946	15,764	123,438	2,407	147,705	642,893
Accumulated Depreciation and Amortization									
January 1, 2015 (Audited)	3,383	19,939	26,929	32,218	10,471	75,974	1,270	-	170,184
Additions	45	440	1,509	477	318	1,547	40	-	4,376
Disposals/reclassifications/acquisition of subsidiaries	64	(927)	-	-	(24)	(935)	137	-	(1,685)
Currency translation adjustments	(33)	(327)	-	(373)	(229)	(385)	-	-	(1,347)
March 31, 2015 (Unaudited)	3,459	19,125	28,438	32,322	10,536	76,201	1,447	-	171,528
Accumulated Impairment Losses									
January 1, 2015 (Audited)	266	2,270	-	-	-	7,690	1	-	10,227
Currency translation adjustments	-	(9)	-	-	-	(22)	-	-	(31)
March 31, 2015 (Unaudited)	266	2,261	-	-	-	7,668	1	-	10,196
Carrying Amount									
March 31, 2015 (Unaudited)	P25,147	P26,587	P198,350	P17,624	P5,228	P39,569	P959	P147,705	P461,169

March 31, 2014

	Land and Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
Cost									
January 1, 2014 (Audited)	P25,474	P47,504	P221,760	P49,648	P15,669	P123,520	P2,176	P108,494	P594,245
Additions	24	166	-	17	306	1,057	24	5,999	7,593
Disposals/reclassifications/acquisition of subsidiaries	2,121	(19)	-	(7)	(104)	(412)	3	998	2,580
Currency translation adjustments	182	238	-	207	132	316	-	40	1,115
March 31, 2014 (Unaudited)	27,801	47,889	221,760	49,865	16,003	124,481	2,203	115,531	605,533
Accumulated Depreciation and Amortization									
January 1, 2014 (Audited)	2,812	18,637	21,125	30,285	9,673	73,282	1,152	-	156,966
Additions	43	443	1,424	463	314	1,697	34	-	4,418
Disposals/reclassifications/acquisition of subsidiaries	421	(16)	-	(9)	(86)	(139)	-	-	171
Currency translation adjustments	15	120	-	292	73	62	1	-	563
March 31, 2014 (Unaudited)	3,291	19,184	22,549	31,031	9,974	74,902	1,187	-	162,118
Accumulated Impairment Losses									
January 1, 2014 (Audited)	266	2,663	-	-	-	8,517	1	-	11,447
Disposals/reclassifications/acquisition of subsidiaries	-	-	-	-	-	(2)	-	-	(2)
Currency translation adjustments	-	1	-	-	-	24	-	-	25
March 31, 2014 (Unaudited)	266	2,664	-	-	-	8,539	1	-	11,470
Carrying Amount									
March 31, 2014 (Unaudited)	P24,244	P26,041	P199,211	P18,834	P6,029	P41,040	P1,015	P115,531	P431,945

Depreciation and amortization charged to operations amounted to P4,376 and P4,418 in March 2015 and 2014, 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 Long-term Incentive Plan for Stock Options of the Parent Company, which are assumed to be exercised at the date of grant.

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

Basic and Diluted EPS is computed as follows:

	March 31	
	2015	2014
Income attributable to equity holders of the Parent Company	P2,318	P2,154
Less dividends on preferred shares for the period	1,527	1,527
Net income attributable to common shareholders of the Parent Company (a)	P791	P627
Weighted average number of common shares outstanding (in millions) - basic (b)	2,378	2,377
Effect of dilution - common	13	14
Weighted average number of common shares outstanding (in millions) - diluted (c)	2,391	2,391
Earnings per common share attributable to equity holders of the Parent Company		
Basic (a/b)	P0.33	P0.26
Diluted (a/c)	P0.33	P0.26

7. Dividends

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

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

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

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

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

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

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

The accounting policies in relation to derivatives are set out in Note 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. Interest rate movements affect reported equity in the following ways:

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,973 and P1,655 for the period ended March 31, 2015 and for the year ended December 31, 2014, 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, 2015	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P4,516 5.4885% - 8.74899%	P5,981 6.0606% - 8.74899%	P28,592 6.05% - 8.74899%	P7,772 6.0606% - 8.74899%	P21,059 5.93% - 10.50%	P49,008 5.50% - 8.74899%	P116,928
Foreign currency-denominated (expressed in Philippine peso) Interest rate	13,257 7%	34 12.85%	-	-	-	35,760 4.875%	49,051
Floating Rate							
Philippine peso-denominated Interest rate	13,541 PDST-F + margin or BSP overnight rate + margin, whichever is higher	3,049 PDST-F + margin or BSP overnight rate + margin, whichever is higher	5,655 PDST-F + margin or BSP overnight rate + margin, whichever is higher	1,278 PDST-F + margin or BSP overnight rate + margin, whichever is higher	895 PDST-F + margin or BSP overnight rate + margin, whichever is higher	2,324 PDST-F + margin	26,742
Foreign currency-denominated (expressed in Philippine peso) Interest rate	6,098 LIBOR + margin	34,591 LIBOR + margin, COF + margin	13,465 LIBOR + margin, COF + margin	113,209 LIBOR + margin, COF + margin	3,235 LIBOR + margin, COF + margin	-	170,598
	P37,412	P43,655	P47,712	P122,259	P25,189	P87,092	P363,319
December 31, 2014	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P2,438 5.4885% - 8.2498%	P4,033 6.0606% - 8.2498%	P26,141 6.05% - 8.2498%	P4,384 6.0606% - 8.2498%	P17,171 5.93% - 10.50%	P38,042 5.50% - 8.2498%	P92,209
Foreign currency-denominated (expressed in Philippine peso) Interest rate	-	13,262 7%	-	-	-	35,776 4.875%	49,038
Floating Rate							
Philippine peso-denominated Interest rate	11,664 PDST-F + margin or BSP overnight rate + margin, whichever is higher	1,495 PDST-F + margin or BSP overnight rate + margin, whichever is higher	1,511 PDST-F + margin or BSP overnight rate + margin, whichever is higher	1,512 PDST-F + margin or BSP overnight rate + margin, whichever is higher	1,147 PDST-F + margin or BSP overnight rate + margin, whichever is higher	1,467 PDST-F + margin	18,796
Foreign currency-denominated (expressed in Philippine peso) Interest rate	6,101 LIBOR + margin	19,145 LIBOR + margin, COF + margin	13,546 LIBOR + margin, COF + margin	104,391 LIBOR + margin, COF + margin	3,569 LIBOR + margin, COF + margin	-	146,752
	P20,203	P37,935	P41,198	P110,287	P21,887	P75,285	P306,795

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, 2015		December 31, 2014	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$2,626	P117,384	US\$2,761	P123,571
Trade and other receivables	1,017	45,462	900	40,264
Prepaid expenses and other current assets	1	33	26	1,150
Noncurrent receivables	45	1,999	184	8,199
	3,689	164,878	3,871	173,184
Liabilities				
Loans payable	513	22,902	808	36,109
Accounts payable and accrued expenses	957	42,791	1,220	54,576
Long-term debt (including current maturities)	4,914	219,649	4,378	195,790
Finance lease liabilities (including current portion)	2,178	97,376	2,218	99,169
Other noncurrent liabilities	369	16,488	713	31,912
	8,931	399,206	9,337	417,556
Net foreign currency- denominated monetary liabilities	(US\$5,242)	(P234,328)	(US\$5,466)	(P244,372)

The Group reported net losses on foreign exchange amounting to P578 and P2,814 for the period ended March 31, 2015 and 2014, 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, 2015	44.700
December 31, 2014	44.720
March 31, 2014	44.815
December 31, 2013	44.395

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

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

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
March 31, 2015	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P2,207)	(P6,042)	P2,207	P6,042
Trade and other receivables	(550)	(852)	550	852
Prepaid expenses and other current assets	(1)	(1)	1	1
Noncurrent receivables	(36)	(34)	36	34
	(2,794)	(6,929)	2,794	6,929
Loans payable	374	400	(374)	(400)
Accounts payable and accrued expenses	435	827	(435)	(827)
Long-term debt (including current maturities)	4,492	18,425	(4,492)	(18,425)
Finance lease liabilities (including current portion)	2,178	1,525	(2,178)	(1,525)
Other noncurrent liabilities	295	280	(295)	(280)
	7,774	21,457	(7,774)	(21,457)
	P4,980	P14,528	(P4,980)	(P14,528)

December 31, 2014	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P2,242)	(P2,091)	P2,242	P2,091
Trade and other receivables	(261)	(821)	261	821
Prepaid expenses and other current assets	(26)	(18)	26	18
Noncurrent receivables	(166)	(135)	166	135
	(2,695)	(3,065)	2,695	3,065
Loans payable	454	675	(454)	(675)
Accounts payable and accrued expenses	494	1,069	(494)	(1,069)
Long-term debt (including current maturities)	4,292	3,091	(4,292)	(3,091)
Finance lease liabilities (including current portion)	2,218	1,552	(2,218)	(1,552)
Other noncurrent liabilities	637	522	(637)	(522)
	8,095	6,909	(8,095)	(6,909)
	P5,400	P3,844	(P5,400)	(P3,844)

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

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

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

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

March 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	P235,407	P235,407	P235,407	P -	P -	P -
Trade and other receivables - net	125,187	125,187	125,187	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	321	321	321	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	143	143	143	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	41,458	41,480	133	41,137	210	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	8,958	8,993	-	2,466	2,028	4,499
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	3,288	3,288	2,544	744	-	-
Financial Liabilities						
Loans payable	152,084	152,888	152,888	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and infrastructure restoration obligation (IRO))	115,302	115,302	115,302	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	808	808	808	-	-	-
Long-term debt (including current maturities)	358,840	427,360	53,597	57,404	219,618	96,741
Finance lease liabilities (including current portion)	183,382	242,645	22,369	23,230	72,901	124,145
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and asset retirement obligation (ARO))	2,638	2,645	-	2,086	12	547

December 31, 2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P258,606	P258,606	P258,606	P -	P -	P -
Trade and other receivables - net	136,036	136,036	136,036	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account)	1,118	1,118	1,118	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	360	360	360	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	136	136	136	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	41,890	41,927	460	41,253	214	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	14,967	14,977	-	2,434	8,072	4,471
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	2,659	2,659	1,604	1,055	-	-
Financial Liabilities						
Loans payable	180,059	181,011	181,011	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	121,371	121,371	121,371	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	325	325	325	-	-	-
Long-term debt (including current maturities)	302,988	367,781	34,219	50,063	196,766	86,733
Finance lease liabilities (including current portion)	186,330	248,201	22,105	23,173	71,945	130,978
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	2,394	2,397	-	1,907	3	487

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

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

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the 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, 2015	December 31, 2014
Cash and cash equivalents (excluding cash on hand)	P233,537	P255,786
Trade and other receivables - net	125,187	136,036
Option deposit	-	1,118
Derivative assets	321	360
Financial assets at FVPL	143	136
AFS financial assets	41,458	41,890
Noncurrent receivables and deposits - net	8,958	14,967
Restricted cash	3,288	2,659
	P412,892	P452,952

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 revaluation increment are excluded from capital for purposes of capital management.

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

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

9. Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories.

Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the “Fair value reserve” account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of “Interest income” account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

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

The Group has no financial assets classified as HTM investments as of March 31, 2015 and December 31, 2014.

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 profit or loss when the liabilities are derecognized as well as through the amortization process.

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Classification of Financial Instruments between Debt and Equity

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

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

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

Debt Issue Costs

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

Offsetting Financial Instruments

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

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

	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P235,407	P235,407	P258,606	P258,606
Trade and other receivables - net	125,187	125,187	136,036	136,036
Option deposit (included under "Prepaid expenses and other current assets" account)	-	-	1,118	1,118
Derivative assets (included under "Prepaid expenses and other current assets" account)	321	321	360	360
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	143	143	136	136
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	41,458	41,458	41,890	41,890
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	8,958	8,601	14,967	14,591
<i>forward</i>				

	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted cash (included under “Prepaid expenses and other current assets” and “Other noncurrent assets” accounts)	P3,288	P3,288	P2,659	P2,659
Financial Liabilities				
Loans payable	152,084	152,084	180,059	180,059
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	115,302	115,302	121,371	121,371
Derivative liabilities (included under “Accounts payable and accrued expenses” account)	808	808	325	325
Long-term debt (including current maturities)	358,840	383,494	302,988	327,077
Finance lease liabilities (including current portion)	183,382	183,382	186,330	186,330
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	2,638	2,638	2,394	2,394

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

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

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

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.3% to 4.1% and 2.5% to 4.3% as of March 31, 2015 and December 31, 2014, respectively. The discount rates used for foreign

currency-denominated loans range from 0.2% to 8.0% and 0.2% to 2.1% as of March 31, 2015 and December 31, 2014, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

The Group has no outstanding derivatives accounted for as a fair value hedge as of March 31, 2015 and December 31, 2014.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in the

consolidated statements of changes in equity. The ineffective portion is immediately recognized in profit or loss.

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

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

The Group has no outstanding derivatives accounted for as a cash flow hedge as of March 31, 2015 and December 31, 2014.

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

The Group has no hedge of a net investment in a foreign operation as of March 31, 2015 and December 31, 2014.

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

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,219 and US\$1,673 as of March 31, 2015 and December 31, 2014, respectively, and with various maturities in 2015. The net positive fair value of these currency forwards amounted to P50 and P0.4 as of March 31, 2015 and December 31, 2014, respectively.

Currency Options

As of March 31, 2015 and December 31, 2014, the Group has outstanding currency options with an aggregate notional amount of US\$1,826 and US\$245, respectively, and with various maturities in 2015. The net negative fair value of these currency options amounted to P581 and P140 as of March 31, 2015 and December 31, 2014, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2015. 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 120 and 610 metric tons as of March 31, 2015 and December 31, 2014, respectively. The net negative fair value of these swaps amounted to P0.5 and P2 as of March 31, 2015 and December 31, 2014, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2015. 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 25.3 and 6.6 million barrels as of March 31, 2015 and December 31, 2014, respectively. The net positive fair value of these swaps amounted to P246 and P1,420 as of March 31, 2015 and December 31, 2014, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities of 2,994 and 5,987 metric tons as of March 31, 2015 and December 31, 2014, respectively. These options can be exercised at various calculation dates in 2015 with specified quantities on each calculation date. The net negative fair value of these options amounted to P5 as of March 31, 2015 and December 31, 2014.

As of March 31, 2015, the Group has outstanding bought options covering its fuel oil requirements with notional quantity of 975 metric tons. These options can be exercised at various calculation dates in 2015 with specified quantities on each calculation date. The positive fair value of these options amounted P1 as of March 31, 2015. The Group has no outstanding commodity options on the purchase of fuel oil as of December 31, 2014.

As of March 31, 2015 and December 31, 2014, the Group has no outstanding commodity options on the purchase of crude oil.

Embedded Derivatives

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

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

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$160 and US\$152 as of March 31, 2015 and December 31, 2014, respectively. These non-financial contracts consist mainly of foreign currency denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P59 and P54 as of March 31, 2015 and December 31, 2014, respectively.

Embedded Currency Options

The total outstanding notional amount of currency options embedded in non-financial contracts amounted to US\$1 as of March 31, 2015 and December 31, 2014. These non-financial contracts consist mainly of sales agreements. These embedded options are not clearly and closely related to their host contracts. The net negative fair value of these embedded currency options amounted to P0.4 and P1 as of March 31, 2015 and December 31, 2014, respectively.

For the periods ended March 31, 2015 and 2014 and December 31, 2014, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P248), P1,573 and P7,513, 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.

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, 2015			December 31, 2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P321	P321	P -	P360	P360
Financial assets at FVPL	143	-	143	136	-	136
AFS financial assets	495	40,963	41,458	533	41,357	41,890
Financial Liabilities						
Derivative liabilities	-	808	808	-	325	325

The Group has no financial instruments valued based on Level 3 as of March 31, 2015 and December 31, 2014. During the period, there were no transfers into or out of Level 3 fair value measurement.

10. Events After the Reporting Date

a. Tender offer for the purchase of US\$400 notes

On March 19, 2015, the Parent Company announced in the Singapore Stock Exchange Securities Trading Limited (SGX-ST) the tender offer for the purchase of up to US\$400 of the US\$800 notes due in 2023. The Notes were issued in April 2013 with an interest rate of 4.875% per annum.

The Tender Offer commenced on March 19 and was concluded on April 1, 2015. A total of US\$284 in principal amount of the Notes have been validly tendered and accepted by the Parent Company for purchase on April 10, 2015. The price at which the Parent Company purchased the Notes validly tendered and accepted for purchase is 95%. The Parent Company paid an aggregate cash amount of US\$273 for all such Notes accepted for purchase based on the Final Aggregate Purchase Amount, the Clearing Price, the Early Tender Premium and the Accrued Interest Payment.

b. Re-issuance and private placement of Series “1” Preferred Shares of the Parent Company

The closing conditions under the subscription agreements related to the private placement of Series “1” Preferred Shares of the Parent Company between the Parent Company and certain subscribers have been satisfied on April 14, 2015, and the Parent Company received the consideration for the Series “1” Preferred Shares, subject of the agreements. As such, the Parent Company, on April 14, 2015, issued 279,406,667 Series “1” Preferred Shares in the name of the said subscribers.

11. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 25 (c) and Note 44 (a) of the 2014 Audited Consolidated Financial Statements, that remain outstanding as of March 31, 2015. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2015.
- 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, 2015. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.
- i. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.



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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended March 31, 2015 (with comparative figures as of December 31, 2014 and for the period ended March 31, 2014). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 2015, 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. 2015 SIGNIFICANT TRANSACTIONS**A. INVESTMENTS**

- *Acquisition of 44% Equity Interest in Atlantic Aurum Investments B.V. (AAIBV) and Exercise of Option to Acquire Additional 4.47%*

On March 5, 2015, a Notarial Deed of Transfer of Shares in accordance with the requirements of the laws of the Netherlands was executed whereby Padma Fund L.P. (Padma) transferred to San Miguel Holdings Corp. (SMHC) the following: (i) 44% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement. The total consideration for the additional 48.47% equity interest amounted to US\$224 million or P9,893 million.

With the purchase of additional 48.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is consolidated by SMHC effective March 5, 2015.

AAIBV has shareholdings in the companies that hold the concession rights to operate and maintain the South Luzon Expressway (SLEX) and the 16.38-kilometer (Stages 1 and 2) South Metro Manila Skyway (Skyway) and Stage 3 of the Skyway which connects the North Luzon Expressway and SLEX.

- *Acquisition of the 49% Interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)*

In January 2015, San Miguel Pure Foods International, Limited (SMPFIL), a wholly-owned subsidiary of San Miguel Pure Foods Company Inc. (SMPFC), purchased from Hormel Netherlands B.V. (Hormel) the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% of SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in San Miguel Hormel (Vn) Co., Ltd., a company incorporated in Vietnam which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats. Following the acquisition, SMPFI Limited has become a wholly-owned subsidiary of SMPFIL.

- *Acquisition of La Pacita Trademarks*

In February 2015, the acquisition by SMPFC of Felicisimo Martinez & Co. Inc.'s (FMC) trademarks, formulations, recipes and other intangible properties (IP Rights) relating to FMC's *La Pacita* biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions and the payment of the consideration for such IP Rights.

- *Divestment of the Shares of Stock of Indophil Resources NL (Indophil)*

On January 23, 2015, the Indophil shares of stock held by Coastal View Exploration Corporation (Coastal View) were transferred to Alsons Prime Investments Corporation (Alsons) for AUD30 cents per share following the approval by the Supreme Court of Victoria and the shareholders of Indophil of the scheme of Arrangement proposed by Alsons. Coastal View received the payment on the sale of the investment amounting to AU\$ 14.41 million or P493 million on January 30, 2015.

B. FINANCING

- *Redemption of the 2010 Preferred Shares by Petron Corporation (Petron)*

On November 7, 2014, the Board of Directors (BOD) of Petron approved the redemption of the 2010 Preferred Shares at a redemption price of P100.00 per share in accordance with terms and conditions of the issuance of the 2010 Preferred Shares. The redemption price of the 2010 Preferred Shares and all accumulated unpaid cash dividends was paid on March 5, 2015 to the stockholders of record as of February 18, 2015.

The redemption of the shares was financed by the proceeds of the issuance of Series "2" preferred shares on November 3, 2014.

- *Redemption of Outstanding Preferred Shares by SMPFC*

On February 3, 2015, SMPFC's BOD approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of SMPFC's treasury shares.

- *Issuance of Series "2" Perpetual Preferred Shares (PFP2 Shares) by SMPFC*

On January 20, 2015, the BOD of The Philippine Stock Exchange, Inc. (PSE) approved, subject to Securities and Exchange Commission (SEC) approval and certain conditions, the application of SMPFC to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover SMPFC's preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered SMPFC's Registration Statement covering the registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share (the "PFP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC's application to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover the PFP2 Shares Offering at an offer price of P1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by SMPFC's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The PFP2 Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The PFP2 Shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the PFP2 Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMPFC, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, SMPFC's 15,000,000 PFP2 Shares with par value of P10.00 per share were issued and listed with the PSE.

▪ *Availment of Long-term Debt*

On March 6, 2015, SMC Global Power Holdings Corp. (SMC Global) made the final drawdown of US\$200 million (P8,825 million) from the US\$700 million 5-year floating rate loan facility agreement, for the financing of ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes.

On February 27, 2015, Vertex Tollways Devt. Inc. (Vertex) has drawn P2,200 million loan for the financing of the ongoing construction of the Ninoy Aquino International Airport (NAIA) Expressway Project.

II. FINANCIAL PERFORMANCE

2015 vs. 2014

San Miguel Corporation's 2015 consolidated sales revenue for the first quarter amounted to P159,171 million, 18% lower than last year. 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. Infrastructure business also contributed higher revenues with the consolidation of South Luzon Expressway and Skyway starting March 2015.

Despite decrease in revenue, March year-to-date consolidated operating income amounted to P16,553 million, 6% higher than last year. Beverage, food, packaging, power 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 Hydropower Corporation, acquired in November 2014, 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 gain (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 Philippine Peso (PhP) against the United States Dollar (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 P6,035 million, at par with last year. The corresponding net income attributable to equity holders of the Parent Company is P2,318 million, 8% higher than last year.

2014 vs. 2013

San Miguel Corporation's 2014 consolidated sales revenue for the first quarter amounted to P194,911 million, 9% higher than 2013. Petron and the energy business contributed double digit increase compared to 2013. Beverage, food and packaging businesses also contributed to the increased revenues versus 2013.

The corresponding consolidated operating income amounted to P15,588 million, almost at par with 2013 with many businesses showing improved performance. Compared to 2013, performance was tempered by weak regional refining margins for Petron and lower domestic glass and plastic volumes for packaging business.

The decline in equity in net earnings (losses) of associates and joint ventures was mainly due to the equity in earnings of the Manila Electric Company (Meralco) which was included in 2013's balance.

Interest expense in 2014 is lower than of the same period in 2013 mainly due to higher capitalized interest on loans used to finance the RMP-2 Project of Petron.

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

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

1. BEVERAGE

2015 vs. 2014

a. San Miguel Brewery Inc. (SMB)

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 last year.

Revenue from the international operations is behind last year 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 last year. Coupled with operating efficiency and cost management programs, operating income for the quarter amounted to P5,166 million, 10% better than last year.

b. Ginebra San Miguel, Inc. (GSMI)

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

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

2014 vs. 2013

a. SMB

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

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

b. GSMI

GSMI posted a solid performance for the first quarter of 2014 as hard liquor volume grew 10% over 2013 at 5.1 million cases. With the price increase implemented in January 2014, sales revenue grew 21% compared to the same quarter in 2013, bringing it up to a total of P3,595 million.

With strong volumes, and better margins, operating income reached P44 million, a huge turnaround from 2013's operating loss of P392 million.

2. FOOD

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 year-to-date 2015 consolidated operating income amounted to P1,468 million, 10% above last year. This is brought about by the strong income performance of feeds and flour businesses.

2014 vs. 2013

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

3. PACKAGING

2015 vs. 2014

The San Miguel Yamamura Packaging Group's (SMYPG) 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 last year.

2014 vs. 2013

SMYPG's consolidated revenues for the first quarter of 2014 amounted to P5,573 million, slightly higher than 2013. The polyethylene terephthalate (PET) packaging facilities are fully utilized in March with the increased requirements from Coke for both preforms and beverage filling businesses as well as water preforms requirements of Universal Robina Corporation, bringing the PET business' revenue growing by 49% in the first quarter. The paper business

also has a milestone performance in March 2014, achieving its highest monthly sales volume with demands from Nestle and banana exports, bringing the business' first quarter revenue higher by 35% compared to 2013. This was however, partly offset by decline in glass, plastic and metal businesses' revenues. This resulted to packaging group's first quarter operating income of P439 million, 16% lower than the same period in 2013. The decline compared to 2013 is mostly attributable to lower domestic glass and plastics volumes.

4. ENERGY

2015 vs. 2014

SMC Global's off take volume for the first quarter of 2015 was 3.8 million megawatt hours, 7% lower than last year. 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. This was partly offset by 6% increase in Sual's off take volume with higher bilateral and Wholesale Electricity Spot Market (WESM) volumes.

The resulting SMC Global's consolidated revenues was P19,757 million, 1% lower than last year. 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 power business' March year-to-date consolidated operating income amounted to P6,834 million, 3% higher than last year. The co-generation solid fuel fired power plant serving Petron in Limay contributed 9% to the total operating income.

2014 vs. 2013

SMC Global's offtake volume for the first quarter of 2014 is 1% above 2013. Compared to 2013, San Roque's volume was up by 36% with better dam water reservoir level. This was partly offset by limited generation capacity for Ilijan plant resulting from Malampaya gas restrictions in January and February 2014, and maintenance shutdown in March 2014. Coupled with higher bilateral and WESM prices versus 2013, consolidated revenues grew 14% to about P19,959 million.

With lower generation costs, the energy business' March 2014 consolidated operating income amounted to P6,640 million, 20% higher than 2013.

5. FUEL AND OIL

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 last year, 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 year-to-date 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 USD52/bbl, half the average price of USD104/bbl from the same quarter last year.

With this, operating income also dipped by 13%.

2014 vs. 2013

Petron's consolidated revenues for the first quarter of 2014 reached P125,174 million, ahead from 2013 by 12%. This is on volumes of 20.8 million barrels, 4% higher than 2013 level. Petron Philippines contributed P75,386 million in revenue, while Petron Malaysia accounted for the remaining 40% of P49,788 million.

Even with increased volumes and higher selling prices, operating income for the first quarter of 2014 ended at P3,424 million, dropped by 8% from 2013. This is due to weak regional refining margins with product cracks against crude which was lower than 2013's level. The reduction in refining margins was however partly offset by a less volatile regional crude price which resulted in inventory holding gains.

III. FINANCIAL POSITION

2015 vs. 2014

The Group's consolidated total assets as of March 31, 2015 amounted to P1,242,483 million, P25,433 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 the SLEX and the 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 2010 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 P10,849 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/finished product inventory of Petron, net of the increase in the raw materials, and finished goods and in process inventory 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 P7,992 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 South Luzon Expressway, South Metro Manila Skyway and Skyway Stage 3; recognition of additional toll road concession rights for the Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) Project, the NAIA Expressway Project, Boracay Airport Project and Southern Tagalog Arterial Road (STAR) Project and the acquisition of La Pacita trademarks by SMPFC.

Other noncurrent assets decreased by P5,728 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. (Purefoods – Hormel) 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.

Revaluation increment increased by P328 million primarily due to the acquisition by SMPFIL from Hormel of the latter's 49% non-controlling interest in SMPFI Limited.

Cumulative translation adjustments decreased by P1,035 million mainly due to the translation adjustments on the net assets of foreign subsidiaries, particularly of Petron.

2014 vs. 2013

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

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

Inventories increased by P9,556 million mainly due to higher finished product and crude oil importations of Petron and Petron Malaysia and higher inventory of cassava and soybean

meal of San Miguel Foods, Inc. Additional purchases of cassava were made to take advantage of better prices during the harvest season. Higher costs and lower usage of soybean meal in March 2014, resulted to higher inventory.

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

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

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

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

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

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

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

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

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

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	March 31	
	2015	2014
Income during the period	P6,035	P6,016
Addition (reduction) to non-controlling interests and others	(30)	9
Issuance of capital stock	26	1
Other comprehensive income (loss)	(1,798)	752
Cash dividends and distributions	(4,568)	(5,493)
	(P335)	P1,285

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	March 31	
	2015	2014
Net cash flows provided by operating activities	P8,272	P9,857
Net cash flows provided by investing activities	7,173	22,826
Net cash flows provided by (used in) financing activities	(39,324)	717

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 investing activities included the following:

<i>(In millions)</i>	March 31	
	2015	2014
Cash and cash equivalents acquired from business combination net of cash paid	P14,828	P -
Decrease in other noncurrent assets and others	5,951	1,776
Interest received	1,205	930
Proceeds from sale of investments and property and equipment	517	31,616
Dividends received from associates	7	-
Additions to property, plant and equipment	(13,344)	(7,593)
Acquisition of subsidiaries	(1,081)	-
Additions to investments and advances	(910)	(3,903)

Net cash flows provided by (used in) financing activities are as follows:

<i>(In millions)</i>	March 31	
	2015	2014
Proceeds from (payments of) short-term loans - net	(P27,053)	P 5,889
Redemption of preferred shares of subsidiaries	(25,000)	-
Payment of finance lease liabilities	(5,483)	(5,043)
Payment of cash dividends	(5,384)	(4,695)
Net proceeds from issuance of preferred shares of a subsidiary	14,885	-
Proceeds from long-term debt - net	8,128	4,565
Acquisition of non-controlling interest	557	-
Proceeds from issuance of capital stock	26	1

The effect of exchange rate changes on cash and cash equivalents amounted to P680 million and P304 million on March 31, 2015 and 2014, 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 2015	December 2014
<u>Liquidity:</u>		
Current Ratio	1.47	1.52
<u>Solvency:</u>		
Debt to Equity Ratio	2.19	2.12
Asset to Equity Ratio	3.19	3.12
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.16%	6.15%
Interest Rate Coverage Ratio	2.94	2.97
	Period Ended March 31	
	2015	2014
<u>Operating Efficiency:</u>		
Volume Growth	7%	4%
Revenue Growth	(18%)	9%
Operating Margin	10%	8%

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

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

* Annualized for quarterly reporting

**B. Audited Consolidated Financial Statements
as of and for the years ended December 31, 2014, 2013 and 2012**

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS December 31, 2014, 2013 and 2012

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Corporation

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

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

March 26, 2015
Makati City, Metro Manila



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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

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

R.G. MANABAT & CO.

JOSE P. JAVIER, JR.

Partner

CPA License No. 0070807

SEC Accreditation No. 0678-AR-2, Group A, valid until March 05, 2017

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PTR No. 4748110MC

Issued January 5, 2015 at Makati City

March 26, 2015

Makati City, Metro Manila

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

	<i>Note</i>	2014	2013
ASSETS			
Current Assets			
Cash and cash equivalents	5, 9, 40, 41	P258,606	P191,613
Trade and other receivables - net	4, 5, 6, 10, 13, 33, 35, 39, 40, 41	136,036	168,141
Inventories	4, 5, 11	85,846	83,315
Current portion of biological assets - net	17	3,320	3,427
Prepaid expenses and other current assets	4, 5, 12, 13, 14, 34, 40, 41	46,088	33,712
		529,896	480,208
Assets held for sale	8, 13	9,339	8,798
Total Current Assets		539,235	489,006
Noncurrent Assets			
Investments and advances - net	4, 13	37,427	60,654
Available-for-sale financial assets	4, 14, 40, 41	41,459	42,048
Property, plant and equipment - net	4, 5, 15, 34	453,961	425,832
Investment property - net	4, 16	3,643	4,176
Biological assets - net of current portion	4, 17	1,973	1,911
Goodwill - net	4, 5, 18, 38	41,211	41,752
Other intangible assets - net	4, 5, 18, 38	45,114	36,032
Deferred tax assets	4, 5, 24	14,651	15,608
Other noncurrent assets - net	4, 5, 19, 33, 35, 39, 40, 41	38,376	53,068
Total Noncurrent Assets		677,815	681,081
		P1,217,050	P1,170,087
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	5, 20, 33, 40, 41	P180,059	P143,226
Accounts payable and accrued expenses	4, 5, 21, 33, 35, 40, 41	121,844	117,257
Finance lease liabilities - current portion	4, 34, 40, 41	16,219	15,654
Income and other taxes payable	5	13,303	13,058
Dividends payable	33, 36	3,134	3,544
Current maturities of long-term debt - net of debt issue costs	5, 22, 33, 40, 41	19,852	42,807
Total Current Liabilities		354,411	335,546

Forward

	<i>Note</i>	2014	2013
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	5, 22, 33, 40, 41	P283,136	P264,690
Deferred tax liabilities	5, 24	7,820	11,061
Finance lease liabilities - net of current portion	4, 34, 40, 41	170,111	179,394
Other noncurrent liabilities	4, 5, 23, 33, 34, 35, 40, 41	12,091	13,619
Total Noncurrent Liabilities		473,158	468,764
Equity	22, 25, 36, 37, 39		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		16,415	16,414
Capital stock - preferred		10,187	10,187
Additional paid-in capital		178,101	178,085
Revaluation increment	5	761	764
Reserve for retirement plan		(1,115)	862
Cumulative translation adjustments		4,251	4,863
Retained earnings:			
Appropriated		52,088	28,230
Unappropriated		119,655	138,256
Treasury stock		(139,881)	(139,954)
		240,462	237,707
Non-controlling Interests	2, 5, 6	149,019	128,070
Total Equity		389,481	365,777
		P1,217,050	P1,170,087

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In Millions, Except Per Share Data)

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

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In Millions)

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

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In Millions)

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

Forward

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

Forward

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

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In Millions)

	<i>Note</i>	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P38,416	P54,428	P46,064
Adjustments for:				
Depreciation, amortization and others - net	7, 28	25,224	43,825	5,117
Interest expense and other financing charges	30	29,710	30,970	29,800
Interest income	31	(4,012)	(3,539)	(4,253)
Equity in net losses (earnings) of associates and joint ventures	13	(1,255)	967	(2,638)
Gain on sale of investments and property and equipment	13, 15	(777)	(41,192)	(4,549)
Operating income before working capital changes		87,306	85,459	69,541
Changes in noncash current assets, certain current liabilities and others	38	(24,867)	(2,465)	(27,625)
Cash generated from operations		62,439	82,994	41,916
Interest and other financing charges paid		(21,735)	(21,423)	(16,961)
Income taxes paid		(11,287)	(11,832)	(9,192)
Net cash flows provided by operating activities		29,417	49,739	15,763
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	38	(302)	(512)	(18,591)
Additions to investments and advances	13	(6,314)	(26,814)	(23,159)
Additions to property, plant and equipment	7, 15	(38,951)	(65,865)	(52,917)
Payments of other liabilities	13	-	-	(2,122)
Decrease (increase) in other noncurrent assets and others		2,688	(14,323)	8,545
Proceeds from sale of investments and property and equipment	6, 8, 13, 14, 15, 16, 18, 19	66,913	72,962	24,568
Interest received		3,481	3,476	2,465
Dividends received from associates	13	5	3,857	4,949
Net cash flows provided by (used in) investing activities		27,520	(27,219)	(56,262)

Forward

	<i>Note</i>	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		P827,018	P853,769	P752,957
Long-term borrowings		47,591	146,370	59,671
Payments of:				
Short-term borrowings		(789,191)	(865,777)	(699,152)
Long-term borrowings		(54,309)	(80,225)	(59,551)
Proceeds from issuance of Series “2” preferred shares	25	-	-	79,238
Redemption of Series “1” preferred shares	25	-	-	(72,788)
Payments of finance lease liabilities		(20,152)	(19,168)	(17,394)
Cash dividends paid	36	(9,702)	(10,951)	(10,609)
Proceeds from issuance of capital stock	25	7	69	129
Cash dividends and distributions paid to non-controlling shareholders		(14,571)	(10,454)	(7,736)
Increase (decrease) in non-controlling interests		205	(1,616)	(1,138)
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	6	23,008	30,546	14,216
Net cash flows provided by financing activities		9,904	42,563	37,843
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		152	1,023	(701)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		66,993	66,106	(3,357)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		191,613	125,507	128,864
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	9	P258,606	P191,613	P125,507

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

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

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

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

2. Basis of Preparation

Statement of Compliance

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

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

Basis of Measurement

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

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

Functional and Presentation Currency

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

Basis of Consolidation

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

	Percentage of Ownership		Country of Incorporation
	2014	2013	
Beverage Business:			
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) and subsidiary, San Miguel Brewing International Ltd. and subsidiaries {including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, PT Delta Djakarta Tbk ^(a) and subsidiary, San Miguel (Baoding) Brewery Company Limited ^(a) , San Miguel Brewery Vietnam Limited ^(a) , San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited}]	51.17	51.17	Philippines
Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc. (EPSBPI), Ginebra San Miguel International, Ltd. (GSMIL), GSM International Holdings Limited (GSMIHL), Global Beverage Holdings Ltd. (GBHL) and Siam Holdings Ltd. (SHL)]	77.36	77.36	Philippines
Food Business:			
San Miguel Pure Foods Company Inc. (SMPFC) and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. (SMMI) and subsidiaries {including Golden Avenue Corp. (GAC) and Golden Bay Grain Terminal Corporation (GBGTC)}, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries {including Golden Food & Dairy Creamery Corporation and Sugarland Corporation}, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited (SMPFIL) {including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary and San Miguel Hormel (Vn) Co., Ltd. (SMHVN)}}]	85.37	85.37	Philippines
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries, SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (CAI)	65.00	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited ^(a) , Zhaoqing San Miguel Yamamura Glass Co. Ltd., Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty. Ltd. (SMYA) ^(a,b) and subsidiaries and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary]	65.00	65.00	British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc. (Mincorr)	100.00	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	60.00	60.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2014	2013	
Energy Business:			
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI) and a subsidiary, SMC Power Generation Corp. (SPGC), PowerOne Ventures Energy Inc. (PVEI), Albay Power and Energy Corp. (APEC), SMC Consolidated Power Corporation (SCPC) and San Miguel Consolidated Power Corporation (SMCPC)]	100.00	100.00	Philippines
Fuel and Oil Business:			
SEA Refinery Corporation and subsidiary, Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation (Ovincor) ^(a) , Petron Singapore Trading Pte., Ltd. (PSTPL), New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Global Limited (PGL), Petron Oil & Gas International Sdn. Bhd. including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Berhad (PMRMB) (collectively Petron Malaysia) ^(a) , Petron Finance (Labuan) Limited, Limay Energen Corporation and Petrochemical Asia (HK) Limited (PAHL) and subsidiaries]	100.00	100.00	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. (SMHC) and subsidiaries [including Rapid Thoroughfares Inc. (Rapid) and subsidiary, Private Infra Dev Corporation (PIDC) ^(a, c) , Trans Aire Development Holdings Corp. (TADHC) ^(a) , Optimal Infrastructure Development, Inc. (Optimal), Vertex Tollways Devt. Inc. (Vertex) ^(d) , Universal LRT Corporation (BVI) Limited (ULC) ^(a) , Terramino Holdings, Inc. (THI) and subsidiary ^(a) , Alloy Manila Toll Expressways Inc. (AMTEX) ^(a) and Sleep International (Netherlands) Cooperatief U.A. (Sleep) and Wiselink Investment Holdings, Inc. (Wiselink) {collectively own Cypress Tree Capital Investments, Inc. (Cypress) including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (STC) (collectively the Cypress Group)} ^(a, e)]	100.00	100.00	Philippines
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI) ^(a) , Perchpoint Holdings Corp. (PHC) ^(a) , Power Smart Capital Ltd. (PSCL) ^(a) , Bell Telecommunication Philippines, Inc. (BellTel) ^(a) and A.G.N. Philippines, Inc. (AGNP)]	100.00	100.00	Philippines
Eastern Telecommunications Philippines, Inc. (ETPI) and subsidiary, Telecommunications Technologies Phils., Inc. (TTPI)	77.70	77.70	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) and subsidiaries [including Excel Unified Land Resources Corporation, First HQ Ayala Business Centers, Inc., SMPI Makati Flagship Realty Corp. (SMPI Flagship), SMC Originals, Inc. and Integrated Geosolutions, Inc.] ^(a)	99.68	99.68	Philippines
Others:			
San Miguel Foods and Beverage International Limited (SMFBIL) and subsidiaries [including PT San Miguel Indonesia Foods & Beverages (PTSMIFB) ^(a) and San Miguel (Guangdong) Foods & Beverages Co. Ltd. (SMGFB) ^(a)]	100.00	100.00	BVI
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries [including SL Harbour Bulk Terminal Corporation, MG8 Terminal Inc. (MG8), SMC Cebu Shipyard Land, Inc. (SMCCSLI) and Mactan Shipyard Corporation (MSC)]	70.00	70.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2014	2013	
Anchor Insurance Brokerage Corporation (AIBC)	58.33	58.33	Philippines
SMC Stock Transfer Service Corporation	100.00	100.00	Philippines
ArchEn Technologies Inc.	100.00	100.00	Philippines
SMITS, Inc. and subsidiaries ^(a)	100.00	100.00	Philippines
Challenger Aero Air Corp.	100.00	100.00	Philippines
San Miguel Equity Securities Inc. (SMESI)	100.00	100.00	Philippines
San Miguel Equity Investments Inc. (SMEII) and subsidiaries [including South Western Cement Corporation (SWCC) ^(f)]	100.00	100.00	Philippines

(a) The financial statements of these subsidiaries were audited by other auditors.

(b) Formerly San Miguel Yamamura Knox Pty. Ltd. (SMYK) (Note 6).

(c) Consolidated to SMHC effective December 27, 2013 (Note 5).

(d) Incorporated on May 31, 2013 (Note 6).

(e) Consolidated to SMHC effective June 28, 2013 (Note 5).

(f) Consolidated to SMEII effective October 15, 2014 (Note 5).

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards and Interpretation Adopted in 2014

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

- Recoverable Amount Disclosures for Non-financial Assets (*Amendments to PAS 36, Impairment of Assets*). These narrow-scope amendments to PAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The adoption of these amendments did not have an effect on the consolidated financial statements.
- Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32, Financial Instruments*). The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of these amendments did not have an effect on the consolidated financial statements.
- Measurement of Short-term Receivables and Payables (*Amendment to PFRS 13, Fair Value Measurement*). The amendment clarifies that, in issuing PFRS 13 and making consequential amendments to PAS 39 and PFRS 9, *Financial Instruments*, the intention is not to prevent entities from measuring short-term receivables and payables with no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The adoption of this amendment did not have an effect on the consolidated financial statements.

- Novation of Derivatives and Continuation of Hedge Accounting (*Amendments to PAS 39, Financial Instruments: Recognition and Measurement*). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). The adoption of these amendments did not have an effect on the consolidated financial statements.
- Philippine Interpretation IFRIC 21, *Levies*. The interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date even if it has no realistic opportunity to avoid the triggering event. Other standards should be applied to determine whether the debit side is an asset or expense. Outflows within the scope of PAS 12, *Income Taxes*, fines and penalties and liabilities arising from emission trading schemes are explicitly excluded from the scope. The adoption of this interpretation did not have an effect on the consolidated financial statements.

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

New and Amended Standards and Interpretation Not Yet Adopted

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

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

- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:
 - Meaning of ‘Vesting Condition’ (*Amendment to PFRS 2, Share-based Payment*). PFRS 2 has been amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition. The amendment is required to be applied prospectively for annual periods beginning on or after July 1, 2014.
 - Scope Exclusion for the Formation of Joint Arrangements (*Amendment to PFRS 3, Business Combinations*). PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements* - i.e., including joint operations - in the financial statements of the joint arrangements themselves. The amendment is required to be applied prospectively for annual periods beginning on or after July 1, 2014.

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

- o Scope of Portfolio Exception (*Amendment to PFRS 13*). The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39 and PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32 - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The amendment is required to be applied prospectively for annual periods beginning on or after July 1, 2014.

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

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

- Accounting for Acquisitions of Interests in Joint Operations (*Amendments to PFRS 11*). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- Clarification of Acceptable Methods of Depreciation and Amortization (*Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets*). The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.
- Classification and Measurement of Contingent Consideration (*Amendments to PFRS 3*). The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, rather than to any other PFRS. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss. Consequential amendments are also made to PAS 39 and PFRS 9 to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37 is amended to exclude provisions related to contingent consideration. The amendments are required to be applied prospectively for annual periods beginning on or after July 1, 2014.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates*). The amendments address an inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture between the requirements in PFRS 10 and PAS 28. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

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

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

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

Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

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

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

The Group’s derivative assets and financial assets at FVPL are classified under this category (Notes 12 and 41).

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

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

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

The Group’s cash and cash equivalents, trade and other receivables, option deposit, noncurrent receivables and deposits, and restricted cash are included under this category (Notes 9, 10, 12, 19 and 41).

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

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

The Group's investments in equity and debt securities are classified under this category (Notes 12, 14 and 41).

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

Financial Liabilities

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

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

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

The Group's derivative liabilities are classified under this category (Notes 21 and 41).

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

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities are included under this category (Notes 20, 21, 22, 23, 34 and 41).

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

Embedded Derivatives

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Classification of Financial Instruments between Debt and Equity

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

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

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

Debt Issue Costs

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

Offsetting Financial Instruments

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

Inventories

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

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

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

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

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

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

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

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

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

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

Biological Assets and Agricultural Produce

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

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

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

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

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

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

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

Business Combination

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

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

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

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

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

▪ *Goodwill in a Business Combination*

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8.

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

▪ *Intangible Assets Acquired in a Business Combination*

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

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

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

Transactions under Common Control

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

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

Non-controlling Interests

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

Investments in Shares of Stock of Associates and Joint Ventures

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

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

Investment Property

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

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

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

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

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

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

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

Intangible Assets

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

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

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

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

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

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

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

Service Concession Arrangements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred Exploration and Development Costs

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

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

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

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

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

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

Impairment of Non-financial Assets

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

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

Cylinder Deposits

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

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

Provisions

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

Share Capital

Common Shares

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

Preferred Shares

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

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

Treasury Shares

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

Revenue Recognition

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

Revenue from Sale of Goods

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

Revenue from Power Generation and Trading

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

Revenue from Toll Operations

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

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

Revenue from Airport Operations

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

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

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

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

Revenue from Agricultural Produce

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

Revenue from Shipping and Port Operations

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

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

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

Revenue from Sale of Real Estate

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

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

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

Revenue from Sale of Raw Land

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

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

Revenue from Telecommunications Services

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

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

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

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

Revenue from Insurance

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

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

Others

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

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

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

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

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

Cost and Expense Recognition

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

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

Share-based Payment Transactions

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

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

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

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

Leases

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

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

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

Finance Lease

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

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

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

Operating Lease

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

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

Borrowing Costs

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

Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits

Short-term Employee Benefits

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

Retirement Costs

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

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

Defined benefit costs comprise the following:

- Service costs
- Net interest on the defined benefit retirement liability or asset
- Remeasurements of defined benefit retirement liability or asset

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

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

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

Foreign Operations

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

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

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

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

Taxes

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

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

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

Non-cash Distribution to Equity Holders of the Parent Company, Assets Held for Sale and Discontinued Operations

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

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

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

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

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

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

Related Parties

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

Basic and Diluted Earnings Per Common Share (EPS)

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

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

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

Operating Segments

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

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

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

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

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

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

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

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

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

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

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

- a. *Airport Concession Right.* The Group's airport concession right consists of: (i) total Airport Project cost; (ii) present value of total franchise fees over 25 years and its subsequent amortization; and (iii) present value of infrastructure retirement obligation (IRO).
 - (i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost to cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to the percentage-of-completion approach.
 - (ii) The present value of the IRO will be recognized as part of intangible assets upon completion of the Airport Project because only at that time will significant maintenance of the Boracay Airport also commence. It will be amortized simultaneously with the cost related to the Airport Project. However, since the Group had already started the maintenance of the rehabilitated Boracay Airport, the entire present value of the annual estimated costs had already been recognized in CIP - airport concession arrangements, portion of which representing the actual amount incurred in the current year for the maintenance of the Boracay Airport, had been recognized as part of the cost of intangible assets, subjected to amortization.
 - (iii) The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and the corresponding obligation has likewise been recognized.
- b. *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects: (i) STAR Project; (ii) TPLEX Project; and (iii) NAIA Expressway Project.

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

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

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

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

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

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

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

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

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

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

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

Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Business Combinations

Fuel and Oil

- PAHL

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

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

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

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

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

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

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

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

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

Infrastructure

▪ PIDC

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

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

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

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

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

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

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

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

▪ Sleep and Wiselink

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

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

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

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

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

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

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

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

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

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

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

Telecommunications

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

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

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

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

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

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

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

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

Others

- SWCC

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

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

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

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

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

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

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

6. Investments in Shares of Stock of Subsidiaries

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

Fuel and Oil

▪ Petron

a) Issuance of Undated Subordinated Capital Securities

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

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

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

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

b) Issuance of Series 2 Preferred Shares

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

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

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

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

c) Redemption of the 2010 Preferred Shares of Petron

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

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

▪ PGL

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

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

Infrastructure

- SMHC

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

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

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

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

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

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

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

b) Vertex and Optimal

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

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

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

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

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

c) Rapid

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

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

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

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

d) TADHC

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

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

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

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

Food

▪ SMPFC

a) Secondary Offering of SMPFC Common Shares

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

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

b) Felicísimo Martínez & Co. Inc.'s (FMC) *La Pacita*

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

Beverage

▪ SMB

a) Delisting of SMB Shares

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

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

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

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

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

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

- BPI

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

- GSMI

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

Energy

- SMC Global

- a) Issuance of Undated Subordinated Capital Securities

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

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

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

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

- b) SPI

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

Packaging

- CAI

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

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

- SMYA

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

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

- Mincorr

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

Real Estate

- SMPI

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

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

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

- SMPI Flagship

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

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

Telecommunications

- Vega

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

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

- BellTel

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

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

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

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

Mining

- Clariden

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

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

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

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

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

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

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

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

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

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

7. Segment Information

Operating Segments

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

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

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

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

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

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

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

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

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

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

Operating Segments

Financial information about reportable segments follows:

		For the Years Ended December 31, 2014, 2013 and 2012																														
		Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated			
		2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	
Sales																																
External sales	P94,230	P88,936	P89,448	P102,976	P99,754	P95,759	P19,365	P18,559	P17,566	P77,586	P72,212	P73,910	P475,425	P459,102	P420,269	P9,657	P6,473	P134	P1,515	P1,347	P1,225	P1,680	P1,858	P1,605	P -	P -	P -	P782,434	P748,241	P699,916		
Inter-segment sales	286	516	155	24	19	28	4,861	6,628	6,894	6,707	1,832	746	7,110	4,536	4,526	-	-	-	-	-	-	5,491	4,067	4,233	(24,479)	(17,598)	(16,582)	-	-	-		
Total sales	P94,516	P89,452	P89,603	P103,000	P99,773	P95,787	P24,226	P25,187	P24,460	P84,293	P74,044	P74,656	P482,535	P463,638	P424,795	P9,657	P6,473	P134	P1,515	P1,347	P1,225	P7,171	P5,925	P5,838	(P24,479)	(P17,598)	(P16,582)	P782,434	P748,241	P699,916		
Result																																
Segment result	P22,437	P20,476	P21,345	P6,463	P5,510	P5,177	P2,078	P1,589	P2,284	P25,899	P20,541	P17,123	P2,211	P10,580	P8,682	(P373)	P3,868	(P77)	(P463)	(P239)	(P442)	(P2,956)	(P7,213)	(P2,593)	P479	P302	P236	P55,775	P55,414	P51,735		
Interest expense and other financing charges																													(29,710)	(30,970)	(29,800)	
Interest income																													4,012	3,539	4,253	
Equity in net earnings (losses) of associates and joint ventures																													1,255	(967)	2,638	
Gain on sale of investments and property and equipment																													777	41,192	4,549	
Other income (charges) - net																													6,307	(13,780)	12,689	
Income tax expense																													(10,284)	(3,700)	(8,406)	
Net income																													P28,132	P50,728	P37,658	
Attributable to:																																
Equity holders of the Parent Company																														P14,692	P38,053	P26,806
Non-controlling interests																														13,440	12,675	10,852
Net Income																													P28,132	P50,728	P37,658	

	December 31, 2014, 2013 and 2012																														
	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated			
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	
Other Information																															
Segment assets	P72,346	P78,069	P86,251	P62,494	P68,398	P50,954	P31,959	P33,132	P34,094	P300,520	P292,344	P255,516	P380,435	P346,524	P267,869	P60,734	P41,186	P30,210	P14,144	P11,432	P9,977	P250,806	P258,556	P205,840	(P100,985)	(P128,866)	(P130,803)	P1,072,453	P1,000,775	P809,908	
Investments in and advances to associates and joint ventures	659	720	789	-	-	6,317	3,782	3,636	1,500	10,612	6,012	13,421	1,169	892	1,641	10,769	7,465	5,949	8,873	7,515	8,154	1,563	34,414	124,643	-	-	-	37,427	60,654	162,414	
Goodwill and trademarks and brand names																													41,454	41,995	48,961
Other assets																													41,726	42,257	2,006
Assets held for sale																													9,339	8,798	9,373
Deferred tax assets																													14,651	15,608	10,308
Consolidated Total Assets																													P1,217,050	P1,170,087	P1,042,970
Segment liabilities	P21,243	P23,574	P22,735	P16,220	P15,854	P14,617	P5,318	P6,383	P5,851	P23,519	P16,941	P13,360	P65,165	P72,522	P42,919	P16,811	P31,141	P18,631	P25,361	P21,062	P19,529	P75,555	P76,109	P102,871	(P117,636)	(P135,125)	(P146,494)	P131,556	P128,461	P94,019	
Loans payable																													180,059	143,226	151,097
Long-term debt																													302,988	307,497	224,045
Finance lease liabilities																													186,330	195,048	195,153
Income and other taxes payable																													13,303	13,058	11,123
Dividends payable and others																													5,513	5,959	5,621
Deferred tax liabilities																													7,820	11,061	12,975
Consolidated Total Liabilities																													P827,569	P804,310	P694,033

	For the Years Ended December 31, 2014, 2013 and 2012																													
	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated		
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
Capital expenditures	P1,138	P1,278	P1,098	P647	P1,978	P1,957	P2,092	P2,383	P1,161	P17,447	P4,123	P4,772	P13,038	P51,412	P41,848	P34	P69	P7	P1,599	P1,231	P394	P2,956	P3,391	P1,680	P -	P -	P -	P38,951	P65,865	P52,917
Depreciation and amortization of property, plant and equipment (Note 28)	2,153	2,295	2,312	1,057	932	884	1,329	1,415	1,575	6,171	5,404	5,194	5,494	5,253	4,690	54	28	12	378	428	537	1,132	1,012	790	-	-	-	17,768	16,767	15,994
Noncash items other than depreciation and amortization of property, plant and equipment	1,185	2,106	1,219	2,089	1,959	1,193	438	1,057	257	973	9,724	(8,386)	738	3,558	(748)	366	1,303	8	35	15	26	570	5,701	(3,387)	-	-	-	6,394	25,423	(9,818)
Loss (reversal) on impairment of goodwill, property, plant and equipment, and other noncurrent assets	-	1,539	(1,427)	245	-	19	19	-	348	-	-	-	798	-	-	-	-	-	-	-	-	-	96	1	-	-	-	1,062	1,635	(1,059)

8. Assets Held for Sale

a) Indophil Resources NL (Indophil)

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

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

Accordingly, the carrying amount of the investment in Indophil, amounting to P527 as of December 31, 2014 was reclassified to “Assets held for sale” account in the 2014 consolidated statement of financial position (Note 14).

On January 30, 2015, Coastal View received the payment on the sale of investment in shares of stock of Indophil amounting to A\$14.

b) Bank of Commerce (BOC)

In 2014, SMPI is still committed to sell its equity ownership interest in BOC. SMC, on behalf of SMPI, engaged the services of an international bank to handle the process of negotiating the sale of its equity ownership interest in BOC. Accordingly, the carrying amount of the investment of P8,785 representing 44,817,164 common shares in BOC is still maintained as part of “Assets held for sale” account in the 2014 consolidated statement of financial position.

Management determined that the carrying amount of investment in BOC as of December 31, 2014 is fully recoverable, thus, no impairment loss was recognized in 2014.

c) Prestigio Realty, Inc. (Prestigio)

In 2013, SMPI entered into a Memorandum of Agreement (MOA) for the sale of Prestigio shares to a certain individual. Management believes that the sale will push through, thus reclassifying the investment amounting to P13 as part of “Assets held for sale” account in the 2013 consolidated statement of financial position.

d) Equipment of CAI

The Group has various equipment for disposal as a result of CAI’s modernization project. In September 2014, a foreign buyer committed to purchase these assets. Accordingly, the carrying amount of the equipment to be sold amounting to P14 was reclassified as “Assets held for sale” account in the 2014 consolidated statement of financial position.

e) Petron Mega Plaza

Petron had properties consisting of office units located at Petron Mega Plaza with a floor area of 19,686 square meters covering the 28th - 31st floors and 33rd - 44th floors and 196 parking spaces amounting to P588. During the latter part of 2012, a prospective buyer tendered an offer to purchase the said properties. The management of Petron made a counter offer in December 2012 effectively rendering the Petron Mega Plaza office units and parking spaces as assets held for sale as of December 31, 2012.

The sale was consummated during the 2nd quarter of 2013. The Group recognized a gain amounting to P580 included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

f) San Miguel (Thailand) Co. Ltd. (SMTCL)

On December 27, 2011, the Parent Company through SMFBIL, signed a Share Sale and Purchase Agreement to sell its outstanding shares in SMTCL to Pepsi Thai Trading Co., for a purchase price of US\$35. The sale was completed on February 15, 2012. The Group recognized a gain of P63, included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

g) PT San Miguel Yamamura Utama Indoplas (SMYUI)

In 2011, the Parent Company through SMYPIL and Nihon Yamamura Glass Co. Ltd. (NYG), entered into a non-binding Memorandum of Understanding (MOU), wherein NYG offered to buy 51% equity interest in SMYUI. On December 2, 2011, the BOD of SMYPIL unanimously accepted NYG's offer and approved the share sale transaction as contemplated in the MOU. The disposal was completed in January 2012. The Group recognized a gain of P22, included as part of "Gain on sale of investments and property and equipment" account in the 2012 consolidated statement of income.

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2014	2013
Cash in banks and on hand		P32,363	P38,202
Short-term investments		226,243	153,411
	<i>40, 41</i>	P258,606	P191,613

Cash in banks earns interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

10. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2014	2013
Trade		P57,872	P66,056
Non-trade	6, 13, 39	64,383	91,697
Amounts owed by related parties	33, 35	22,034	18,838
		144,289	176,591
Less allowance for impairment losses	4	8,253	8,450
	4, 40, 41	P136,036	P168,141

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade receivables include interest receivable, claims receivable and other receivables.

The movements in the allowance for impairment losses are as follows:

	<i>Note</i>	2014	2013
Balance at beginning of year		P8,450	P6,387
Charges for the year	27	848	3,372
Amounts written off		(348)	(197)
Acquisition of subsidiaries	5	-	15
Translation adjustments and others		(697)	(1,127)
Balance at end of year		P8,253	P8,450

The aging of receivables is as follows:

December 31, 2014	Trade	Non-trade	Amounts owed by related parties	Total
Current	P46,001	P30,251	P22,034	P98,286
Past due:				
1 - 30 days	5,441	3,642	-	9,083
31 - 60 days	1,671	281	-	1,952
61 - 90 days	604	181	-	785
Over 90 days	4,155	30,028	-	34,183
	P57,872	P64,383	P22,034	P144,289

December 31, 2013	Trade	Non-trade	Amounts owed by related parties	Total
Current	P52,684	P58,049	P18,813	P129,546
Past due:				
1 - 30 days	5,905	1,424	6	7,335
31 - 60 days	3,337	4,515	-	7,852
61 - 90 days	1,385	3,528	-	4,913
Over 90 days	2,745	24,181	19	26,945
	P66,056	P91,697	P18,838	P176,591

Various collaterals for trade receivables such as bank guarantees, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 40).

11. Inventories

Inventories consist of:

	2014	2013
Finished goods and goods in process (including petroleum products)	P60,850	P60,232
Materials and supplies (including coal)	19,529	17,815
Raw land inventory and real estate projects	4,255	3,924
Containers	1,212	1,344
	P85,846	P83,315

The cost of finished goods and goods in process amounted to P61,750 and P61,068 as of December 31, 2014 and 2013, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have increased by P618 as of December 31, 2014 and decreased by P1,398 as of December 31, 2013.

The cost of materials and supplies amounted to P20,372 and P18,636 as of December 31, 2014 and 2013, respectively.

Containers at cost amounted to P1,779 and P1,823 as of December 31, 2014 and 2013, respectively.

The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P553 and P746 as of December 31, 2014 and 2013, respectively, with corresponding costs at point of harvest amounting to P509 and P653, respectively. Net unrealized gain on fair valuation of agricultural produce amounted to P44 and P93 as of December 31, 2014 and 2013, respectively.

The fair values of marketable hogs and cattle, and grown broilers, which comprise the Group's agricultural produce, have been categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as of December 31, 2014 and 2013, based on management's assessment.

The fair value of raw land inventory amounted to P7,318 and P7,890 as of December 31, 2014 and 2013, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory is its current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property, size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2014	2013
Prepaid taxes and licenses		P34,547	P27,438
Advances to contractors and suppliers		3,673	3
Restricted cash - current	40, 41	1,604	385
Option deposit	13, 40, 41	1,118	1,110
CIP - airport concession arrangements	4	857	819
Prepaid insurance		453	361
AFS financial assets - current portion	4, 14, 40, 41	431	358
Derivative assets	40, 41	360	681
Prepaid rent		318	273
Financial assets at FVPL	40, 41	136	117
Others		2,591	2,167
		P46,088	P33,712

The CIP - airport concession arrangement of the Group includes the accumulated costs incurred on the design of the upgrade component of the Boracay Airport Project. It also includes the cost of a parcel of land earmarked for such upgrade, capitalized borrowing cost and the present value of the obligation to maintain and restore the Boracay Airport prior to its transfer to the ROP at the end of the concession period. The cost included in CIP that relates to the upgrade component of the Project was recognized as construction cost upon commencement of the upgrade (Note 4). The interest expense related to the accretion of the IRO amounting to P4 in 2014, 2013 and 2012, was recognized as part of "Other financing charges" under "Interest expense and other financing charges" account in the consolidated statements of income (Note 30).

"Others" consist of advances to officers and employees and prepayments for various operating expenses.

The methods and assumptions used to estimate the fair values of restricted cash, option deposit, financial assets at FVPL, derivative assets and AFS financial assets are discussed in Note 41.

13. Investments and Advances

Investments and advances consist of:

	<i>Note</i>	2014	2013
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		P43,144	P157,789
Additions		3,578	9,613
Disposal		(21,506)	(43,296)
Reclassification to investments in shares of stock of subsidiaries	5	-	(2,813)
Declaration of property dividends	32	-	(44,431)
Reclassification to AFS financial assets	14	-	(35,903)
Others		(5,889)	2,185
Balance at end of year		19,327	43,144
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year		(6,839)	(5,210)
Disposal		5,712	(5,130)
Equity in net earnings (losses)		1,255	(967)
Share in other comprehensive income (loss)		175	(304)
Reclassification to investments in shares of stock subsidiaries	5	-	355
Dividends		(5)	(3,857)
Declaration of property dividends	32	-	6,944
Reclassification to AFS financial assets	14	-	74
Others		(11)	1,256
Balance at end of year		287	(6,839)
		19,614	36,305
Advances		17,813	24,349
		P37,427	P60,654

Investments in Shares of Stock of Associates:

- a. Trustmark Holdings Corporation (Trustmark), Zuma Holdings and Management Corporation (Zuma) and Fortunate Star Limited (Fortunate Star)

On October 23, 2014, the conditions as set forth in the joint agreement signed by the Parent Company, together with SMEII, and the Lucio Tan Group on September 12, 2014, were satisfied by all of the parties. The joint agreement covers the following: (i) sale of the 49% equity interest in Trustmark and Zuma, including indirect ownership interests of 43.23% and 48.98% in Philippine Airlines, Inc. and Air Philippines Corporation, respectively; and (ii) sale of the equity interest and cancellation of subscription rights on the shares of stock of Fortunate Star.

The Group received a total of US\$874 or an equivalent of P38,616 and recognized a gain of P491, included as part of "Gain on sale of investments and property and equipment" account, in the 2014 consolidated statement of income.

b. AAIBV

The Parent Company through SMHC holds 16,022,041 Class B common shares, representing 46.53% of the outstanding capital stock of AAIBV.

AAIBV has indirect equity interests in the companies holding the concessions to construct, operate and maintain the Skyway and South Luzon Expressway.

On May 24, 2012, SMHC entered into an Option Agreement (the Agreement) with Padma Fund L.P. (Padma), a corporation organized and existing under the laws of Cayman Islands, for the option to acquire additional 4.47% equity interest in AAIBV and up to 100% of the outstanding capital stock of certain corporations where Padma holds ownership interest for US\$25 or P1,110 (Note 12). The option is exercisable at any time from the execution of the Agreement or such other date as may be agreed upon by the parties in writing. The option was exercised by SMHC on December 17, 2014, subject to the fulfillment of certain conditions as set out in the Agreement.

The conditions for the transfer of the 4.47% equity interest in favor of SMHC were fulfilled and satisfied on March 5, 2015 (Note 43).

c. Northern Cement Corporation (NCC)

On March 1, 2013, the Parent Company through SMYPC, completed the acquisition of 104,500,000 common shares, equivalent to 35% equity interest in NCC for P3,500.

NCC is primarily engaged in manufacturing, developing, processing, exploiting, buying and selling cement and/or other products derived therefrom.

d. Liberty Telecoms Holdings, Inc. (LTHI)

The Parent Company through Vega, has 41.48% stake in LTHI representing 643,700,669 common shares and 587,951,737 preferred shares as of December 31, 2013. The preferred shares are voting, non-redeemable and participating.

LTHI, a public company listed on the PSE, is a holding company with ownership interests in telecommunication companies that offer internet broadband services.

In April and December 2014, the Parent Company through Vega, subscribed to additional 1,316,683,697 and 431,200,000 preferred shares, respectively, increasing its stake in LTHI to 45.58%.

The fair value of the Group's investment in LTHI common shares amounting to P1,378 and P1,056 as of December 31, 2014 and 2013, respectively, has been categorized as Level 1 in the fair value hierarchy based on the quoted market price of LTHI shares in active markets available at the reporting date (Note 4).

The fair value of the Group's investment in LTHI preferred shares amounting to P4,999 and P964 as of December 31, 2014 and 2013, respectively, has been categorized as Level 2 in the fair value hierarchy based on inputs other than quoted prices included within Level 1 that are observable for the asset at the reporting date (Note 4).

e. Top Frontier

On October 17, 2013, the BOD of the Parent Company approved the declaration, by way of property dividends, of 240,196,000 common shares of Top Frontier to the SMC common shareholders of record (the “Receiving Shareholders”) as of November 5, 2013. The SEC approved the property dividend declaration on November 19, 2013, and the Certificate Authorizing Registration was issued by the Bureau of Internal Revenue (BIR) on December 26, 2013.

The Receiving Shareholder received one common share of Top Frontier for every ten common shares of the Parent Company. Fractional shares below ten were dropped. The fair value of the Top Frontier shares is P178.00 per share, based on the Valuation and Fairness Opinion rendered by an independent advisor.

The property dividend distribution resulted in the Parent Company’s public shareholders owning about 11.8% of Top Frontier. As a result of the property dividend distribution, the Group recognized a remeasurement gain on property dividends amounting to P4,812, included as part of “Other income (charges)” account in the 2013 consolidated statement of income (Note 32).

As a result of the dividend distribution, the remaining investment in 2,561,031 common shares and 1,904,540 preferred shares of Top Frontier amounting to P35,829 were reclassified to “Available-for-sale financial assets” account in the 2013 consolidated statement of financial position (Note 14). As a result of the reclassification, the Group recognized a remeasurement gain of P51, included as part of “Other income (charges)” account in the 2013 consolidated statement of income (Note 32).

The fair value of Top Frontier shares applied a combination of the following approaches below:

Net Asset Value (NAV) Method. The NAV method bases the valuation of an entity’s equity on the net realizable value of its assets less its liabilities and preferred stockholdings. The values based on the most recent audited financial statements, adjusted to reflect current market value, were used as basis for the NAV.

Relative Valuation Method - Price-to-Book Value (PBV) Approach. To estimate the fair value of shares under this method, the net book value of an entity to be used, and the determination of the appropriate price-to-book value multiple to be used, were determined. To arrive at an entity’s equity shares fair value, the computed net assets is multiplied by the selected PBV multiple.

In determining the appropriate book value, the most recent available financial statements were used. The net book value is obtained by deducting the reported total liabilities from an entity’s total assets.

A representative PBV multiple was derived by evaluating the PBV multiples of comparable entities. The entity’s comparability is typically assessed in terms of business activity, industry grouping, capitalization, asset structure, turnover level, and growth trends.

On December 18, 2013, the PSE approved the application for the listing by way of introduction of all the common shares of Top Frontier. The shares were listed on the PSE on January 13, 2014.

f. Meralco

On May 14, 2012, the Group received the stock certificates for the property dividend from Meralco consisting of 1,042,801,676 common shares of stock of Rockwell Land Corporation with a book value of P1,522. The shares received from Meralco as property dividends were sold through the PSE at P2.01 per share on July 27, 2012. The Group recognized a gain of P571, included as part of “Gain on sale of investments and property and equipment” account, in the 2012 consolidated statement of income.

On July 19, 2013, the Parent Company sold 64,333,330 shares of common stock in Meralco at P270.00 per share.

On September 30, 2013, the Parent Company, together with SMPFC and SMC Global, entered into a Share Purchase Agreement with JG Summit Holdings, Inc., for the sale of the remaining 305,689,397 shares of stock of Meralco for P71,837. The Parent Company received P40,400 as downpayment in 2013. The remaining balance amounting to P31,437, included as part of “Non-trade” under “Trade and other receivables” account in the 2013 consolidated statement of financial position, was received by the Group on March 25, 2014 (Note 10).

The Group recognized a gain of P40,423, included as part of “Gain on sale of investments and property and equipment” account in the 2013 consolidated statement of income.

Investments in Shares of Stock of Joint Ventures:

a. TSML

The Parent Company through GSMI’s subsidiary, GSMIL, has an existing Joint Venture (JV) with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which GSMIL owns 40% ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

Through the acquisition by SHL, a subsidiary of GSMI, of the 49% ownership interest in Siam Wine Liquor Co., Ltd. (SWL) and SWL’s acquisition of shares representing 10% ownership of the outstanding capital stock of TSML, the Group’s share in TSML increased from 40% to 44.9%.

b. TGT

The Parent Company through GSMI’s subsidiary, GSMIHL, also has an existing 40% ownership interest in TGT, which was formed as another JV with Thai Life. TGT functions as the selling and distribution arm of TSML.

Through the acquisition of SWL of the 10% ownership interest in TGT, the Group’s share in TGT increased from 40% to 44.9%.

c. Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings, Corp. (KWPP)

In accordance with the agreement of the Parent Company through PVEI, a subsidiary of SMC Global, and Korea Water Resources Corporation (K-Water) to enter into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water, PVEI deposited US\$26 to an escrow account.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US\$39 as full payment of the share purchase price. The payment was funded in part by the deposit in escrow.

In accordance with the entry of SMC Global into Angat Hydro and KWPP, K-Water and SMC Global are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, SMC Global agreed to pay K-Water a support fee amounting to 3% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant.

Angat Hydro was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations, electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with EPIRA Law (RA 9136: "Electric Power Industry Reform Act of 2001").

Advances:

- a. SMPI provided deposits to Primeria Comercio Holdings, Inc. (PCHI) amounting to P804 and P800 as of December 31, 2014 and 2013, respectively. The deposits will be applied against future stock subscriptions of SMPI to the shares of stock of PCHI.
- b. Vega has made deposits to a telecommunications company, a future investee, amounting to P5,958 as of December 31, 2014 and 2013, to be applied against future stock subscriptions.
- c. SMC Global and SMEC made deposits to certain land holding companies for future stock subscriptions amounting to P8,602 and P5,752, as of December 31, 2014 and 2013, respectively.
- d. Other advances pertain to deposits made to certain companies which will be applied against future stock subscriptions.

The details of the Group's material investments in shares of stock of associates and joint ventures which are accounted for using the equity method are as follows:

December 31, 2014								December 31, 2013							
	AAIBV	NCC	LTHI	Angat Hydro and KWPP	TGT and TSML	Others	Total	Trustmark and Zuma	AAIBV	Fortunate Star	NCC	LTHI	TGT and TSML	Others	Total
Country of incorporation	Netherlands	Philippines	Philippines	Philippines	Thailand			Philippines	Netherlands	Cayman Islands	Philippines	Philippines	Thailand		
Percentage of ownership	46.53%	35.00%	45.58%	60.00%	44.90%			49.00%	46.53%	20.00%	35.00%	41.48%	44.90%		
Share in net income (loss)	P1,246	P170	(P389)	(P11)	(P66)	P305	P1,255	(P3,219)	P275	P -	P206	(P600)	(P75)	P2,446	(P967)
Share in other comprehensive income (loss)	199	(24)	-	-	6	(6)	175	-	(393)	-	-	(39)	6	122	(304)
Share in total comprehensive income (loss)	P1,445	P146	(P389)	(P11)	(P60)	P299	P1,430	(P3,219)	(P118)	P -	P206	(P639)	(P69)	P2,568	(P1,271)
Dividends received from associates	P -	P -	P -	P -	P -	P5	P5	P -	P -	P -	P70	P -	P -	P3,787	P3,857
Carrying amount of investments in shares of stock of associates and joint ventures	P8,732	P3,782	P2,915	P1,819	P659	P1,707	P19,614	P15,642	P7,287	P5,821	P3,636	P1,557	P720	P1,642	P36,305

The following are the unaudited condensed financial information of the Group's material investments in shares of stock of associates and joint ventures:

December 31, 2014						December 31, 2013				
	AAIBV	NCC	LTHI	Angat Hydro and KWPP	TGT and TSML	Trustmark and Zuma	AAIBV	NCC	LTHI	TGT and TSML
Current assets	P21,293	P1,763	P936	P407	P1,295	P28,477	P7,407	P2,061	P889	P1,319
Noncurrent assets	60,669	4,374	2,532	20,187	1,330	97,608	57,498	3,325	3,208	1,536
Current liabilities	(7,914)	(719)	(1,989)	(19,714)	(30)	(80,385)	(6,930)	(699)	(5,251)	(642)
Noncurrent liabilities	(60,740)	(178)	(330)	(17)	(1,300)	(41,135)	(50,840)	(141)	(368)	(609)
Net assets (liabilities)	P13,308	P5,240	P1,149	P863	P1,295	P4,565	P7,135	P4,546	(P1,522)	P1,604
Sales	P11,831	P4,545	P427	P154	P848	P85,045	P11,534	P4,022	P447	P1,124
Net income (loss)	P2,759	P761	(P897)	(P19)	(P148)	(P6,924)	P4,590	P760	(P1,446)	(P167)
Other comprehensive loss	(131)	(69)	-	-	-	-	(1,341)	-	(96)	-
Total comprehensive income (loss)	P2,628	P692	(P897)	(P19)	(P148)	(P6,924)	P3,249	P760	(P1,542)	(P167)

14. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	<i>Note</i>	2014	2013
Equity securities		P40,968	P41,420
Government and other debt securities		722	815
Proprietary membership shares and others		200	171
	<i>4, 40, 41</i>	41,890	42,406
Less current portion	<i>12</i>	431	358
		P41,459	P42,048

Equity Securities

- a) *Top Frontier*. The investments in Top Frontier consist of 2,561,031 common shares and 1,904,540 preferred shares, which were reclassified to “Available-for-sale financial assets” account in 2013 as a result of the property dividend distribution (Note 13).
- b) *Indophil*. The Parent Company through Coastal View, a subsidiary of SMHC, has approximately 3.99% equity interest in Indophil as of December 31, 2014 and 2013.

Indophil is an Australian company listed on the Australian Stock Exchange, which owns a 37.5% beneficial interest in Sagittarius Mines, Inc. (SMI). SMI has the rights to the Tampakan gold and copper mine in South Cotabato.

The investment in Indophil amounting to P527 was reclassified to “Assets held for sale” account in the 2014 consolidated statement of financial position in view of the sale of Indophil shares to APIC on January 23, 2015 (Note 8).

Government Securities

- a) Petrogen’s government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 6% to 8.875% in 2014 and 2013.
- b) Ovincor’s ROP9 Bonds are maintained at the HSBC Bank Bermuda Limited and carried at fair value with fixed annual interest rates of 8.25% to 8.875%.

The methods and assumptions used to estimate the fair value of AFS financial assets are discussed in Note 41.

15. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
Cost									
January 1, 2013	P22,664	P39,722	P214,319	P48,744	P14,276	P113,401	P1,706	P66,645	P521,477
Additions	1,999	6,554	7,441	1,086	2,130	6,674	415	39,566	65,865
Disposals/reclassifications/acquisition of subsidiaries	778	334	-	(255)	(789)	1,035	50	2,361	3,514
Currency translation adjustments	33	894	-	73	52	2,410	5	(78)	3,389
December 31, 2013	25,474	47,504	221,760	49,648	15,669	123,520	2,176	108,494	594,245
Additions	771	3,438	5,028	789	1,292	5,852	112	21,669	38,951
Disposals/reclassifications/acquisition of subsidiaries	2,788	(749)	-	682	(426)	(4,518)	(32)	5,988	3,733
Currency translation adjustments	(428)	(450)	-	(587)	(393)	(489)	(37)	(173)	(2,557)
December 31, 2014	28,605	49,743	226,788	50,532	16,142	124,365	2,219	135,978	634,372
Accumulated Depreciation and Amortization									
January 1, 2013	2,664	16,933	15,813	28,096	9,152	66,990	737	-	140,385
Additions	137	1,547	5,312	2,364	1,175	6,111	121	-	16,767
Disposals/reclassifications/acquisition of subsidiaries	24	(129)	-	(226)	(687)	(670)	291	-	(1,397)
Currency translation adjustments	(13)	286	-	51	33	851	3	-	1,211
December 31, 2013	2,812	18,637	21,125	30,285	9,673	73,282	1,152	-	156,966
Additions	181	1,805	5,804	1,887	1,310	6,637	144	-	17,768
Disposals/reclassifications/acquisition of subsidiaries	421	(227)	-	(40)	(274)	(3,149)	(21)	-	(3,290)
Currency translation adjustments	(31)	(276)	-	86	(238)	(796)	(5)	-	(1,260)
December 31, 2014	3,383	19,939	26,929	32,218	10,471	75,974	1,270	-	170,184

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
Accumulated Impairment Losses									
January 1, 2013	P385	P2,027	P -	P -	P -	P6,692	P1	P -	P9,105
Additions	-	388	-	-	-	1,151	-	-	1,539
Disposals and reclassifications	(119)	-	-	-	-	(52)	-	-	(171)
Currency translation adjustments	-	248	-	-	-	726	-	-	974
December 31, 2013	266	2,663	-	-	-	8,517	1	-	11,447
Additions	-	-	-	-	-	19	-	-	19
Disposals and reclassifications	-	(403)	-	-	-	(885)	-	-	(1,288)
Currency translation adjustments	-	10	-	-	-	39	-	-	49
December 31, 2014	266	2,270	-	-	-	7,690	1	-	10,227
Carrying Amount									
December 31, 2013	P22,396	P26,204	P200,635	P19,363	P5,996	P41,721	P1,023	P108,494	P425,832
December 31, 2014	P24,956	P27,534	P199,859	P18,314	P5,671	P40,701	P948	P135,978	P453,961

“Equipment, furniture and fixtures” includes machinery, telecommunications equipment, transportation equipment, tools and small equipment and office equipment.

Total depreciation, amortization and impairment losses/reversals recognized in profit or loss amounted to P17,787, P18,306 and P14,489 in 2014, 2013 and 2012, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P19, P13 and P14 in 2014, 2013 and 2012, respectively.

The Group has interest amounting to P3,708 and P5,544 which was capitalized in 2014 and 2013, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 4.88% to 8.10% and 5.59% to 6.3131% in 2014 and 2013, respectively. The unamortized capitalized borrowing costs amounted to P9,148 and P5,650 as of December 31, 2014 and 2013, respectively.

The combined carrying amounts of power plants and equipment under finance lease amounted to P188,155 and P193,356 as of December 31, 2014 and 2013, respectively (Notes 4 and 34).

a) Davao PET Plant

On November 4, 2013, the Parent Company, BPI and SMYPC signed respective Sale and Purchase Agreements and Asset Purchase Agreements with Coca-Cola Bottlers Philippines, Inc. and its subsidiary, Luzviminda Land Holdings, Inc., for the sale of the PET Plant and other properties located in Davao for P1,263. The Group recognized a gain amounting to P186, which was included as part of “Gain on sale of investments and property and equipment” account in the 2013 consolidated statement of income.

b) San Miguel (Vietnam) Co. Ltd. (SMVCL)

On February 23, 2012, SMVCL sold its building and land use rights in Amata Industrial Zone, Vietnam for US\$12. The Group recognized a gain amounting to P256 included as part of “Gain on sale of investments and property and equipment” account in the 2012 consolidated statement of income.

SMVCL is formerly a wholly-owned subsidiary of SMFBIL. The State Securities Commission of Vietnam approved the dissolution of SMVCL on May 31, 2012.

c) PTSMIFB

On September 28, 2012, PTSMIFB sold its land use rights, building and equipment for US\$27. The Group recognized a gain amounting to P45 included as part of “Gain on sale of investments and property and equipment” account in the 2012 consolidated statement of income.

d) Sumilao Property

Land and land improvements include a 144-hectare property in Sumilao, Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs amounted to P37.

To settle the land dispute, a MOA was executed among SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in the last quarter of 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court and OP, SMFI forwarded in November 2010 to the Sumilao farmers’ counsels the draft of the Joint Manifestation and Motion for Dismissal of the cases pending with the Supreme Court and the OP for their concurrence. Pursuant to the Joint Manifestation and Motion for Dismissal dated March 3, 2011 filed by SMFI and NQSR Management and Development Corporation, the original owner of the Sumilao property, the Supreme Court and the OP, in a Resolution dated March 15, 2011 and in an Order dated April 6, 2011, respectively, dismissed the appeal of MAPALAD on the DAR’s denial of their petition for the revocation of the conversion order. SMFI considers the said Order and Resolution to have attained finality as at March 19, 2015. SMFI is not aware of any appeal or relief therefrom filed or applied for by MAPALAD.

16. Investment Property

The movements in investment property are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Total
Cost					
January 1, 2013	P2,581	P620	P1,108	P840	P5,149
Additions	11	3	-	789	803
Reclassifications	(299)	(116)	(643)	2	(1,056)
Disposals	(12)	-	-	-	(12)
Currency translation adjustments	25	27	-	-	52
December 31, 2013	2,306	534	465	1,631	4,936
Additions	970	4	6	19	999
Reclassifications	125	-	3	(1,631)	(1,503)
Disposals	-	-	(6)	-	(6)
Currency translation adjustments	2	3	-	-	5
December 31, 2014	3,403	541	468	19	4,431
Accumulated Depreciation and Amortization					
January 1, 2013	106	256	999	-	1,361
Additions	8	16	21	-	45
Disposals and reclassifications	(18)	(77)	(574)	-	(669)
Currency translation adjustments	5	10	-	-	15
December 31, 2013	101	205	446	-	752
Additions	8	13	11	-	32
Disposals	-	-	(6)	-	(6)
Currency translation adjustments	1	1	-	-	2
December 31, 2014	110	219	451	-	780
Accumulated Impairment Losses					
December 31, 2013 and 2014	8	-	-	-	8
Carrying Amount					
December 31, 2013	P2,197	P329	P19	P1,631	P4,176
December 31, 2014	P3,285	P322	P17	P19	P3,643

No impairment loss was recognized in 2014, 2013 and 2012.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2014, 2013 and 2012.

The fair value of investment property amounting to P6,561 and P6,434 as of December 31, 2014 and 2013, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied one or more or a combination of the three approaches below:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

17. Biological Assets

Biological assets consist of:

	<i>Note</i>	2014	2013
Current:			
Growing stocks		P2,977	P3,086
Goods in process		343	341
		3,320	3,427
Noncurrent:			
Breeding stocks - net	4	1,973	1,911
		P5,293	P5,338

The amortization of breeding stocks recognized in profit or loss amounted to P1,537, P1,524 and P1,311 in 2014, 2013 and 2012, respectively (Note 28).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	<i>Note</i>	2014	2013
Cost			
Balance at beginning of year		P6,036	P6,213
Increase (decrease) due to:			
Production		38,787	38,170
Purchases		896	996
Mortality		(734)	(657)
Sales and harvest		(37,411)	(37,438)
Retirement		(1,401)	(1,288)
Currency translation adjustments		-	40
Balance at end of year		6,173	6,036
Accumulated Amortization			
Balance at beginning of year		698	489
Additions	28	1,537	1,524
Disposals		(16)	(26)
Retirement		(1,339)	(1,288)
Currency translation adjustments		-	(1)
Balance at end of year		880	698
Carrying Amount		P5,293	P5,338

The Group harvested approximately 452.9 million and 472.5 million kilograms of grown broilers in 2014 and 2013, respectively, and 0.75 million and 0.86 million heads of marketable hogs and cattle in 2014 and 2013, respectively.

18. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	<i>Note</i>	2014	2013
Goodwill	5, 38	P41,211	P41,752
Other intangible assets		45,114	36,032
		P86,325	P77,784

The movements in goodwill are as follows:

	<i>Note</i>	2014	2013
Balance at beginning of year		P41,752	P48,724
Additions	5, 38	7	1,572
Disposals		-	(8,783)
Currency translation adjustments and others		(548)	239
Balance at end of year		P41,211	P41,752

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	Trademarks and Brand Names	Total
Cost			
January 1, 2013	P6,987	P413	P7,400
Currency translation adjustments	18	23	41
December 31, 2013	7,005	436	7,441
Currency translation adjustments	4	1	5
December 31, 2014	7,009	437	7,446
Accumulated Impairment Losses			
January 1, 2013	-	176	176
Currency translation adjustments	-	17	17
December 31, 2013	-	193	193
Currency translation adjustments	-	1	1
December 31, 2014	-	194	194
Carrying Amount			
December 31, 2013	P7,005	P243	P7,248
December 31, 2014	P7,009	P243	P7,252

The movements in other intangible assets with finite useful lives are as follows:

<i>Note</i>	Toll Road Concession Rights	Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Airport Concession Right	Computer Software and Licenses	Power Concession Right	Project Development Cost	Others	Total
Cost									
January 1, 2013	P29,039	P3,190	P1,987	P295	P269	P -	P -	P2,024	P36,804
Additions	586	-	107	393	6	-	11,040	94	12,226
Acquisition of subsidiaries	5, 38	12,726	-	13,111	-	-	-	-	25,837
Disposals and reclassifications	(29,039)	(1,749)	(13,485)	229	(56)	-	-	(16)	(44,116)
Currency translation adjustments	-	141	-	-	(1)	-	-	17	157
December 31, 2013	13,312	1,582	1,720	917	218	-	11,040	2,119	30,908
Additions	7,540	-	-	1,402	34	496	-	127	9,599
Acquisition of subsidiaries	5, 38	-	-	165	-	-	-	-	165
Disposals and reclassifications	11,040	(95)	-	-	(11)	-	(11,040)	104	(2)
Currency translation adjustments	-	6	-	-	1	-	-	(30)	(23)
December 31, 2014	31,892	1,493	1,885	2,319	242	496	-	2,320	40,647
Accumulated Amortization and Impairment Losses									
January 1, 2013	8,438	448	-	13	101	-	-	953	9,953
Additions	5, 38	803	33	-	12	21	-	253	1,122
Disposals and reclassifications	(8,983)	(16)	-	-	-	-	-	(4)	(9,003)
Currency translation adjustments	-	45	-	-	-	-	-	7	52
December 31, 2013	258	510	-	25	122	-	-	1,209	2,124
Additions	5, 38	336	-	12	13	15	-	289	698
Disposals and reclassifications	6	-	(22)	-	-	-	-	(1)	(23)
Currency translation adjustments	-	2	-	-	-	-	-	(16)	(14)
December 31, 2014	594	523	-	37	135	15	-	1,481	2,785
Carrying Amount									
December 31, 2013	P13,054	P1,072	P1,720	P892	P96	P -	P11,040	P910	P28,784
December 31, 2014	P31,298	P970	P1,885	P2,282	P107	P481	P -	P839	P37,862

Project development cost represents the upfront fee paid by Vertex on June 25, 2013 to the DPWH for the NAIA Expressway Project. The amount was reclassified to toll road concession rights as of December 31, 2014 (Notes 6 and 34).

Goodwill, licenses and trademarks and brand names with indefinite lives and mineral rights and evaluation assets with finite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2014			2013		
	Goodwill	Licenses, Trademarks and Brand Names	Mineral Rights and Evaluation Assets	Goodwill	Licenses, Trademarks and Brand Names	Mineral Rights and Evaluation Assets
Fuel and oil	P30,947	P -	P -	P31,412	P -	P -
Infrastructure	3,580	-	-	3,556	-	-
Food	2,820	229	-	2,945	229	-
Packaging	2,069	-	-	2,053	-	-
Beverage	1,000	1,802	-	999	1,798	-
Telecommunications	733	5,221	-	726	5,221	-
Energy	-	-	1,720	-	-	1,720
Others	62	-	165	61	-	-
Total	P41,211	P7,252	P1,885	P41,752	P7,248	P1,720

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value-in-use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 6% to 14% in 2014 and 2013. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

Impairment loss recognized in 2014 amounted to P127 (Note 32). No impairment loss was recognized in 2013 and 2012.

The recoverable amount of trademarks and brand names has been determined based on a valuation using cash flow projections (value-in-use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The range of the growth rates used is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections ranged from 6.4% to 16.6% and from 6.6% to 21.4% in 2014 and 2013, respectively. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique.

No impairment loss was recognized in 2014, 2013 and 2012.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins.* Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.
- *Discount Rates.* The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

19. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2014	2013
Noncurrent receivables and deposits - net	33, 35, 39, 40, 41	P14,967	P25,297
Deferred containers - net	4	8,278	7,950
Retirement assets	35	3,830	6,737
Noncurrent prepaid rent		2,989	5,039
Catalyst		1,540	179
Noncurrent prepaid input tax		1,435	1,768
Restricted cash	40, 41	1,055	1,800
Idle assets	4	785	1,066
Deferred exploration and development costs	4, 34	673	526
Others		2,824	2,706
		P38,376	P53,068

Noncurrent receivables and deposits include amounts owed by related parties amounting to P11,427 and P19,994 as of December 31, 2014 and 2013, respectively (Note 33) and the costs related to the capitalized expenditures for the development of the Metro Rail Transit Line 7 (MRT 7) Project amounting to P2,429 and P2,393 as of December 31, 2014 and 2013, respectively (Note 34).

Restricted cash represents: (i) SPI's Cash Flow Waterfall Accounts with a local bank amounting to P1,021 and P626 as of December 31, 2014 and 2013, respectively, as part of the provisions in the Omnibus Loan and Security Agreement; (ii) APEC's reinvestment fund for sustainable capital expenditures and cash collected from customers for membership fees and bill deposits which are refundable amounting to P34 as of December 31, 2014; and (iii) amounts deposited in an escrow account amounting to P1,174 as of December 31, 2013 in connection with the MOA entered into by PVEI and K-Water. In 2014, the amount was withdrawn and paid to the sellers (Note 13).

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 41.

20. Loans Payable

Loans payable consist of:

	<i>Note</i>	2014	2013
Parent Company			
Peso-denominated		P7,685	P7,750
Subsidiaries			
Peso-denominated		136,265	114,246
Foreign currency-denominated		36,109	21,230
	<i>40, 41</i>	P180,059	P143,226

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks. Interest rates for peso-denominated loans range from 2% to 5.50% and from 0.50% to 6.50% in 2014 and 2013, respectively. Interest rates for foreign currency-denominated loans range from 1.625% to 9% and from 1.16% to 13.78% in 2014 and 2013, respectively (Note 30).

Loans payable include interest-bearing amounts payable to a related party amounting to P6,400 and P4,275 as of December 31, 2014 and 2013, respectively (Note 33).

Loans payable of the Group are not subject to covenants.

21. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2014	2013
Non-trade		P56,447	P37,013
Trade		56,250	71,288
Accrued payroll		4,528	3,333
Accrued interest payable		2,379	2,414
Payables on the purchase of shares of stock		1,206	1,337
Amounts owed to related parties	33	499	1,297
Derivative liabilities	40, 41	325	455
Retirement liabilities	35	127	100
Subscriptions payable		28	-
Current portion of IRO	4	21	16
Others		34	4
	<i>40, 41</i>	P121,844	P117,257

Trade payables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade payables include contract growers/breeders' fees, guarantee deposits, utilities, rent and other expenses payable to third parties.

"Others" include accruals for materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 41.

22. Long-term Debt

Long-term debt consists of:

	2014	2013
Parent Company		
Term notes:		
Peso-denominated:		
Floating interest rate based on PDST-F plus margin, with maturities up to 2015 (a)	P7,850	P8,649
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities in various dates through 2018 (b)	73,506	72,641
Fixed interest rate of 4.875% with maturities up to 2023 (c)	35,336	35,034
Fixed interest rate of 2.00% with maturities up to 2014 (d)	-	9,511
	116,692	125,835
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 8.875% and 10.50% maturing in 2014 and 2019, respectively (e)	2,793	25,078
Fixed interest rate of 6.05%, 5.93% and 6.60% maturing in 2017, 2019 and 2022, respectively (f)	19,862	19,837
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (g)	14,863	-
Foreign currency-denominated:		
Fixed interest rate of 7.00% maturing in 2016 (h)	13,190	13,247
Term notes:		
Peso-denominated:		
Fixed interest rate of 7.00% maturing in 2017 (i)	19,891	19,859
Fixed interest rate of 6.2921% and 6.0606% with maturities up to 2023 (j)	13,386	12,117
Fixed interest rate of 6.3212% and 7.1827% with maturities up to 2018 and 2021, respectively (k)	3,466	3,498
Fixed interest rate of 6.175% and 6.145% maturing in 2016 (l)	1,500	1,500
Fixed interest rate of 5.4885% maturing in 2015 (m)	798	797
Fixed interest rate of 8.14% and 9.33% maturing in 2014 and 2016, respectively (n)	-	9,782
Fixed interest rate of 7.25% maturing in 2014 (o)	-	1,269
Fixed interest rate of 7.89% and 7.25% maturing in 2015 (p)	-	812
Floating interest rate based on PDST-F plus margin, with maturities up to 2021 (q)	11,415	6,941
Floating interest rate based on PDST-F plus margin, maturing in 2015 (m)	3,693	3,686
Floating interest rate based on PDST-F plus margin or BSP overnight rate plus margin, whichever is higher, with maturities up to 2019 (r)	3,240	3,486
Floating interest rate based on PDST-F plus margin, with maturities up to 2023 (s)	3,462	2,064
Floating interest rate based on PDST-F plus margin, with maturities up to 2022 (t)	3,175	2,344
Floating interest rate based on PDST-F plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018 (u)	457	572
Floating interest rate based on PDST-F plus margin, with maturities up to 2021 (v)	349	-

Forward

	2014	2013
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities up to 2018 (w)	P21,984	P21,725
Floating interest rate plus a fixed spread, with maturities up to 2019 (x)	20,821	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2017 (y)	15,094	21,069
Floating interest rate based on LIBOR plus margin, with maturities up to 2016 (z)	9,052	11,979
Floating interest rate based on COF plus margin, with maturities up to 2019 (aa)	3,805	-
	186,296	181,662
	302,988	307,497
Less current maturities	19,852	42,807
	P283,136	P264,690

- a. The amount represents drawdown of various loans in 2009 and 2010 by the Parent Company used for financing general and corporate requirements.

Unamortized debt issue costs amounted to P1 as of December 31, 2013.

- b. The amount represents drawdown by the Parent Company on various dates in 2013 to pay in full and refinance the US\$1,000 loan availed of in 2010, to fund infrastructure investments and for general corporate purposes.

Unamortized debt issue costs amounted to P1,176 and P1,499 as of December 31, 2014 and 2013, respectively.

- c. The amount represents the drawdown of US\$800 Notes (the “Notes”) issued on April 19, 2013, from the Parent Company’s US\$2,000 Medium Term Note Programme which was listed on the SGX-ST on the same date. The Notes bear interest at the rate of 4.875% per annum, payable semi-annually in arrears every 26th of April and October of each year.

Unamortized debt issue costs amounted to P440 and P482 as of December 31, 2014 and 2013, respectively.

On March 19, 2015, the Parent Company announced in the SGX-ST the tender offer for the purchase of up to US\$400 of the US\$800 Notes.

- d. The amount represents the balance of the US\$600 Exchangeable Bonds (the “Bonds”) of the Parent Company issued on May 5, 2011 and listed on the SGX-ST on the same date. The Bonds bear interest at the rate of 2.00% per annum, payable semi-annually in arrears, every 5th of May and November of each year, with the 1st interest payment made on November 5, 2011.

The Bonds are exchangeable for common shares from the treasury shares of the Parent Company (Note 25). The number of common shares to be delivered in exchange of a Bond is determined by dividing the principal amount of the Bond to be exchanged (translated into Philippine Peso at the fixed rate of P43.34=US\$1.00) by the initial exchange price of P137.50 per share, subject to adjustment in certain circumstances.

Pursuant to the resolution of the BOD of the Parent Company authorizing management to refinance its existing financial obligations under such terms and conditions which are favorable and advantageous to the Parent Company, the Parent Company solicited the consent of the bondholders to tender their bonds for repurchase. On various dates in 2013, the Parent Company has repurchased Bonds having an aggregate principal amount of US\$363. The aggregate cash amount paid by the Parent Company based on the aggregate principal amount of the Bond repurchased, as well as accrued interest, is US\$398. The Group recognized a loss on redemption of exchangeable bonds amounting to P1,500, shown as part of “Other income (charges)” account in the 2013 consolidated statement of income (Note 32).

A total of US\$24 and US\$22 worth of exchangeable bonds representing 9,794,587 and 8,717,014 common shares of the Parent Company were exchanged at issue prices ranging from P80.44 to P113.24 as of December 31, 2014 and 2013, respectively (Note 25).

On May 5, 2014, the Parent Company redeemed the remaining balance of the exchangeable bonds amounting to US\$213, in accordance with the terms and conditions of the said exchangeable bonds.

Unamortized bond issue costs amounted to P25 as of December 31, 2013.

- e. The amount represents SMB’s peso-denominated fixed rate bonds (Bonds) worth P38,800 which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 17, 2009 and were listed on the Philippine Dealing & Exchange Corp. (PDEX) for trading.

The Bonds were issued in three series: Series A Bonds with a fixed interest rate of 8.25% per annum; Series B Bonds with a fixed interest rate of 8.875% per annum; and Series C Bonds with a fixed interest rate of 10.50% per annum (Series ABC Bonds).

The Series A Bonds (P13,590) and the Series B Bonds (P22,400) matured on April 3, 2012 and April 4, 2014, respectively, and were redeemed by SMB on the said dates.

The Series C Bonds with an aggregate principal amount of P2,810 remain outstanding as of December 31, 2014.

Unamortized debt issue costs amounted to P17 and P34 as of December 31, 2014 and 2013, respectively.

- f. The amount represents SMB’s Bonds worth P20,000, which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 16, 2012. The Bonds were issued on April 2, 2012 at the issue price of 100.00% of face value in three series: Series D Bonds with fixed interest rate of 6.05% per annum; Series E Bonds with a fixed interest rate of 5.93% per annum; and Series F Bonds with a fixed interest rate of 6.60% per annum. The proceeds were used to refinance SMB’s existing financial indebtedness and for general working capital purposes.

The Series E Bonds and Series F Bonds were listed on the PDEX on April 2, 2012 while the Series D Bonds were listed for trading on the PDEX effective October 3, 2012.

Unamortized debt issue costs amounted to P138 and P163 as of December 31, 2014 and 2013, respectively.

- g. On February 7, 2014, the BOD of SMB approved the issuance of Philippine peso-denominated bonds of up to P15,000, subject to an option on the part of SMB to increase the amount by up to P5,000 in case of an oversubscription, with a minimum tenor of seven years and a maximum of 15 years, to support the redemption of the Series B of the Series ABC Bonds, maturing on April 4, 2014.

Pursuant to such approval and registration statement rendered effective by the SEC on March 17, 2014, SMB offered for sale to the public on March 17 to 25, 2014, the Philippine peso fixed rate bonds in the aggregate principal amount of P15,000, consisting of Series G Bonds in the aggregate principal amount of P12,462 with a term of 7 years and interest rate of 5.50% per annum and Series H bonds in the aggregate principal amount of P2,538 with a term of 10 years and interest rate of 6.00% per annum (Series GH Bonds).

Interest on the Series GH Bonds is paid every April 2 and October 2 of each year (each an Interest Payment Date). SMB may also (but shall be likewise not be obligated to) redeem all (and not a part only) of the outstanding Series GH Bonds on the 11th Interest Payment Date for the Series G Bonds, and on the 14th, 16th or 18th Interest Payment Dates for the Series H Bonds.

The Series GH Bonds were issued and listed on the PDEX on April 2, 2014.

Unamortized debt issue costs amounted to P137 as of December 31, 2014.

On December 5 and 16, 2014, the BOD of SMB (through the Executive Committee in the December 16, 2014 meeting) approved the conduct of a consent solicitation process for the holders of record as of December 15, 2014 of the Series C Bonds, Series D Bonds, Series E Bonds and Series F Bonds (Record Bondholders) for the amendment of the negative covenants in the trust agreements covering the Series C Bonds, Series D Bonds, Series E Bonds and Series F Bonds to align the same with the negative covenants of the Series GH Bonds, and allow SMB to engage, or amend its articles of incorporation to engage in the business of manufacturing, selling, distributing, and/or dealing, in any and all kinds of beverage products (Negative Covenant Amendment). SMB obtained the consents of Record Bondholders representing 90% of the outstanding aggregate principal amount of the Series C Bonds and 81.05% of the outstanding aggregate principal amount of the Series D Bonds, Series E Bonds and Series F Bonds for the Negative Covenant Amendment. The supplemental agreements amending the trust agreements covering the Series C Bonds, Series D Bonds, Series E Bonds and Series F Bonds to reflect the Negative Covenant Amendment were executed by SMB and the respective trustees of the said Bonds on February 2, 2015.

- h. The amount represents US\$300, 7%, five-year bond issued by SMC Global in 2011 under the Regulations of the US Securities Act of 1933, as amended. The unsecured bond issue is listed on the SGX-ST.

Unamortized bond issue costs amounted to P72 and P71 as of December 31, 2014 and 2013, respectively.

- i. The amount represents P20,000 peso-denominated notes issued by Petron in 2010. The principal and interest will be translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment. The notes bear interest of 7% per annum, payable semi-annually in arrears every 10th of May and November of each year. The notes will mature on November 10, 2017.

Unamortized debt issue costs amounted to P109 and P141 as of December 31, 2014 and 2013, respectively.

- j. The amount represents P1,500 and P12,300 drawdowns by SPI on September 30, 2014 and 2013, respectively, from the P13,800, 10-year term loan facility agreement with syndicate of banks with fixed interest rate of 6.5446% and 6.3131%, respectively. Effective November 29, 2014, Step Down Interest Rate is 6.2921% and 6.0606% for the 2014 and 2013 drawdowns, respectively. The Facility Agreement has a final maturity date of September 2023.

The proceeds of the loan were used for the acquisition of the Power Plant Phase 1 and Power Plant Phase 2 in Limay, Bataan, from Petron (Note 6). The drawdown includes payable to BOC amounting to P3,451 and P3,120 as of December 31, 2014 and 2013, respectively (Note 33).

Unamortized debt issue costs amounted to P221 and P183 as of December 31, 2014 and 2013, respectively.

- k. The amount represents Fixed Rate Corporate Notes (FXCN) issued by Petron in 2011 consisting of Series A Notes amounting to P690 having a maturity of seven years from the issue date and Series B Notes amounting to P2,910 having a maturity of 10 years from the issue date. The Notes are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements.

Unamortized debt issue costs amounted to P27 and P30 as of December 31, 2014 and 2013, respectively.

- l. The amount represents drawdown by SMCSLC in 2011, from a local bank, which was used for working capital requirements.
- m. The amount represents corporate notes which SMFI offered for sale and subscription to the public in December 2010. These are Philippine peso-denominated fixed rate and floating rate notes with principal amounts of P800 and P3,700, respectively. Both types of notes have a term of five years and one day beginning on December 10, 2010 and ending on December 11, 2015. The fixed rate note bears interest of 5.4885% per annum while the floating rate note bears interest based on 3-month PDST-F plus an agreed margin. Proceeds from the issuance of the notes were used to fund expansion and investment in new businesses by SMFI and for general corporate purposes.

Unamortized debt issue costs amounted to P9 and P17 as of December 31, 2014 and 2013, respectively.

- n. The amount represents FXCN issued by Petron amounting to P5,200 and P4,800 or a total of P10,000. The P5,200 five-year notes bear a fixed rate of 8.14% per annum and were redeemed on maturity date in June 2014. On the other hand, the P4,800 seven-year notes bear a fixed rate of 9.33% per annum with six principal payments of P48 per year commencing in June 2010 with the final payment of P4,512 in December 2016. Petron exercised the early redemption option and made a final payment of P4,560 in December 2014.

Unamortized debt issue costs amounted to P26 as of December 31, 2013.

- o. The amount represents syndicated loans obtained by SMYAC which were used for capital expenditures. The loan was fully paid in 2014.

Unamortized debt issue costs amounted to P1 as of December 31, 2013.

- p. The amount represents drawdown by GSMI, from a local bank, which was used for working capital requirements. The loan was fully paid in December 2014.

Unamortized debt issue costs amounted to P2 as of December 31, 2013.

- q. The amount represents series of drawdowns by PIDC amounting to P4,500 and P7,000 in 2014 and 2013, respectively, from the P11,500 loan facility agreement with local banks, which were used to finance the TPLEX Project (Note 5). The loan is payable in 24 quarterly installments commencing on the 51st month.

Unamortized debt issue costs amounted to P85 and P59 as of December 31, 2014 and 2013, respectively.

- r. The amount represents drawdown from the loan agreement entered into by SMYPC with BOC in October 2012 amounting to P3,500 used for general financing and corporate requirements maturing on October 11, 2019. In April 2014, SMYPC paid P250 as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P10 and P14 as of December 31, 2014 and 2013, respectively.

- s. The amount represents series of drawdowns by SIDC amounting to P1,411 and P2,089 in 2014 and 2013, respectively, from the P3,500 loan facility agreement used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. The loan is payable in 32 quarterly installments commencing on the 27th month.

Unamortized debt issue costs amounted to P38 and P25 as of December 31, 2014 and 2013, respectively.

- t. The amount represents series of drawdowns amounting to P832, P1,601 and P755 in 2014, 2013 and 2012, respectively, from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in 28 quarterly installments commencing on the 12th quarter (Note 33).

Unamortized debt issue costs amounted to P14 and P12 as of December 31, 2014 and 2013, respectively.

- u. The amount represents EPSBPI's unsecured loan used to finance the construction of its bottling facilities. The loan is payable in equal quarterly installments starting February 18, 2012, bearing an interest rate equivalent to the higher of benchmark rate (three-month PDST-F rate) plus a spread or the overnight rate (BSP overnight reverse repo rate on interest rate settling date).
- v. The amount represents the seven-year bank loan obtained by CAI from BOC in April 2014 amounting to P350. The loan was obtained for capital expenditure purposes (Note 33).

Unamortized debt issue costs amounted to P1 as of December 31, 2014.

- w. The amount represents SMC Global's drawdown of US\$500 from the US\$650, five-year term loan with a syndicate of banks signed on September 8, 2013. The loan proceeds were used to refinance SMC Global's existing US\$200 three-year term loan and to finance new investments in power-related assets. On November 15, 2013, the US\$650 facility agreement was amended to increase the facility amount to US\$700. Drawn amount from the facility agreement amounted to US\$500 as of December 31, 2014.

Unamortized debt issue costs amounted to P376 and P473 as of December 31, 2014 and 2013, respectively.

- x. The amount represents the US\$300 loan facility signed and executed by Petron on May 14, 2014. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. The total amount was drawn in 2014 and the proceeds were used to refinance existing debt and for general corporate purposes. Petron completed the syndication of the facility, and increased the facility amount to US\$475 on September 29, 2014. Drawdowns related to the additional US\$175 were made on October 24 and November 6, 2014. Amortization in seven equal amounts will start in May 2016, with final amortization due in May 2019.

Unamortized debt issue costs amounted to P421 as of December 31, 2014.

- y. The amount represents amount drawn from the loan facility signed and executed by Petron on October 31, 2012, amounting to US\$485 with a syndicate of nine banks. The facility is amortized over five years with two-year grace period and is subject to a floating interest rate plus a fixed spread. Petron has drawn US\$210 and US\$275 in 2013 and 2012, respectively. The proceeds were used to finance the capital expenditure requirements of RMP-2 Project. The loan is payable in seven equal amounts starting in November 2014, with final payment due in November 2017. Petron made partial payments on June 24 and October 24, 2014 amounting to US\$70 for each payment date.

Unamortized debt issue costs amounted to P335 and P463 as of December 31, 2014 and 2013, respectively.

- z. The amount represents the US\$480 term loan facility signed and executed by Petron on September 30, 2011. The 1st drawdown of US\$80 was made on November 25, 2011. Petron availed of the remaining US\$400 of the term loan facility on February 15, 2012. The loan proceeds were used to finance the capital expenditure requirements of the RMP-2 Project. Petron made partial payments amounting to US\$69, US\$26 and US\$180 in 2014, 2013 and 2012, respectively. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread.

Unamortized debt issue costs amounted to P148 and P198 as of December 31, 2014 and 2013, respectively.

- aa. The amount represents the Malaysian ringgit (MYR) 300 loan availed by Petron Malaysia in 2014. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of Cost of Fund (COF) plus margin.

Unamortized debt issue costs amounted to P33 as of December 31, 2014.

Long-term debt includes interest-bearing amounts payable to a related party amounting to P10,240 and P8,976 as of December 31, 2014 and 2013, respectively (Note 33).

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group is in compliance with the covenants of the debt agreements as of December 31, 2014 and 2013.

The movements in debt issue costs are as follows:

	<i>Note</i>	2014	2013
Balance at beginning of year		P3,919	P2,679
Additions		1,093	3,204
Amortization	30	(764)	(1,322)
Reclassification, capitalized and others		(441)	(642)
Balance at end of year		P3,807	P3,919

Repayment Schedule

The annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2015	P20,203	P351	P19,852
2016	37,935	609	37,326
2017	41,198	333	40,865
2018	110,287	1,664	108,623
2019 and thereafter	97,172	850	96,322
Total	P306,795	P3,807	P302,988

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 40.

23. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	<i>Note</i>	2014	2013
Retirement liabilities	35	P7,970	P7,466
ARO	4	1,659	1,004
Cash bonds		870	363
Cylinder deposits		442	210
Obligation to ROP - service concession agreement	4, 18, 34	71	73
IRO	4	68	63
Redeemable preferred shares	4	15	14
Retention payable		-	3,913
Others		996	513
	40, 41	P12,091	P13,619

“Redeemable preferred shares” represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year PDST-F). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

“Others” include amounts owed to related parties amounting to P54 and P49 as of December 31, 2014 and 2013, respectively (Note 33).

24. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2014	2013
Allowance for impairment losses on trade and other receivables and inventory	P3,643	P3,611
NOLCO	1,408	1,994
MCIT	486	446
Undistributed net earnings of foreign subsidiaries	(713)	(3,361)
Unrealized intercompany charges and others	2,007	1,857
	P6,831	P4,547

The above amounts are reported in the consolidated statements of financial position as follows:

	<i>Note</i>	2014	2013
Deferred tax assets	4	P14,651	P15,608
Deferred tax liabilities		(7,820)	(11,061)
		P6,831	P4,547

As of December 31, 2014, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year	Carryforward Benefits Up To	NOLCO	MCIT
Incurred/Paid			
2012	December 31, 2015	P794	P83
2013	December 31, 2016	2,010	78
2014	December 31, 2017	1,888	325
		P4,692	P486

The components of income tax expense are shown below:

	2014	2013	2012
Current	P10,891	P11,712	P9,248
Deferred	(607)	(8,012)	(842)
	P10,284	P3,700	P8,406

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2014	2013	2012
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	(3.13%)	(1.95%)	(2.77%)
Equity in losses (net earnings) of associates and joint ventures	(0.98%)	0.53%	(1.72%)
Gain on sale of investments subject to final or capital gains tax	(0.38%)	(22.44%)	(2.57%)
Others, mainly income subject to different tax rates - net	1.27%	0.66%	(4.69%)
Effective income tax rate	26.78%	6.80%	18.25%

25. Equity

a. *The following are the significant developments:*

Amendments to the Articles of Incorporation

On July 23, 2009, during the annual stockholders' meeting of the Parent Company, the stockholders approved the amendments to the Articles of Incorporation of the Parent Company providing for the declassification of the common shares of the Parent Company. The authorized capital stock of the Parent Company amounting to P22,500 was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares with a par value of P5.00 per share and 1,110,000,000 Series "1" preferred shares with a par value of P5.00 per share, and defined the terms and features of the Series "1" preferred shares. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Parent Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Parent Company, to increase the authorized capital stock of the Parent Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value of P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series "2" preferred shares.

Exchange of Capital Stock

On July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one common share for one Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

Series "1" Preferred Shares

On October 15, 2009, the BOD of the Parent Company approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

Series “2” Preferred Shares

On June 26, 2012, the Parent Company filed with the SEC a Notice of Filing of Registration Statement for the registration of up to 1,067,000,000 Series “2” preferred shares with par value of P5.00 per share, to be offered by way of public offering, inclusive of shares for oversubscription.

b. Capital Stock

Common Shares

On July 27, 2010, the BOD of the Parent Company approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share.

Effective August 26, 2010, all Class “A” common shares and Class “B” common shares of the Parent Company were declassified and are considered as common shares without distinction, as approved by the SEC. Both shall be available to foreign investors, subject to the foreign ownership limit.

The Parent Company has a total of 37,194 common stockholders as of December 31, 2014.

The movements in the number of issued and outstanding shares of common stock are as follows:

	<i>Note</i>	2014	2013	2012
Issued and outstanding				
shares at beginning of year		3,282,756,743	3,281,546,290	3,279,334,575
Issuances during the year	39	140,928	1,210,453	2,211,715
Issued shares at end of year		3,282,897,671	3,282,756,743	3,281,546,290
Less treasury shares		904,752,537	905,761,960	908,892,669
Issued and outstanding				
shares at end of year		2,378,145,134	2,376,994,783	2,372,653,621

Preferred Shares

i. Series “1” Preferred Shares

Series “1” preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the BOD of the Parent Company at a fixed rate of 8% per annum calculated in respect of each Series “1” preferred share by reference to the Issue Price thereof in respect of each dividend period.

Series “1” preferred shares are non-voting except as provided for under the Corporation Code. The Series “1” preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

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

On October 3, 2011 and December 8, 2010, the Parent Company listed 97,333,000 and 873,173,353 Series “1” preferred shares worth P7,300 and P65,488, respectively.

ii. Series “2” Preferred Shares

Series “2” preferred shares consisting of 1,067,000,000 shares were fully subscribed at the issue price of P75.00 per share. The Series “2” preferred shares were issued in three sub-series (Subseries “2-A”, Subseries “2-B” and Subseries “2-C”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting on the 3rd, 5th and 7th year and every dividend payment thereafter, with a “step-up” rate effective on the 5th, 7th and 10th year, respectively, if the shares are not redeemed. Dividend rates are 7.500%, 7.625% and 8.000% per annum for Subseries “2-A”, “2-B” and “2-C”, respectively.

Bulk of the proceeds from the issuance of Series “2” preferred shares were used by the Parent Company to redeem the Series “1” preferred shares as well as for general corporate purposes, including short-term debt repayment.

On September 28, 2012, the Parent Company listed the Series “2” preferred shares on the PSE.

The Parent Company has 1,067,000,000 outstanding Series “2” preferred shares and has a total of 935 preferred stockholders as of December 31, 2014.

c. *Treasury Shares*

Treasury shares consist of:

	2014	2013	2012
Common	P67,093	P67,166	P67,336
Preferred	72,788	72,788	72,788
	P139,881	P139,954	P140,124

I. Common Shares

The movements in the number of common shares held in treasury are as follows:

	Note	2014	2013	2012
Number of shares at beginning of year		905,761,960	908,892,669	910,303,273
Cancellation of ESPP	39	68,150	3,410,250	-
Conversion of exchangeable bonds	22	(1,077,573)	(6,540,959)	(1,410,604)
Number of shares at end of year		904,752,537	905,761,960	908,892,669

1. A portion of the total treasury shares of the Parent Company came from 25,450,000 common shares, with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the Parent Company shares under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the “Sandiganbayan Resolution”).

On October 10, 2000, the Parent Company filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering “with and without due compensation” scenarios, and applying different rates of return to the original amount paid by the Parent Company. The financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has “legal and equitable grounds to challenge the enforcement” of the Sandiganbayan Resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized the Parent Company's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

On July 23, 2009, the stockholders of the Parent Company approved the amendment of the Articles of Incorporation to issue Series "1" preferred shares, and the offer to exchange common shares to Series "1" preferred shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in the Parent Company in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series "1" preferred shares.

On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series “1” preferred shares of the Parent Company, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series “1” preferred shares are remitted to the escrow account established with UCPB. On October 5, 2012, the Parent Company redeemed all Series “1” preferred shares including those Series “1” preferred shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series “1” preferred shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As of October 5, 2012, CIIF Holding Companies are no longer stockholders of the Parent Company.

On June 30, 2011, the PCGG filed with the Supreme Court relating to an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the “Urgent Motion”). On March 30, 2012, the Parent Company filed a Comment on the Urgent Motion in compliance with the Supreme Court’s Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of the Parent Company.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a “Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the “Treasury Shares” Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct San Miguel Corporation (SMC) to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38” (“Manifestation and Omnibus Motion”).

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required the Parent Company to comment on COCOFED, et al.’s “Manifestation” dated October 4, 2012 and PCGG’s “Manifestation and Omnibus Motion.” Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a “Manifestation Re: ‘Resolution’ dated November 20, 2012,” dated December 17, 2012, alleging that (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) the Parent Company is likewise not a party in those cases, and if the Parent Company is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished the Parent Company; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that “no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court’s directive”.

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required the Parent Company to file its comment on the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the latest Resolution, dated September 10, 2013, the Supreme Court directed the Parent Company, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted the Parent Company's motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

The Parent Company, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion...' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and G.R. No. 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

2. In 2009, 873,173,353 common shares were acquired through the exchange of common shares to preferred shares, on a one-for-one basis, at P75.00 per share amounting to P65,488.
3. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from the treasury shares of the Parent Company and 82,740,000 common shares of Top Frontier. The Offer Shares were priced at P110.00 per share on April 20, 2011.

4. Also on May 5, 2011, US\$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the SGX-ST. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds are exchangeable for common shares from the treasury shares of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into common shares is P137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011 and February 10 and 16, 2012, the delivered common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US\$600 exchangeable bonds of the Parent Company.

On April 29, 2014 and on various dates in 2013 and 2012, additional 1,077,573, 6,540,959 and 1,410,604 common shares, respectively, were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from P80.44 to P113.24 per share. The additional common shares of stock of the Parent Company were transacted and crossed at the PSE on various dates via special block sales.

A total of 9,794,587 and 8,717,014 common shares were issued to the bondholders of the Parent Company's exchangeable bonds as of December 31, 2014 and 2013, respectively (Note 22).

5. A total of 68,150 and 3,410,250 common shares under the ESPP were cancelled and reverted to treasury shares in 2014 and 2013, respectively (Note 39).

II. Series "1" Preferred Shares

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series "1" preferred shares at a redemption price of P75.00 per share. On October 5, 2012, 970,506,353 Series "1" preferred shares were reverted to treasury and were no longer outstanding but remained issued as of December 31, 2014.

d. *Unappropriated Retained Earnings*

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093, P67,166 and P67,336 in 2014, 2013 and 2012, respectively, representing the cost of common shares held in treasury.

The Group's unappropriated retained earnings includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

e. *Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P23,858, P1,015 and P5,904 in 2014, 2013 and 2012, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P4 and P3,000 in 2013 and 2012, respectively.

26. Cost of Sales

Cost of sales consists of:

	<i>Note</i>	2014	2013	2012
Inventories		P515,138	P498,098	P468,655
Taxes and licenses		40,088	36,551	30,804
Energy fees	34	30,776	31,269	33,150
Depreciation, amortization and impairment	28	15,541	14,096	13,117
Fuel and oil		11,834	10,448	13,269
Freight, trucking and handling		11,653	10,300	7,890
Contracted services		9,227	8,672	7,477
Communications, light and water		8,933	5,978	5,562
Construction cost		8,735	970	85
Personnel	29	6,484	5,528	5,020
Power purchase		6,046	3,929	4,452
Repairs and maintenance		2,934	3,391	3,425
Rent	4, 34	683	655	754
Others		1,569	1,971	1,921
		P669,641	P631,856	P595,581

27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2014	2013	2012
Selling	P28,823	P29,892	P28,970
Administrative	28,195	31,079	23,630
	P57,018	P60,971	P52,600

Selling expenses consist of:

	<i>Note</i>	2014	2013	2012
Personnel	29	P7,330	P6,884	P6,890
Freight, trucking and handling		7,194	7,020	6,407
Advertising and promotions		5,035	6,952	7,085
Depreciation, amortization and impairment	28	3,076	2,679	2,239
Rent	4, 34	2,807	2,398	2,232
Repairs and maintenance		1,071	1,266	1,320
Taxes and licenses		621	634	524
Professional fees		562	499	487
Supplies		453	209	422
Communications, light and water		451	470	396
Others	4, 10, 39	223	881	968
		P28,823	P29,892	P28,970

Administrative expenses consist of:

	<i>Note</i>	2014	2013	2012
Personnel	29	P13,773	P12,392	P11,433
Depreciation, amortization and impairment	28	4,464	4,613	4,633
Professional fees		2,623	2,206	2,013
Taxes and licenses		2,060	1,712	1,119
Advertising and promotion		1,175	1,027	1,105
Communications, light and water		840	916	745
Repairs and maintenance		782	776	835
Supplies		645	873	682
Freight, trucking and handling		265	306	269
Rent	4, 34	159	262	33
Research and development		134	113	119
Others	39	1,275	5,883	644
		P28,195	P31,079	P23,630

“Others” consist of entertainment and amusement, gas and oil, and other administrative expenses.

28. Depreciation, Amortization and Impairment

Depreciation, amortization and impairment are distributed as follows:

	<i>Note</i>	2014	2013	2012
Cost of sales:				
Property, plant and equipment	7, 15	P13,071	P12,181	P11,972
Deferred containers, biological assets and others	17, 19	2,470	1,915	1,145
	26	15,541	14,096	13,117
Selling and administrative expenses:				
Property, plant and equipment	7, 15	4,697	4,624	4,022
Deferred containers and others	19	2,843	2,668	2,850
	27	7,540	7,292	6,872
		P23,081	P21,388	P19,989

“Others” include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

29. Personnel Expenses

Personnel expenses consist of:

	<i>Note</i>	2014	2013	2012
Salaries and wages		P13,291	P11,935	P11,010
Retirement costs	35	1,191	1,362	1,108
Other employee benefits		13,105	11,507	11,225
		P27,587	P24,804	P23,343

Personnel expenses are distributed as follows:

	<i>Note</i>	2014	2013	2012
Cost of sales	26	P6,484	P5,528	P5,020
Selling expenses	27	7,330	6,884	6,890
Administrative expenses	27	13,773	12,392	11,433
		P27,587	P24,804	P23,343

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	<i>Note</i>	2014	2013	2012
Interest expense		P26,566	P27,191	P26,852
Other financing charges	12	3,144	3,779	2,948
		P29,710	P30,970	P29,800

Amortization of debt issue costs included in “Other financing charges” amounted to P764, P1,322 and P1,234 in 2014, 2013 and 2012, respectively (Note 22).

Interest expense on loans payable, long-term debt and finance lease liabilities is as follows:

	<i>Note</i>	2014	2013	2012
Loans payable	20	P5,028	P6,114	P5,411
Long-term debt	22	10,820	10,093	10,110
Finance lease liabilities	34	10,718	10,984	11,331
		P26,566	P27,191	P26,852

31. Interest Income

Interest income consists of:

	<i>Note</i>	2014	2013	2012
Interest from short-term investments, cash in banks and others		P3,530	P2,446	P2,730
Interest on amounts owed by related parties	33, 35	482	1,093	1,523
		P4,012	P3,539	P4,253

32. Other Income (Charges)

Other income (charges) consists of:

	<i>Note</i>	2014	2013	2012
Gains (losses) on derivatives - net	41	P7,513	P2,448	(P1,270)
PSALM monthly fees reduction		815	872	918
Remeasurement of property dividends and AFS financial assets	13	-	4,863	-
Loss on redemption of exchangeable bonds	22	-	(1,500)	-
Reversal (additional provision) on impairment (a)	15, 18, 19	(242)	(1,501)	1,060
Gains (losses) on foreign exchange	40	(2,412)	(19,436)	11,373
Others (b)		633	474	608
		P6,307	(P13,780)	P12,689

- a. *Reversal (Additional Provision) on Impairment of Property, Plant and Equipment, Trademarks and Brand Names and Idle Assets.*

SMBHK and San Miguel (Guangdong) Brewery Company Limited (SMGB)

The Group has determined that no further impairment losses, nor reversals of previously recognized impairment losses are required as of December 31, 2014 and 2013. The recoverable amount, which is the value in use, exceeds the carrying amount.

SMBHK. In 2012, there was a change in the estimates used to determine the SMBHK cash-generating unit's (SMBHK CGU) recoverable amount as the Group was able to determine fair value less cost to sell based on a reliable estimate of the amount obtainable from the sale of most of the assets belonging to the SMBHK CGU under an arm's length transaction between knowledgeable and willing parties, due to recent comparable transaction data becoming available. The fair value less costs to sell of the SMBHK CGU was greater than the value-in-use as of December 31, 2012. Hence, the Group determined the recoverable amount based on the fair value less costs to sell and reversed a part of previously recognized impairment losses in respect of the SMBHK CGU to the extent that the revised carrying amount of individual assets does not exceed the smaller of: (i) the fair value less costs to sell as of December 31, 2012; and (ii) what would have been determined had no impairment loss been recognized in prior years.

The estimates of the cash-generating unit's fair value less costs to sell were determined by reference to the observable market prices for similar assets. In estimating this amount, the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, that has among its staff, members of the Hong Kong Institute of Surveyors.

Also in 2012, the Group noted an increase in the investment property's recoverable amount, mainly arising from an increase in the fair value less costs to sell, which exceeded the relevant carrying amount. Hence, the Group reversed previously recognized impairment losses on the investment property to the extent that the revised carrying amount does not exceed the smaller of: (i) the fair value less costs to sell as of December 31, 2012; and (ii) what would have been determined had no impairment loss been recognized in prior years.

The estimates of the investment property's fair value less costs to sell were determined by reference to the observable market prices for similar assets. In estimating this amount, the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, that has among its staff, members of the Hong Kong Institute of Surveyors.

A reversal of an impairment loss was made to the carrying amount that would have been determined had no impairment loss been recognized in prior years with respect to interests in leasehold land held for own use under operating leases, as there has been a favorable change in the estimates used to determine the recoverable amount.

SMGB. In 2012, the Group noted that fierce market competition resulted in the decline in the demand for its products in mainland China compared to previous sales forecasts. Consequently, operating losses were incurred. These factors are indications that non-current assets of the operations in mainland China, comprising mainly of the production plant located in Shunde, Guangdong Province and other tangible assets may be impaired. The Group recognized an impairment loss amounting to P20 in 2012.

The estimates of recoverable amount were based on the assets' fair values less costs to sell, determined by reference to the observable market prices for similar assets. In estimating this amount, the Group engaged an independent firm of surveyors, LCH (Asia-Pacific) Surveyors Limited, that has among its staff, members of the Hong Kong Institute of Surveyors.

Based on the Group's assessment of the recoverable amounts of the CGUs to which these assets belong, the carrying amounts of the assets in the CGUs were written down (up) by (P1,428) included as part of "Other income (charges)" account in 2012.

SMGFB. SMGFB's plant ceased operations due to significant decline in market demand for its products. As a result, the Group estimated the recoverable amount of the assets and noted that such is below the carrying amount. Accordingly, an impairment loss amounting to P1,501 was recognized in profit or loss in 2013.

- b. "Others" consist of rent income, commission income, dividend income from AFS financial assets, changes in fair value of financial assets at FVPL, gain on settlement of ARO and insurance claims.

33. Related Party Disclosures

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

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

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	36	2014	P26	P -	P5,677	P551	On demand or less than 4 to 6 years;	Unsecured;
		2013	-	-	5,658	551	Interest and non-interest bearing	No impairment
Retirement Plans	10, 19, 35	2014	216	-	12,686	-	On demand;	Unsecured;
		2013	25	-	22,604	-	Interest bearing	No impairment
Associates	10, 19, 21, 23	2014	2,066	98	7,473	159	On demand;	Unsecured;
		2013	11,078	332	10,173	1	Interest and non-interest bearing	No impairment
	20, 22	2014	-	-	-	16,640	Less than 1 to 10 years;	Unsecured and secured
		2013	-	-	-	13,251	Interest bearing	
JVC	10, 19, 21	2014	-	83	674	1	On demand;	Unsecured;
		2013	-	137	325	28	Non-interest bearing	No impairment
Shareholders in subsidiaries	10, 21, 23	2014	107	15	20	347	On demand;	Unsecured;
		2013	-	36	61	239	Non-interest bearing	No impairment
Others	10, 21, 23	2014	92	-	6,931	46	On demand;	Unsecured;
		2013	10	-	11	1,078	Non-interest bearing	No impairment
Total		2014	P2,507	P196	P33,461	P17,744		
Total		2013	P11,113	P505	P38,832	P15,148		

- a. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.
- b. Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable (Note 36).
- c. The amounts owed to associates include interest bearing loans to BOC presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.
- d. The compensation of key management personnel of the Group, by benefit type, follows:

	<i>Note</i>	2014	2013	2012
Short-term employee benefits		P544	P489	P447
Retirement benefits	35	(1)	(15)	(251)
Share-based payments	39	-	10	17
		P543	P484	P213

34. Significant Agreements and Lease Commitments

Significant Agreements:

▪ Energy

a. *Independent Power Producer (IPP) Administration (IPPA) Agreements*

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the Agreements and further confirms that for so long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

- i. The right and obligation to manage and control the contracted capacity of the power plant for its own account and at its own cost and risks;
- ii. The right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- iii. The right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the corporation period or in case of buy-out;
- iv. For SMEC and SPPC, the right to receive an assignment of NPC's interest to existing short-term bilateral power supply contracts;
- v. The obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;
- vi. Maintain the performance bond in full force and effect with a qualified bank; and
- vii. The obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payment for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees for 2014 and 2013 amounted to P30,776 and P31,269, respectively (Note 26). SMEC, SPDC and SPPC renewed their performance bonds in US dollar amounting to US\$58, US\$20 and US\$60, which will expire on November 3, 2015, January 25, 2015 and June 16, 2015, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2016.

b. *Market Participation Agreements (MPA)*

SMEC, SPDC and SPPC have entered into a MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by Energy Regulatory Commission (ERC). For the years ended December 31, 2014 and 2013, PEMC's market fees charged to SMEC, SPDC and SPPC amounted to P234 and P247, respectively.

In March 2013, SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2015, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. *Power Supply Agreements*

SMEC, SPPC, SPDC and SPI have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions of the parties.

Certain customers, like electric cooperatives, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. However, as stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged the capacity fees based on the contracted capacity even if there is no associated energy taken during the month.

SMEC, SPPC, SPDC and APEC purchases replacement power from WESM and other power generation companies during periods when the power generated from the power plant is not sufficient to meet customers' power requirements.

d. *Coal Supply Agreements*

SMEC and SPI have supply agreements with various coal suppliers for their power plants' coal requirements.

e. *Retail Supply Agreements*

SMELC has retail supply agreements with customers to supply or sell electricity purchased from related parties and WESM. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. However, as stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy with adjustments if customer has not fully taken or failed to consume the contracted capacity.

f. *Retail Electricity Supplier's (RES) License*

On August 22, 2011, SMELC was granted a RES License by the ERC pursuant to Section 29 of the RA No. 9136 or the EPIRA Law which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of five years from the time it was granted and renewable thereafter.

g. *Concession Agreement*

SMC Global entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

The Concession Agreement include, among others, the following rights and obligations: i) SMC Global shall organize and establish APEC, a fully-owned and controlled subsidiary which shall assume all the rights and interests and perform the obligations of SMC Global under the Concession Agreement. APEC was incorporated on November 19, 2013. The assignment by SMC Global to APEC is effective January 3, 2014; ii) as Concession Fee, APEC shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement; (b) the amount of P2 every quarter beginning January 1, 2014 for the upkeep of residual ALECO; iii) if the net cash flow of APEC is positive within five years or earlier from the date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,049; iv) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and v) at the end of the concession period, all assets and system shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO turned over the operations to APEC on February 26, 2014.

h. *MOA with San Roque Power Corporation (SRPC)*

On December 6, 2012, SPDC entered into a five-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant.

Under the MOA: i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties.

i. *Coal Operating Contracts (COC)*

Daguma Agro-Minerals, Inc.'s (DAMI) coal property covered by COC No. 126, issued by the Department of Energy (DOE), is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 94 million metric tons as of December 31, 2014, based on exploratory drilling and additional in-fill drilling.

Sultan Energy Phils. Corp. (SEPC) has a coal property and right over an aggregate area of 7,000 hectares, more or less, composed of seven coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2014, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons, based on exploratory drilling and confirmatory drilling.

Bonanza Energy Resources, Inc.'s (BERI) COC No. 138, issued by the DOE, is located in Sarangani Province and South Cotabato consisting of eight coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 23 million metric tons as of December 31, 2014, based on initial exploratory drilling.

Status of Operations

In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

In May 2011, DAMI, SEPC and BERI separately requested the DOE for a moratorium on suspension of the implementation of the production timetable as specified in the Five-Year Development and Productive Work Progress of COC Nos. 126, 134 and 138 due to the newly enacted Environment Code of South Cotabato which prohibits open-pit mining and other related activities, hence, constrained these companies into implementing the production time table without violating this local ordinance. On April 27, 2012, the DOE granted DAMI, SEPC and BERI's request for a moratorium on their work commitments from the effective dates of their respective COCs when these were converted to Development/Production Phase until December 31, 2012.

On December 27, 2012, DAMI, SEPC and BERI submitted separately their Five-Year Work Program (WP) to the DOE. The DOE, however, imposed certain requirements before it can further process the WP. On August 8, 2013, DAMI, SEPC and BERI resubmitted the Five-Year WP incorporating additional requirements of the DOE.

On April 29, 2014, these companies requested for a suspension of their work commitments under their respective COCs until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first. On January 26, 2015, DOE granted the companies' request.

▪ **Fuel and Oil**

Supply Agreement

Petron has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron's crude oil requirements from Saudi Arabian American Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron for such purchases are included as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as of December 31, 2014 and 2013 (Note 21).

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 70% of crude and condensate volume processed are from EMEPMI with balance of around 30% from spot purchases.

Supply Contract with NPC and PSALM

Petron entered into various fuel supply contracts with NPC and PSALM. Under these contracts, Petron supplies the bunker fuel, diesel fuel oil and engine lubricating oil requirements of selected NPC and PSALM plants, and NPC-supplied IPP plants.

▪ **Infrastructure**

o Airport Concession Agreement

The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its revised implementing rules and regulations.

On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the Department of Transportation and Communication (DOTC) and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the extension or expansion of the Boracay Airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years, and to collect the fees, rentals and other charges as may be agreed from time to time based on the Parametric Formula as defined in the Concession Agreement.

The following are the salient features of the Concession Agreement:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.
2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. TADHC has yet to pay the OMPS as of December 31, 2014 and 2013, since it is payable only after the completion of the construction of the Airport Project.

3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the Concession Agreement are fulfilled or waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.
4. TADHC shall finance the cost of the Airport Project, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to third party loans. TADHC's estimated capital commitment to develop the Airport Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC fully issued its authorized capital stock as a leverage to the loan obtained from a related party (Note 33).
5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC to develop the Airport Project. This performance security shall be partially released by the ROP from time to time to the extent of the percentage-of-completion of the Airport Project. TADHC has paid P1 premium both in 2014 and 2013, for the Work Performance Security. The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 12).
6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The 1st payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTC was accepted by TADHC on December 18, 2009.

The Concession Agreement may be renewed or extended for another 25 years upon written agreement of the parties through the execution of a renewal or extension contract.

In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway is currently ongoing and various pre-construction work is being done for the new terminal, such as project design, clearing and acquisition of the right of way.

o MRT 7 Concession Agreement

In 2008, the ROP awarded ULC the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is proposed to be an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme which is a modified Build-Transfer-Operate (BTO) arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its revised implementing rules and regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC entered into a Concession Agreement with the ROP, through the DOTC, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC has been granted the right to finance, construct and operate and maintain the proposed MRT 7 Project, which consists of 44 km of rail transportation (from North Avenue station in EDSA, Quezon City passing through Commonwealth Avenue, Regalado Avenue, Quirino Highway up to Intermodal Transportation Terminal in San Jose del Monte, Bulacan) and road (from San Jose del Monte, Bulacan to Bocaue Interchange of the North Luzon Expressway).

The following are the salient features of the Concession Agreement:

1. The MRT 7 Project cost shall be financed by ULC through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC's estimated capital commitment to develop the MRT 7 Project amounts to US\$1,235.60, adjusted to 2008 prices at US\$1,540 per National Economic and Development Authority Board approval of June 2013. ULC shall endeavor to have signed the financing agreements not later than 18 months from the signing of the Concession Agreement.
2. ULC shall post a Performance Security for Construction and Operation and Maintenance (O&M) in favor of the ROP as guarantee for faithful performance by ULC to develop the MRT 7 Project. This performance security for O&M shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.
3. In the event that the MRT 7 Project is not completed by the end of the grace period, which is 100 calendar days following the project completion target as defined in the Concession Agreement, ULC shall pay the ROP liquidated damages of US\$0.1 for every calendar day of delay.
4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC shall start when the MRT 7 Project is substantially completed.
5. Net passenger revenue shall be shared by the ROP and ULC on a 30:70 basis.

6. All rail-based revenues above 11.90% internal rate of return of ULC for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.
7. The ROP grants ULC the exclusive and irrevocable commercial development rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the development rights granted, ULC or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the development rights.

On July 23, 2014, the ROP through the ROP/DOTC confirmed their obligations under the MRT 7 Agreement dated June 18, 2008. On August 19, 2014, ULC received the Performance Undertaking (PU) issued by the Department of Finance. The PU is a recognition of the obligations of the ROP thru the DOTC under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC. The issuance of the PU triggers the obligation of ULC to achieve financial close within 18 months from the date of receipt of the PU. As of December 31, 2014, the construction of MRT 7 Project has not yet started.

o Toll Road Concession Agreements

(i) *TPLEX Project*

PIDC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 88.85 km. The two-lane expressway will have nine toll plazas from start to end. Under the Concession Agreement, PIDC will:

- a) finance, design and construct the TPLEX Project;
- b) undertake the operations and maintenance of the TPLEX Project;
- c) obtain financing on a limited recourse project finance basis; and
- d) impose and collect tolls from the users of the TPLEX Project.

The initial toll rate was submitted by PIDC as part of its bid and was duly confirmed by the DPWH and incorporated as part of the Concession Agreement. Toll rate shall be collected using the close-system which may be changed into an open-system whenever there is a new interchange required to be built as per Concession Agreement.

The toll revenue collected from the operation of the TPLEX Project is the property of PIDC. PIDC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

In the event that PIDC is disallowed from charging and collecting the authorized amounts of the toll rates as prescribed in the Concession Agreement from the users of the TPLEX Project, PIDC shall be entitled to compensation on a monthly basis based on actual traffic volume for the month, the resulting loss of revenue which would have been collected had said adjustment been implemented.

The concession period shall be for a term of 35 calendar years starting from the effectivity of the Concession Agreement and any approved extension thereof.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of PIDC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each section of the TPLEX Project.

On October 31, 2013, PIDC partially opened the first section of the TPLEX Project. The first section which is a 23-km stretch is comprised of three segments: (1) Tarlac to Victoria, (2) Victoria to Gerona and (3) Gerona to Paniqui. During the soft opening, segments one and two were opened to the public free of toll fare charges.

On December 23, 2013, the TPLEX Project was formally opened to the public.

On January 18, 2014, PIDC obtained approval from the TRB to collect toll fares (inclusive of VAT) for the use of the three segments of section one.

The stretch from Carmen to Urdaneta is nearing completion and is expected to be fully operational by the 2nd quarter of 2015. On the other hand, the last section from Urdaneta to Rosario is targeted for completion by 2016.

(ii) STAR Project

On July 18, 1998, SIDC and the ROP, individually and collectively, acting by and through the DPWH and the TRB, entered into a Concession Agreement covering the STAR Project.

Under the Concession Agreement, the activities are defined related to the following components of the STAR Project:

1. The preliminary and final engineering design, financing and construction of Stage II of the STAR Project.
2. The design and construction of all ancillary toll road facilities, toll plazas, interchanges and related access facilities of Stage I of the STAR Project, a ROP-constructed toll road, and for Stage II of the STAR Project road to be constructed by SIDC.
3. The operation and maintenance of the STAR Project as toll road facilities within the concession period of 30 years from January 1, 2000 up to December 31, 2029.

However, based on the Concession Agreement amendatory agreement dated December 2006, the concession period is extended for an additional six years, to compensate for the delay in the commencement of the construction of the Stage II of the STAR Project, Phase II toll road. Accordingly, the concession period shall be deemed to end on December 31, 2035.

4. The financing of the STAR Project is through equity and debt instruments until its full satisfaction and for the operation and maintenance of the toll road and its facilities within the concession period.

Also pursuant to the Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. Provided, that the right of way shall be titled in the ROP's name regardless of the construction thereon.

The STAR Project consists of two stages as follows:

- | | |
|----------|--|
| Stage I | O&M of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas |
| Stage II | Finance, design, construction, O&M of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas |

SIDC started its commercial operations on August 1, 2001 after the issuance by the TRB to SIDC of the Toll Operation Certificate (TOC) for the O&M of the Stage I toll road facility of the STAR Project on July 31, 2001.

The TRB issued to SIDC the TOC for the O&M of the Stage II, Phase I toll road facility of the STAR Project on April 16, 2008. SIDC started the construction of the remaining portion of Stage II in 2013 and was completed in October 17, 2014.

(iii) NAIA Expressway Project

On July 8, 2013, Vertex entered into a Concession Agreement with the ROP, through DPWH, for a 30-year concession period subject to extensions, as may be provided for under the Concession Agreement. Based on the Concession Agreement, Vertex has been granted the right to finance, construct, and operate and maintain the NAIA Expressway Project, which consists of a 4-lane, 7.75 km elevated expressway and 2.22 km At-Grade feeder road that will provide access to NAIA Terminals 1, 2 and 3, and link the Skyway and the Manila-Cavite Toll Expressway.

The following are the salient features of the Concession Agreement:

1. Vertex shall at all times during the concession period maintain a leverage ratio not exceeding 80%.
2. Vertex shall post a Performance Security for Construction and O&M in favor of the ROP as guarantee for faithful performance to develop the NAIA Expressway Project. The Performance Security for Construction shall be reduced on the date of expiry of the At-Grade Works and Phase II(a) Defects Liability Period to the amounts as specified in the Concession Agreement.

Throughout the construction period, the DPWH and the TRB shall be allowed to monitor, inspect and check progress and quality of the activities and works undertaken by Vertex to ensure compliance with the Concession Agreement's Minimum Performance Standards and Specifications, Certified Detailed Engineering Design (DED) or At-Grade Works DED. Vertex shall directly pay for the cost of the Project Overhead Expenses incurred by the DPWH or the TRB until the end of the construction period. The liability of Vertex for the Project Overhead Expenses due to the TRB and DPWH shall not exceed P25 and P50, respectively.

3. If by the Completion Deadline, the Independent Consultant has not issued written notice that all conditions in the Concession Agreement in relation to the At-Grade Works, Phase II(a) and Phase II(b) have been fulfilled, Vertex shall be liable to the DPWH for the payment of liquidated damages in the amount of P0.15, P1.5 and P2 for every day of delay beyond the At-Grade Works, Phase II(a) and Phase II(b) Construction Completion Deadline, respectively.
4. The toll revenues collected from the operations of the NAIA Expressway Project are the property of Vertex. Vertex has the right to assign or to enter into such agreements with regard to the toll revenues and their collection, custody, security and safekeeping.
5. The equity structure of Vertex shall comply with the equity requirements set out in the Concession Agreement. During the lock-up period, which is from the signing date until the end of the third year of the Operation Period, Vertex shall not register or otherwise permit any transfer of its equity or any rights in relation to its equity except: (a) if after the transfer, (i) the Qualifying Initial Stockholders continue to meet its Equity Requirement; (ii) the Initial Shareholders collectively continue to meet its Equity Requirements, and in each case any new shareholder is approved by the DPWH such consent not to be unreasonably withheld; (b) with the DPWH's prior written consent; (c) by way of the grant of a Permitted Security Interest or the exercise of rights under a Permitted Security Interest; or such transfer is necessary to comply with any applicable foreign ownership restrictions and the transferee and the terms of the transfer are both approved by the DPWH.

6. At the end of the concession period, Vertex shall turnover to the DPWH the NAIA Expressway in the condition required for turnover as described in the Minimum Performance Standards Specifications.

In January 2014, the construction of the 5.4-km NAIA Expressway started. This will connect the Skyway system to PAGCOR City and Roxas Boulevard and provide convenient access to NAIA Terminals 1, 2 and 3.

▪ **Telecommunications**

Franchise with the National Telecommunications Commission (NTC)

o BellTel

In 1994, the Philippine Congress passed RA No. 7692 which granted a franchise to BellTel to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

On October 28, 1997, the NTC, under NTC Case No. 94-229, granted a Provisional Authority (PA) to BellTel, valid for 18 months, or until April 27, 1999, to install, operate and maintain the following telecommunication services:

- international gateway facility;
- inter-exchange carrier facility;
- VSAT system nationwide;
- telephone systems in the selected cities and municipalities in the Luzon area;
- Wireless Local Loop telephone systems in the cities of Muntinlupa, Las Piñas, Pasig, Mandaluyong, Makati, Pasay, Parañaque, Taguig and Marikina; and in the municipalities of Pateros and San Juan; and
- telephone systems in all economic zones identified under RA No. 7916.

Since then, this PA had been extended several times, the latest extension of which is valid until March 5, 2015. An ex-parte motion was filed on March 5, 2015 which is still pending the approval with the NTC.

In an Order dated October 19, 2007 (CCC Case No. 94-223), the NTC granted BellTel a PA, valid for 18 months or until April 19, 2009, to install, operate and maintain a Mobile Telecommunication Network as set forth in the said Order. Since then, this PA had been extended, the latest extension of which is valid until April 17, 2015.

o ETPI

On October 3, 2002, RA No. 9172 entitled “An Act Renewing and Amending the Franchise Granted to ETPI (Eastern Extension Australasia and China Telegraph Company Limited) under RA No. 808, as Amended” extended for another 25 years ETPI’s legislative franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, throughout the Philippines and between the Philippines and other countries and territories, the following telecommunications services:

- wire and/or wireless telecommunications systems, including but not limited to mobile, cellular, paging, fiber optic, multi-channel distribution system, local multi-point distribution system, satellite transmit and receive systems, switches, and their value-added services such as, but not limited to, transmission of voice, data, facsimile, control signs, audio and video, information services bureau and all other telecommunications systems technologies as are at present available or will be made available through technological advances or innovations in the future; and
- construct, acquire, lease and operate or manage transmitting and receiving stations, lines, cables or systems, as is, or are, convenient or essential to efficiently carry out the purpose of the franchise.

o TTPI

TTPI has an approved congressional franchise granted under RA No. 7671, as amended by RA No. 7674, to install, operate and maintain telecommunications systems throughout the Philippines.

On September 25, 1996, the NTC granted TTPI a PA to install, operate and maintain Local Exchange Carrier (LEC) services in the provinces of Batanes, Cagayan, Isabela, Kalinga, Apayao, Nueva Vizcaya, Ifugao and Quirino and the cities of Manila and Caloocan as well as the municipality of Navotas in order to commence compliance with the requirements of Executive Order No. 109 (s. 1993), which required ETPI to put up a minimum of 300,000 LEC lines. TTPI is allowed to deploy Public Calling Offices in municipalities and barangays within its authorized service area in lieu of rolling out LEC lines.

On January 18, 2006, the NTC granted TTPI a Certificate of Public Convenience and Necessity (CPCN) to install, operate and maintain LEC services in the cities of Manila and Caloocan, as well as in the provinces of Cagayan and Isabela. In addition, in a letter dated August 14, 2006, the NTC confirmed that TTPI has already completely served the remaining areas it needs to serve under the PA of September 25, 1996. On January 8, 2010, TTPI was granted a CPCN to install, operate and maintain LEC services in the municipality of Navotas and the provinces of Cagayan, Isabela, Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

On September 25, 1996, October 16, 2006 and December 23, 2008, the NTC issued separate PAs in favor of TTPI to install, operate and maintain LEC services in the remaining cities and municipalities of Metro Manila, in the provinces of Cavite, Laguna, Batangas, Rizal and Quezon (CALABARZON) and in the provinces of Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

The NTC granted TTPI a PA to install, operate and maintain LEC service in the rest of the Greater Manila Area on October 16, 2006. The PA was extended by the NTC on September 11, 2008 for three years but not beyond April 16, 2011. The motion for an extension of the PA is still pending with the NTC as of December 31, 2014.

Lease Commitments:

- Finance Leases

Group as Lessee

a. IPPA Agreements

The IPPA Agreements are with the conformity of NPC, a government-owned and controlled corporation created by virtue of RA No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively.

The IPPA Agreements provide the Group with a right to receive a transfer of the power station in case of buy-out or termination.

In accounting for the Group's IPPA Agreements with PSALM, the Group's management has made a judgment that the IPPA Agreement is an agreement that contains a finance lease. The Group's management has also made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the carrying amount of the Group's capitalized asset and related liability of P188,133 and P186,304 as of December 31, 2014 and P193,319 and P195,003 as of December 31, 2013, respectively, (equivalent to the present value of the minimum lease payments using the Group's incremental borrowing rates for US dollar and Philippine peso payments) are presented as part of "Property, plant and equipment" and "Finance lease liabilities" accounts in the consolidated statements of financial position (Notes 4 and 15).

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of “Interest expense and other financing charges” account in the consolidated statements of income. Interest expense amounted to P10,718, P10,984, and P11,331, in 2014, 2013 and 2012, respectively (Note 30).

The future minimum lease payments for each of the following periods are as follows:

2014

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$239	P10,668	P11,423	P22,091
More than one year and not later than five years	1,027	45,928	49,178	95,106
Later than five years	1,413	63,225	67,753	130,978
	2,679	119,821	128,354	248,175
Less: Future finance charges on finance lease liabilities	462	20,677	41,194	61,871
Present values of finance lease liabilities	US\$2,217	P99,144	P87,160	P186,304

2013

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$218	P9,679	P10,438	P20,117
More than one year and not later than five years	997	44,284	47,766	92,050
Later than five years	1,682	74,666	80,589	155,255
	2,897	128,629	138,793	267,422
Less: Future finance charges on finance lease liabilities	547	24,282	48,137	72,419
Present values of finance lease liabilities	US\$2,350	P104,347	P90,656	P195,003

The present values of minimum lease payments for each of the following periods are as follows:

2014

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$195	P8,719	P7,486	P16,205
More than one year and not later than five years	765	34,207	26,605	60,812
Later than five years	1,257	56,218	53,069	109,287
	US\$2,217	P99,144	P87,160	P186,304

2013

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$185	P8,221	P7,410	P15,631
More than one year and not later than five years	771	34,230	27,918	62,148
Later than five years	1,394	61,896	55,328	117,224
	US\$2,350	P104,347	P90,656	P195,003

b. Equipment

The Group's finance leases cover equipment needed for business operations. The agreements do not allow subleasing. The net carrying amount of leased assets is P22 and P37 as of December 31, 2014 and 2013, respectively (Notes 4 and 15).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2014

	Minimum Lease Payable	Interest	Principal
Within one year	P16	P2	P14
After one year but not more than two years	14	2	12
	P30	P4	P26

2013

	Minimum Lease Payable	Interest	Principal
Within one year	P27	P4	P23
After one year but not more than two years	22	-	22
	P49	P4	P45

▪ Operating Leases

Group as Lessor

The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 16). The non-cancellable leases have remaining terms of 3 to 14 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The future minimum lease receipts under non-cancellable operating leases are as follows:

	2014	2013	2012
Within one year	P4,317	P322	P340
After one year but not more than five years	12,003	544	494
After five years	25	43	69
	P16,345	P909	P903

Rent income recognized in the consolidated statements of income amounted to P1,672, P1,428 and P1,139 in 2014, 2013 and 2012, respectively (Note 4).

Group as Lessee

The Group leases a number of office, warehouse and factory facilities under operating leases. The leases typically run for a period of 1 to 16 years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Non-cancellable operating lease rentals are payable as follows:

	2014	2013	2012
Within one year	P1,930	P1,684	P1,418
After one year but not more than five years	3,946	4,052	3,230
More than five years	10,706	9,357	7,680
	P16,582	P15,093	P12,328

Rent expense recognized in the consolidated statements of income amounted to P3,649, P3,315 and P3,019 in 2014, 2013 and 2012, respectively (Notes 4, 26 and 27).

35. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of the Parent Company and majority of its subsidiaries pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2014. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the BIR as tax-qualified plans under RA No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. The Board of Trustees of the Group's Retirement Plans exercises voting rights over the shares and approve material transactions. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of the Parent Company.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2014	2013	2014	2013	2014	2013	2014	2013
Balance at beginning of year	P29,235	P25,559	(P26,013)	(P24,573)	(P4,051)	(P3,965)	(P829)	(P2,979)
Benefit asset of newly-acquired and disposed subsidiaries	-	-	-	36	-	-	-	36
Recognized in profit or loss								
Service costs	-	-	(1,258)	(1,205)	-	-	(1,258)	(1,205)
Interest expense	-	-	(1,148)	(1,213)	-	-	(1,148)	(1,213)
Interest income	1,297	1,239	-	-	-	-	1,297	1,239
Interest on the effect of asset ceiling	-	-	-	-	(178)	(183)	(178)	(183)
Settlements	-	-	96	-	-	-	96	-
	1,297	1,239	(2,310)	(2,418)	(178)	(183)	(1,191)	(1,362)
Recognized in other comprehensive income								
Remeasurements:								
Actuarial (gains) losses arising from:								
Experience adjustments	-	-	(1,167)	(583)	-	-	(1,167)	(583)
Changes in financial assumptions	-	-	(166)	(608)	-	-	(166)	(608)
Changes in demographic assumptions	-	-	537	63	-	-	537	63
Return on plan asset excluding interest	(4,756)	3,016	-	-	-	-	(4,756)	3,016
Changes in the effect of asset ceiling	-	-	-	-	1,443	97	1,443	97
	(4,756)	3,016	(796)	(1,128)	1,443	97	(4,109)	1,985
Others								
Contributions	1,692	1,356	-	-	-	-	1,692	1,356
Benefits paid	(2,040)	(1,977)	2,145	2,046	-	-	105	69
Transfers from other plans	-	43	-	(43)	-	-	-	-
Transfers to other plans	-	(43)	-	43	-	-	-	-
Other adjustments	16	42	49	24	-	-	65	66
	(332)	(579)	2,194	2,070	-	-	1,862	1,491
Balance at end of year	P25,444	P29,235	(P26,925)	(P26,013)	(P2,786)	(P4,051)	(P4,267)	(P829)

The Group's annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement benefits recognized in the consolidated statements of income by the Parent Company amounted to P31, P63 and P57 in 2014, 2013 and 2012, respectively (Note 29).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P1,222, P1,425 and P1,165 in 2014, 2013 and 2012, respectively (Note 29).

As of December 31, 2014, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,830 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P127 and P7,970, respectively (Notes 21 and 23).

As of December 31, 2013, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P6,737 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P100 and P7,466, respectively (Notes 21 and 23).

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2014 and 2013.

The Group's plan assets consist of the following:

	In Percentages	
	2014	2013
Investments in marketable securities and shares of stock	70.11	74.54
Investments in pooled funds:		
Fixed income portfolio	7.47	5.69
Stock trading portfolio	5.78	3.58
Investments in real estate	0.49	0.38
Others	16.15	15.81

Investments in Marketable Securities

As of December 31, 2014, the plan assets include:

- 21,733,617 common shares, 6,661,840 Series "2", Subseries "2-A" and 32,511,970 Series "2", Subseries "2-B" preferred shares of the Parent Company with fair market value per share of P73.80, P75.60 and P78.15, respectively;
- 731,516,097 common shares and 2,945,000 preferred shares of Petron with fair market value per share of P10.60 and P101.80, respectively;
- 18,959,785 common shares of GSMI with fair market value per share of P15.88;
- 226,998 common shares and 54,835 preferred shares of SMPFC with fair market value per share of P208.00 and P1,009.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00; and
- 2,170,861 common shares of Top Frontier with fair market value per share of P124.00.

As of December 31, 2013, the plan assets include:

- 19,203,227 common shares, 4,046,420 Series “2”, Subseries “2-A” and 32,536,970 Series “2”, Subseries “2-B” preferred shares of the Parent Company with fair market value per share of P62.50, P76.15 and P76.30, respectively;
- 1,492,681,097 common shares and 2,945,000 preferred shares of Petron with fair market value per share of P13.96 and P109.00, respectively;
- 18,959,785 common shares of GSMI with fair market value per share of P23.00;
- 226,998 common shares and 54,835 preferred shares of SMPFC with fair market value per share of P238.00 and P1,045.00, respectively; and
- 33,635,700 common shares of SMB with fair market value per share of P20.00.

The fair market value per share of the above marketable securities is determined based on quoted market prices in active markets as of the reporting date (Note 4).

The Group’s Retirement Plans recognized gains (losses) on the investment in marketable securities of Top Frontier, Parent Company and its subsidiaries amounting to (P6,096) and P4,426 in 2014 and 2013, respectively.

Dividend income from the investment in shares of stock of Parent Company and its subsidiaries amounted to P365 and P713 in 2014 and 2013, respectively.

Investments in Shares of Stock

a. BOC

San Miguel Corporation Retirement Plan (SMCRP) has 39.94% equity interest in BOC amounting to P8,870, representing 44,834,286 common shares, accounted for under the equity method as of December 31, 2013. SMCRP recognized its share in accumulated equity in net losses amounting to P630 in 2013.

In 2014, SMCRP is still committed to sell its equity ownership interest in BOC. SMCRP engaged the services of an international bank to handle the process of negotiating the sale of SMCRP’s equity ownership interest in BOC with interested foreign and domestic groups that intend to expand business in the Philippines. Accordingly, SMCRP’s investment in BOC is reclassified from “Investment in shares of stock” to “Noncurrent assets held for sale” account in the SMCRP’s statement of net asset available for plan benefits as of December 31, 2014.

b. PAHL

Petron Corporation Employees Retirement Plan (PCERP) has an investment in PAHL with a carrying amount of P1,553 and P1,660 as of December 31, 2014 and 2013, respectively, equivalent to 54.1% equity interest, representing 273,000,000 Class A shares and 102,142,858 Class B shares.

PCERP recognized its share in accumulated equity in net earnings (losses) amounting to (P107) and P61 in 2014 and 2013, respectively.

c. BPI

The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in BPI representing 4,708,494 and 2,389,494 preferred shares as of December 31, 2014 and 2013, respectively.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Approximately 16% and 15% of the Retirement Plans investments in pooled funds in stock trading portfolio include investments in shares of stock of the Parent Company and its subsidiaries as of December 31, 2014 and 2013, respectively.

Approximately 49% and 57% of the Retirement Plans investments in pooled funds in fixed income portfolio include investments in shares of stock of the Parent Company and its subsidiaries as of December 31, 2014 and 2013, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties as of December 31, 2014 and 2013.

Others

Others include the Retirement Plans' investments in trust account, government securities, bonds and notes, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute the amount of P1,947 to the Retirement Plans in 2015.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

Longevity and Salary Risks. The present value of the defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of the plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2014	2013
Discount rate	3.44 - 8.80	3.44 - 6.75
Salary increase rate	4.00 - 8.00	4.00 - 8.00

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation ranges from 1.5 to 27.78 years and 1.5 to 28.18 years as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2014		2013	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P1,108)	P1,281	(P1,215)	P1,395
Salary increase rate	1,138	(1,009)	1,251	(1,117)

The outstanding balances of the Group's receivables from the retirement plans are as follows:

- a. Petron has advances to PCERP amounting to P6,263 and P16,393 as of December 31, 2014 and 2013, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 10 and 19). The advances are subject to interest of 5% in 2014 and 2013.
- b. The Parent Company has advances to SMCRP amounting to P6,420 and P6,208 as of December 31, 2014 and 2013, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10). The advances are subject to interest of 5.75% in 2014 and 2013.

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as of December 31, 2014 and 2013 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from the Retirement Plans for the years ended December 31, 2014, 2013 and 2012.

36. Cash Dividends

Cash dividends declared by the BOD of the Parent Company to common shareholders amounted to P1.40 per share both in 2014 and 2013.

Cash dividends declared by the BOD of the Parent Company to all Series "2" - Subseries "2-A", Subseries "2-B" and Subseries "2-C" preferred shareholders, amounted to P5.625, P5.71875 and P6.00 per share, respectively, in 2014.

Cash dividends declared by the BOD of the Parent Company to all Series "2" - Subseries "2-A", Subseries "2-B" and Subseries "2-C" preferred shareholders, amounted to P7.03125, P7.1484375 and P7.50 per share, respectively, in 2013.

37. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	<i>Note</i>	2014	2013	2012
Income attributable to equity holders of the Parent Company		P14,692	P38,053	P26,806
Dividends on preferred shares for the year	25, 36	(6,106)	(6,106)	(6,127)
Net income attributable to common shareholders of the Parent Company (a)		P8,586	P31,947	P20,679
Weighted average number of common shares outstanding (in millions) - basic (b)		2,378	2,378	2,370
Effect of dilution - common	39	13	14	16
Weighted average number of common shares outstanding (in millions) - diluted (c)		2,391	2,392	2,386
Earnings per common share attributable to equity holders of the Parent Company				
Basic (a/b)		P3.61	P13.43	P8.72
Diluted (a/c)		3.59	13.36	8.67

38. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

- a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2014	2013	2012
Trade and other receivables - net	(P457)	(P21,181)	(P25,704)
Inventories	(3,649)	1,797	(1,018)
Prepaid expenses and other current assets	(12,690)	(2,604)	(8,972)
Service concession assets	(6,265)	(12,018)	-
Loans payable	(1,021)	1,023	(231)
Accounts payable and accrued expenses	451	27,882	6,831
Income and other taxes payable and others	(1,236)	2,636	1,469
Changes in noncash current assets, certain current liabilities and others	(P24,867)	(P2,465)	(P27,625)

b. Acquisition of subsidiaries (Note 5)

	<i>Note</i>	2014	2013	2012
Cash and cash equivalents		P1,022	P1,477	P12,011
Trade and other receivables - net		86	2,450	12,844
Inventories		-	1,048	13,164
Prepaid expenses and other current assets		213	1,407	686
Investments and advances - net		-	-	168
Property, plant and equipment - net		1,184	3,078	18,859
Investment property - net		-	-	412
Other intangible assets - net		165	25,837	20,601
Deferred tax assets		9	144	29
Other noncurrent assets - net		2	72	6,520
Loans payable		-	(1,792)	(15,353)
Accounts payable and accrued expenses		(1,309)	(6,209)	(19,326)
Income and other taxes payable		(2)	(2)	(754)
Long-term debt - net of debt issue costs		-	(8,069)	(19,411)
Deferred tax liabilities		-	(740)	(1,496)
Other noncurrent liabilities		-	(11,376)	(853)
Non-controlling interests		(32)	(3,351)	(10,900)
Net assets		1,338	3,974	17,201
Cash and cash equivalents		(1,022)	(1,477)	(12,011)
Goodwill in subsidiaries	4, 18	7	1,572	18,272
Investment at equity		(21)	(3,569)	(4,871)
Revaluation increment		-	12	-
Net cash flows		P302	P512	P18,591

39. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

The current portion of receivable from employees amounted to P109 and P126 as of December 31, 2014 and 2013, respectively, presented as part of "Non-trade" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10).

The noncurrent portion of P157 and P327 as of December 31, 2014 and 2013, respectively, is presented as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account in the consolidated statements of financial position (Note 19).

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock. As of December 31, 2014 and 2013, 3,478,400 and 3,410,250 common shares under the ESPP, respectively, were cancelled and held in treasury (Note 25).

There were no shares offered under the ESPP in 2014 and 2013.

LTIP

The Parent Company also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of the date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its 10-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

There were no LTIP offered to executives in 2014 and 2013.

Options to purchase 13,278,578 shares and 13,660,856 shares in 2014 and 2013, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 382,278 shares and 3,024,920 shares in 2014 and 2013, respectively.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited. A summary of the status of the outstanding share stock options and the related weighted average price under the LTIP is shown below:

	2014		2013	
	Number of Share Stock Options	Weighted Average Price	Number of Share Stock Options	Weighted Average Price
Class "A"				
Number of shares at beginning of year	9,716,435	P70.75	11,456,960	P69.78
Exercised during the year	(101,241)	53.21	(807,234)	57.54
Expired during the year	(204,574)	102.54	(933,291)	70.30
Number of shares at end of year	9,410,620	70.25	9,716,435	70.75
Class "B"				
Number of shares at beginning of year	3,944,421	67.20	5,228,816	71.10
Exercised during the year	(39,687)	58.08	(403,219)	73.03
Expired during the year	(36,776)	66.25	(881,176)	87.67
Number of shares at end of year	3,867,958	P67.30	3,944,421	67.20

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and considered as common shares without distinction. However, as of December 31, 2014 and 2013, the number of the outstanding share stock options and related weighted average price under LTIP were presented as Class "A" and Class "B" common shares to recognize the average price of stock options granted prior to August 26, 2010.

The fair value of equity-settled share options granted is estimated as of the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The range of prices for options outstanding was P40.50 to P120.30 as of December 31, 2014 and 2013.

Share-based payment charged to operations, included under “Administrative expenses - personnel expenses” account, amounted to P1, P95 and P242 in 2014, 2013 and 2012, respectively (Note 27).

40. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

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

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

The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

Interest Rate Risk

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

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,655 and P1,579 in 2014 and 2013, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

December 31, 2014	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P2,438	P4,033	P26,141	P4,384	P17,171	P38,042	P92,209
Interest rate	5.4885% - 8.2498%	6.0606% - 8.2498%	6.05% - 8.2498%	6.0606% - 8.2498%	5.93% - 10.50%	5.50% - 8.2498%	
Foreign currency-denominated (expressed in Philippine peso)	-	13,262	-	-	-	35,776	49,038
Interest rate		7%				4.875%	
Floating Rate							
Philippine peso-denominated	11,664	1,495	1,511	1,512	1,147	1,467	18,796
Interest rate	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin	
Foreign currency-denominated (expressed in Philippine peso)	6,101	19,145	13,546	104,391	3,569	-	146,752
Interest rate	LIBOR + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin		
	P20,203	P37,935	P41,198	P110,287	P21,887	P75,285	P306,795
December 31, 2013	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P29,457	P2,494	P7,450	P24,438	P2,080	P29,214	P95,133
Interest rate	6.3131% - 9.33%	5.4885% - 9.33%	6.145% - 9.33%	6.05% - 7.1827%	6.3131% - 7.1827%	5.93% - 10.5%	
Foreign currency-denominated (expressed in Philippine peso)	9,536	-	13,319	-	-	35,516	58,371
Interest rate	2%		7%			4.875%	
Floating Rate							
Philippine peso-denominated	1,019	12,180	2,181	2,341	2,618	7,528	27,867
Interest rate	PDST-F + margin	PDST-F + margin	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	3,076	12,240	12,240	6,152	96,337	-	130,045
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin		
	P43,088	P26,914	P35,190	P32,931	P101,035	P72,258	P311,416

Foreign Currency Risk

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

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

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

	December 31, 2014		December 31, 2013	
	US	Peso	US	Peso
	Dollar	Equivalent	Dollar	Equivalent
Assets				
Cash and cash equivalents	US\$2,761	P123,571	US\$1,354	P60,037
Trade and other receivables	900	40,264	1,160	51,472
Prepaid expenses and other current assets	26	1,150	25	1,111
Restricted cash	-	-	26	1,174
AFS financial assets	-	-	7	314
Noncurrent receivables	184	8,199	191	8,464
	3,871	173,184	2,763	122,572
Liabilities				
Loans payable	808	36,109	478	21,230
Accounts payable and accrued expenses	1,220	54,576	1,509	66,971
Long-term debt (including current maturities)	4,378	195,790	4,244	188,416
Finance lease liabilities (including current portion)	2,218	99,169	2,351	104,392
Other noncurrent liabilities	713	31,912	507	22,494
	9,337	417,556	9,089	403,503
Net foreign currency-denominated monetary liabilities	(US\$5,466)	(P244,372)	(US\$6,326)	(P280,931)

The Group reported net gains (losses) on foreign exchange amounting to (P2,412), (P19,436) and P11,373 in 2014, 2013 and 2012, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 32). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2014	44,720
December 31, 2013	44,395
December 31, 2012	41,050

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

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

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2014				
Cash and cash equivalents	(P2,242)	(P2,091)	P2,242	P2,091
Trade and other receivables	(261)	(821)	261	821
Prepaid expenses and other current assets	(26)	(18)	26	18
Noncurrent receivables	(166)	(135)	166	135
	(2,695)	(3,065)	2,695	3,065
Loans payable	454	675	(454)	(675)
Accounts payable and accrued expenses	494	1,069	(494)	(1,069)
Long-term debt (including current maturities)	4,292	3,091	(4,292)	(3,091)
Finance lease liabilities (including current portion)	2,218	1,552	(2,218)	(1,552)
Other noncurrent liabilities	637	522	(637)	(522)
	8,095	6,909	(8,095)	(6,909)
	P5,400	P3,844	(P5,400)	(P3,844)

December 31, 2013	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,003)	(P1,053)	P1,003	P1,053
Trade and other receivables	(209)	(1,097)	209	1,097
Prepaid expenses and other current assets	(25)	(18)	25	18
Restricted cash	(26)	(18)	26	18
AFS financial assets	-	(7)	-	7
Noncurrent receivables	(174)	(139)	174	139
	(1,437)	(2,332)	1,437	2,332
Loans payable	30	469	(30)	(469)
Accounts payable and accrued expenses	548	1,344	(548)	(1,344)
Long-term debt (including current maturities)	4,244	2,971	(4,244)	(2,971)
Finance lease liabilities (including current portion)	2,351	1,645	(2,351)	(1,645)
Other noncurrent liabilities	74	128	(74)	(128)
	7,247	6,557	(7,247)	(6,557)
	P5,810	P4,225	(P5,810)	(P4,225)

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

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

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

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

December 31, 2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P258,606	P258,606	P258,606	P -	P -	P -
Trade and other receivables - net	136,036	136,036	136,036	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account)	1,118	1,118	1,118	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	360	360	360	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	136	136	136	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	41,890	41,927	460	41,253	214	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	14,967	14,977	-	2,434	8,072	4,471
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	2,659	2,659	1,604	1,055	-	-
Financial Liabilities						
Loans payable	180,059	181,011	181,011	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	121,371	121,371	121,371	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	325	325	325	-	-	-
Long-term debt (including current maturities)	302,988	367,781	34,219	50,063	196,766	86,733
Finance lease liabilities (including current portion)	186,330	248,201	22,105	23,173	71,945	130,978
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	2,394	2,397	-	1,907	3	487

December 31, 2013	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P191,613	P191,613	P191,613	P -	P -	P -
Trade and other receivables - net	168,141	168,141	168,141	-	-	-
Option deposit (included under "Prepaid expenses and other current assets" account)	1,110	1,110	1,110	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	681	681	681	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	117	117	117	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	42,406	42,431	411	41,895	125	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	25,297	25,307	-	12,294	8,576	4,437
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	2,185	2,185	385	1,800	-	-
Financial Liabilities						
Loans payable	143,226	143,787	143,787	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	116,686	116,686	116,686	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	455	455	455	-	-	-
Long-term debt (including current maturities)	307,497	372,608	56,270	38,984	193,287	84,067
Finance lease liabilities (including current portion)	195,048	267,467	20,140	22,036	70,036	155,255
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	5,086	5,119	-	4,849	13	257

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

Investments

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

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

	<i>Note</i>	2014	2013
Cash and cash equivalents (excluding cash on hand)	9	P255,786	P187,515
Trade and other receivables - net	10	136,036	168,141
Option deposit	12	1,118	1,110
Derivative assets	12	360	681
Financial assets at FVPL	12	136	117
AFS financial assets	12, 14	41,890	42,406
Noncurrent receivables and deposits - net	19	14,967	25,297
Restricted cash	12, 19	2,659	2,185
		P452,952	P427,452

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

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

Financial and Other Risks Relating to Livestock

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

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

Other Market Price Risk

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

Capital Management

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

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

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

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

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

41. Financial Assets and Financial Liabilities

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

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P258,606	P258,606	P191,613	P191,613
Trade and other receivables - net	136,036	136,036	168,141	168,141
Option deposit (included under "Prepaid expenses and other current assets" account)	1,118	1,118	1,110	1,110
Derivative assets (included under "Prepaid expenses and other current assets" account)	360	360	681	681
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	136	136	117	117
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	41,890	41,890	42,406	42,406
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	14,967	14,591	25,297	24,854
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	2,659	2,659	2,185	2,185
Financial Liabilities				
Loans payable	180,059	180,059	143,226	143,226
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	121,371	121,371	116,686	116,686
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	325	325	455	455
Long-term debt (including current maturities)	302,988	327,077	307,497	326,940
Finance lease liabilities (including current portion)	186,330	186,330	195,048	195,048
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	2,394	2,394	5,086	5,086

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

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

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

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.5% to 4.3% and 0.4% to 3.8% as of December 31, 2014 and 2013, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 2.1% and 0.2% to 2.9% as of December 31, 2014 and 2013, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,673 and US\$1,445 as of December 31, 2014 and 2013, respectively, and with various maturities in 2015 and 2014. The net positive fair value of these currency forwards amounted to P0.4 and P640 as of December 31, 2014 and 2013, respectively.

Currency Options

As of December 31, 2014, the Group has outstanding currency options with an aggregate notional amount of US\$245 and with various maturities in 2015. The negative fair value of these currency options amounted to P140 as of December 31, 2014. The Group has no outstanding currency option agreements as of December 31, 2013.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2015 and 2014. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 610 and 960 metric tons as of December 31, 2014 and 2013, respectively. The net negative fair value of these swaps amounted to P2 and P6 as of December 31, 2014 and 2013, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2015 and 2014. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 6.6 and 2.0 million barrels as of December 31, 2014 and 2013, respectively. The positive fair value of these swaps amounted to P1,420 and P6 as of December 31, 2014 and 2013, respectively.

Commodity Options

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities of 5,987 and 174,248 metric tons as of December 31, 2014 and 2013, respectively. These options can be exercised at various calculation dates in 2015 and 2014 with specified quantities on each calculation date. The net negative fair value of these options amounted to P5 and P186 as of December 31, 2014 and 2013, respectively.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 1.0 million barrels as of December 31, 2013. These call and put options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The net negative fair value of these options amounted to P41 as of December 31, 2013. The Group has no outstanding commodity options on the purchase of crude oil as of December 31, 2014.

Embedded Derivatives

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$152 and US\$183 as of December 31, 2014 and 2013, respectively. These non-financial contracts consist mainly of foreign currency denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P54 and P163 as of December 31, 2014 and 2013, respectively.

Embedded Currency Options

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

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P7,513, P2,448 and (P1,270) in 2014, 2013 and 2012, respectively (Note 32).

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2014	2013
Balance at beginning of year	P226	(P224)
Net change in fair value of non-accounting hedges	7,513	2,448
	7,739	2,224
Less fair value of settled instruments	7,704	1,998
Balance at end of year	P35	P226

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

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

	December 31, 2014			December 31, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P360	P360	P -	P681	P681
Financial assets at FVPL	136	-	136	117	-	117
AFS financial assets	533	41,357	41,890	956	41,450	42,406
Financial Liabilities						
Derivative liabilities	-	325	325	-	455	455

The Group has no financial instruments valued based on Level 3 as of December 31, 2014 and 2013. As of December 31, 2014, AFS financial assets with a carrying amount of P318 was transferred from Level 2 to Level 1 fair value category with the listing of the common shares of Top Frontier in the PSE as discussed in Note 7. During the year, there were no transfers out of Level 3 fair value measurement.

42. Registration with the Board of Investments (BOI)

a. SMC Global

SEPC

On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investment Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-pioneer Status and was entitled to certain incentives that include, among others, an Income Tax Holiday (ITH) for four years from June 2011 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMEC, SPDC and SPPC

SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plant on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension beginning August 1, 2010, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

SMCPC and SCPC

In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six years beginning December 2015 and February 2016, respectively, or start of commercial operations whichever is earlier, subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investment Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. The ITH incentive shall be limited only to the revenues generated from the sale of the electricity from the power plants.

On September 3, 2013 and January 28, 2014, the BOI issued a Certificate of Authority to SMCPC and SCPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". Authority shall be valid for one year from the date of issuance. Advanced authority to import capital equipment was granted on May 21, 2013. For the subsequent year, BOI issued new Certificates of Authority dated September 4, 2014 and February 6, 2015 to SMCPC and SCPC respectively, both with a validity of one year from the date of issuance.

b. SMPFC

Certain operations of consolidated subsidiaries of SMPFC are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives.

GBGTC

GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in the Omnibus Investments Code of 1987 (Executive Order No. 226), GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI

SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investments Code of 1987 (Executive Order No. 226) on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which include, among others, ITH for a period of six years, extendable under certain conditions to eight years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

c. Petron

Benzene, Toluene and Propylene Recovery Units

On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order No. 226) as: (1) a pioneer, new export producer status of Benzene and Toluene; and (2) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 50% of the combined production of Benzene and Toluene.

As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

- a. ITH: (1) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (2) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.
- b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for 10 years from start of commercial operations.
- c. Simplification of custom procedures.
- d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to custom rules and regulations provided firm exports at least 50% of combined production of Benzene and Toluene.
- e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a 10-year period from the date of registration.

- f. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.
- g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 50% of combined production of Benzene and Toluene.
- h. Petron may qualify to import capital equipment, spare parts, and accessories at zero (one percent for Propylene) duty from date of registration up to June 5, 2006 pursuant to Executive Order No. 313 and its implementing rules and regulations.

The BOI extended Petron's ITH incentive for its Propylene sales from December 2013 to November 2014 and for its Benzene and Toluene sales from May 2014 to April 2015.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment in its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from December 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the percentage share of product that are subject to retooling.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a 10-year period from date of registration.
- f. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.
- g. Exemption from real property tax on production equipment or machinery.
- h. Exemption from contractor's tax.

PetroFCC entitlement period ended in February 2013 and registration with BOI was cancelled on July 4, 2013.

70 MW Coal-Fired Power Plant (Limap, Bataan)

On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (Executive Order No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier. The ITH incentive is limited to the revenue generated from the electricity sold to the grid.
- b. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.
- c. Petron may qualify to import capital equipment, spare parts and accessories at zero percent duty from date of registration up to June 16, 2011 pursuant to Executive Order No. 528 and its implementing rules and regulations.

The power plant started commercial operations on May 10, 2013 and Petron availed of ITH from May to September 2013.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration No. 2010-181 covering the 70 MW Coal-Fired Power Plant Project to SPI, the new owner of the said facility.

RMP-2 Project

On June 3, 2011, the BOI approved Petron's application under RA No. 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

70 MW Solid Fuel-Fired Power Plant

On February 14, 2013, Petron registered with the BOI as an expanding operator of a 70 MW Solid Fuel-Fired Power Plant on a pioneer status under Omnibus Investments Code of 1987 (Executive Order No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for three years from December 2014 or actual start of commercial operations, whichever is earlier. The ITH incentive is limited to the revenue generated from the electricity sold to the grid, other entities and/or communities.
- b. Importation of capital equipment, spare parts and accessories at zero duty from the date of effectivity of Executive Order No. 70 and its implementing rules and regulations for a period of five years reckoned from the date of registration or until the expiration of Executive Order No. 70, whichever is earlier.
- c. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration No. 2013-047 covering the 70 MW Solid Fuel-Fired Power Plant Project to SPI, the new owner of the said plant.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

d. SMYAC

SMYAC is registered with the BOI as a new domestic producer of glass containers for the new production facility (Phase I) and as expanding producer of glass containers for the expansion of the existing production facility (Phase II), both on a non-pioneer status under the Omnibus Investments Code of 1987 (Executive Order No. 226).

As a registered enterprise, SMYAC is entitled to the following ITH benefits:

- a. Phase I - for a period of four years from February 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than March 23, 2005, the date of registration.
- b. Phase II - for a period of three years from August 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than March 23, 2005, the date of registration.

SMYAC's entitlement for ITH for Phase I expired in August 2010 while the entitlement for ITH for Phase II was extended until November 2012.

e. SMCSLC

SMCSLC is registered with the BOI for the operation of domestic cargo vessels and motor tankers with the following incentives:

- a. *Operation of Motor Tanker (Samho Snipe)*. The project was registered on May 26, 2009, where SMCSLC is entitled to ITH for six years from July 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- b. *Operation of Two Brand New Double-hulled Oil Tanker Vessels (SL Tanglad and SL Banaba)*. The project was registered on December 23, 2009, where SMCSLC is entitled to ITH for six years from August 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- c. *Operation of Brand New Non-propelled Barge (M/V Kalusugan 2)*. The project was registered on July 22, 2010, where SMCSLC is entitled to ITH for six years from August 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- d. *Operation of Leased Oil Tanker Vessel (SL Maple)*. The project was registered on September 16, 2010, where SMCSLC is entitled to ITH for six years from September 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- e. *Operation of Brand New Non-propelled Barge (M/V Katarungan 2)*. The project was registered on November 11, 2010, where SMCSLC is entitled to ITH for six years from November 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- f. *Operation of Brand New Oil Tanker (SL Bignay)*. The project was registered on August 13, 2010, where SMCSLC is entitled to ITH for six years from June 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- g. *Operation of Brand New Non-propelled Barge (M/V Katapatan 2)*. The project was registered on June 9, 2011, where SMCSLC is entitled to ITH for six years from July 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- h. *Operation of Double-hulled Marine Tanker Vessel (MMM Ashton)*. The project was registered on January 6, 2012, where SMCSLC is entitled to ITH for four years from January 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

- i. *Operation of Brand New Domestic/Inter-island Shipping Vessel (M/T SL Beluga)*. The project was registered on February 20, 2013, where SMCSLC is entitled to ITH for six years from February 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.
- j. *Operation of New Domestic/Inter-Island Shipping Operator Vessel (MV SL Venus 8)*. The project was registered on February 27, 2014, where SMCSLC is entitled to ITH for four years from February 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

43. Events After the Reporting Date

a. Acquisition of the 49% interest in SMPFI Limited

On January 26, 2015, SMPFIL, a wholly-owned subsidiary of SMPFC incorporated in the BVI, signed an Agreement for the purchase from Hormel Netherlands B.V., of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owns the remaining 51% of SMPFI Limited. SMPFI Limited is the sole investor in SMHVN, a company incorporated in Vietnam that engages in live hog farming and the production of feeds and fresh and processed meats. Following completion of the transaction, SMPFI Limited has become a wholly-owned subsidiary of SMPFIL.

b. Acquisition of La Pacita IP Rights

In February 2015, the acquisition by SMPFC of FMC's IP Rights relating to FMC's La Pacita biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions and payment of the consideration for such IP Rights (Note 6).

c. Redemption of SMPFC of Outstanding Preferred Shares

On February 3, 2015, the BOD of SMPFC approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of the treasury shares of SMPFC.

d. Issuance of Series "2" Perpetual Preferred Shares (PFP2 Shares)

On January 20, 2015, the PSE approved, subject to SEC approval and certain conditions, the application of SMPFC to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover SMPFC's preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered the Registration Statement of SMPFC covering the registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share (the “PFP2 Shares Offering”), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC’s application to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover the PFP2 Shares Offering at an offer price of P1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by the BOD of SMPFC to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

A summary of the Terms of the Offer is set out below:

SMPFC, through the underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated PFP2 shares at an offer price of P1,000.00 per share during the period from February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD of SMPFC. The PFP2 Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The PFP2 Shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the PFP2 Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the three-day average of the seven-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMPFC, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, the 15,000,000 PFP2 Shares of SMPFC with par value of P10.00 per share were issued and listed with the PSE.

e. *Acquisition of 44% Equity Interest in AAIBV and Exercise of Option to Acquire Additional 4.47%*

On March 5, 2015, a Notarial Deed of Transfer of Shares in accordance with the requirements of the laws of the Netherlands was executed whereby Padma transferred to SMHC the following: (i) 44% additional equity interest in AAIBV for a total purchase price of US\$158; and (ii) exercise of 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement.

With the purchase of additional 44% equity interest and the exercise of option for the 4.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is controlled by SMHC effective March 5, 2015.

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

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

	2015
Assets	
Cash and cash equivalents	P22,481
Trade and other receivables - net	124
Prepaid expenses and other current assets	806
Investments and advances - net	1,344
Property, plant and equipment - net	49
Other intangible assets - net	53,975
Other noncurrent assets - net	848
Liabilities	
Accounts payable and accrued expenses	(3,915)
Income and other taxes payable	(536)
Dividends payable	(268)
Long-term debt - net of debt issue costs	(59,164)
Deferred tax liabilities	(4,348)
Other noncurrent liabilities	(590)
Total Identifiable Net Assets at Fair Value	P10,806

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

	2015
Total consideration transferred	P16,906
Non-controlling interest measured at proportionate interest in identifiable net assets	7,832
Total identifiable net assets at fair value	(10,806)
Goodwill	P13,932

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

44. Other Matters

a. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

▪ Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on “San Mig Light”, one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 “in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy”. The Parent Company’s external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company’s pending claims for refund. As of December 31, 2014, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting the Parent Company’s petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA En Banc and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Second Division of the Supreme Court a Petition for Review which was docketed as G.R. No. 205045. This case is now with the Third Division of the Court.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P781, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied and the Commissioner elevated the decision to CTA En Banc for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA En Banc Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045. Both cases are now with the Third Division.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company's counsel and the BIR Commissioner, through the Office of the Solicitor General, have filed their respective Memoranda. The two cases are deemed submitted for decision.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400; on July 30, 2012, its fourth claim for refund under case number 8591; and on December 19, 2013, its fifth claim for refund with the CTA (2nd Division) under case number 8748. CTA case numbers 7973, 8209, 8400, and 8591 have all been decided by the respective CTA Divisions, where they are pending, in favor of the Parent Company. The counsel for the BIR Commissioner are now in the process of appealing to the CTA *En Banc* the decisions rendered by the CTA Divisions in CTA case numbers 7973 and 8400. On the other hand, the decision in CTA case number 8209 has been declared final and executory by the CTA Division concerned for failure on the part of the BIR Commissioner to file a Motion for Reconsideration on the decision. In CTA case number 8591, the BIR Commissioner filed a Motion for Reconsideration, which we opposed and which has been denied. With respect to CTA Case number 8748, the same is still undergoing trial in the Second Division. In December 2014, SMB filed its sixth claim for refund with the CTA under case number 8955. The BIR has asked for additional time to file its Answer.

- Deficiency Tax Liabilities

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities including interest and penalties for the tax year 2009. IBI treated the royalties earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to the 20% final tax. However, the BIR is of the position that said royalties are business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued last January 7, 2013, the BIR denied IBI's protest and reiterated the demand to pay the deficiency income tax including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case is docketed as CTA case number 8607 and is already submitted for discussion.

For the taxable year 2010, on November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate income tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA and the case was docketed as CTA case number 8813.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to Petron's use of P659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CTA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, Petron filed its comment on the petition for review filed by the BIR. The petition is still pending as of December 31, 2014.

- Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into an MOU with the City of Manila and the DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance No. 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the Regional Trial Court (RTC) to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, Petron also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, Petron, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

In May 2009, the Mayor of Manila approved Ordinance No. 8187, which amended Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012 (August 24 Decision), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. On September 25, 2012, Petron sought clarification and partial consideration of the August 24 Decision and prayed for the nullification of the entire Ordinance No. 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by Petron. Petron filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila directed that the records of the case be forwarded to the Court of Appeals. On April 15, 2013, Petron received an Order dated April 1, 2013 requiring it to file its appellant's brief. Petron submitted its appellant's brief on July 29, 2013. On December 19, 2013, Petron, through its counsel, received the City of Manila's appellee's brief dated December 12, 2013. Petron filed its appellant's reply brief on February 11, 2014. As of December 31, 2014, the appeal remained pending.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. Petron, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila. Acting on a motion for reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by Petron, on March 10, 2015, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily include removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule.

On January 5, 2015, Petron filed a Manifestation of Understanding of the dispositive portion of the November 25 Decision of the Supreme Court declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan and requiring Petron, Shell and Chevron to submit to the RTC of Manila within 45 days from receipt of the November 25 Decision a comprehensive plan and relocation schedule. The manifestation conveyed the understanding of Petron that the submission of the comprehensive plan and relocation schedule as required by the Supreme Court is intended to assure that the Pandacan oil terminals would cease to operate in line with Ordinance 8119. On January 12, 2015, Shell filed a motion for reconsideration thereby preventing the November 25 Decision from becoming final.

- Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTC and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (RA No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against Petron. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar I and the former President and Chairman of Petron for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amounted to P292. Both cases are still pending as of December 31, 2014.

- Generation Payments to PSALM

SPPC disputed the claims of PSALM for energy fees. The claims arose from differing interpretations of certain provisions in the IPPA Agreement related to generation payments, the fees payable to PSALM for the generation of power to customers. SPPC's management is in discussions with PSALM to secure a common understanding through amicable means. However, management and its legal counsel assessed that SPPC's bases for the amounts due to PSALM are consistent with the terms of the Ilijan IPPA Agreement. The information usually required is not disclosed on the grounds that it may prejudice the outcome of the discussion.

- b. *Master Year Limited (MYL)*

On September 30, 2013, Privado Holdings, Corp. (Privado) acquired 368,140,516 common shares of the Parent Company from MYL. The acquisition was transacted thru the PSE at P75.00 per share.

On February 14, 2014, Privado acquired 50,000 common shares of stock of the Parent Company at the PSE at P58.00 per share.

c. *Philippine Foundation of Blessed Mary Mother of the Poor, Inc. (the Foundation)*

On January 11, 2011, SMPI entered into a contract with the Foundation, a non-profit religious organization, for the donation of a 33-hectare parcel of land located in Alfonso, Cavite (the Donated Property). The land title of the Donated Property was transferred in the name of the Foundation on April 28, 2011.

In accordance with the Deed of Donation, the Donated Property shall be used and devoted exclusively by the Foundation for the construction, operation and maintenance of its project, the Montemaria Oratory of the Blessed Virgin Mary (the Montemaria Project). The Montemaria Project will consist of a Shrine of the Blessed Virgin Mary, churches and chapels, Way of the Cross and such other structures and facilities for Roman Catholic religious purposes, and socio-civic and non-profit activities and programs of the Foundation.

Further, the Deed of Donation requires that the Montemaria Project must be at least 50% completed by 2015 and fully completed by 2020. If the Foundation will not be able to comply with this requirement, the Donated Property will revert back to SMPI.

On February 24, 2014, the Board of Trustees of the Foundation had resolved to return the Donated Property to SMPI. However, the Foundation has not formally returned the Donated Property as of December 31, 2014.

d. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2014 amounted to P38,770.

Amount authorized but not yet disbursed for capital projects as of December 31, 2014 is approximately P25,600.

e. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of P44.72 and P44.395 in 2014 and 2013, respectively, for consolidated statements of financial position accounts; and average rates of P44.39, P42.43 and P42.24 in 2014, 2013 and 2012, respectively, for income and expense accounts.

f. *Temporary Restraining Order (TRO) Issued to Meralco*

On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC, is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon. As of December 31, 2013, the outcome of this case cannot be determined.

On January 16, 2014, the Supreme Court granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment. The settlement of which shall be covered by a 24-month Special Payment Arrangement agreed with PEMC which took effect in June 2014. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders.

g. *Electric Power Industry Reform Act of 2001*

RA No. 9136, otherwise known as the EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity.

- h. Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

C. List of properties owned and leased by SMC

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
BEVERAGE BUSINESS							
1	SAN MIGUEL BREWERY, INC.						
	A. DOMESTIC						
	<u>Breweries</u>						
	Polo Brewery	Marulas, Valenzuela City, Metro Manila	Owned	Good			
	San Fernando Brewery	Brgy. Quebiawan, McArthur Highway, San Isidro, San Fernando, Pampanga	Owned	Good			
	Sta. Rosa Brewery	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good			
	Bacolod Brewery	Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental	Owned	Good			
	Mandaue Brewery	National Highway, Brgy. Tipolo, Mandaue City	Owned	Good			
	Davao Brewery	Brgy. Darong, Sta. Cruz, Davao del Sur	Owned	Good			
	<u>Sales/Area Offices and Warehouses</u>						

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Central North Luzon Area	SMC Complex, Brgy. Quebiawan, McArthur Highway, San Fernando, Pampanga	Owned	Good			
	Central North Luzon Area	Carmen East, Rosales, Pangasinan	Owned	Good			
	Central North Luzon Area	Caranglaan Dist., Dagupan City, Pangasinan	Owned	Good			
	Central North Luzon Area	Naguilian Road, San Carlos Heights, Brgy. Irisan, Baguio City, Benguet	Owned	Good			
	Central North Luzon Area	Pennsylvania Ave., Brgy. Madayegdeg, San Fernando, La Union	Owned	Good			
	Central North Luzon Area	Brgy. San. Fermin, Cauayan, Isabela	Owned	Good			
	Central North Luzon Area	National Road, Brgy. Mabini, Santiago City, Isabela	Owned	Good			
	Central North Luzon Area	San Andres St., San Angelo Subdivision, Sto. Domingo, Angeles City, Pampanga	Owned	Good			
	Central North Luzon Area	Maharlika Road, Bitas,	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Cabanatuan City, Nueva Ecija					
	Central North Luzon Area	Brgy. 22, San Guillermo, San Nicolas, Ilocos Norte	Owned	Good			
	Central North Luzon Area	Brgy. Tablac, Candon City, Ilocus Sur	Owned	Good			
	Central North Luzon Area	Maharlika Highway, Brgy. Sta Maria, Lallo, Cagayan	Owned	Good			
	Central North Luzon Area	Cagayan Valley Rd., Brgy. Sta. Cruz, Guiguinto, Bulacan	Owned	Good			
	Central North Luzon Area	Gapan-Olongapo Rd., Poblacion San Isidro, Nueva Ecija	Owned	Good			
	Central North Luzon Area	Cabanatuan S.O. - No. 140, Bitas, Cabanatuan City	Land & Building-Rented	Good	104,295.75	January 31, 2016	Renewable upon mutual agreement of both parties.
	Central North Luzon Area	#578 P. Burgos St. Cabanatuan City, Nueva Ecija	Land & Building-Rented	Good	31,403.79	May 31, 2015	Renewable upon mutual agreement of both parties
	Greater Manila Area North	A. Cruz St., Brgy. 96, Caloocan City	Owned	Good			
	Greater Manila Area North	Honorio Lopez Blvd., Guidote St., Tondo, Manila	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Greater Manila Area North	Brgy. Mangga, Cubao , Quezon City	Owned	Good			
	Greater Manila Area North	Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila	Owned	Good			
	Greater Manila Area North	54 MH Del Pilar St. Arkong Bato, Valenzuela City	Land & Improvements- Rented	Good	133,705.00	October 31, 2017	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Quirino Highway, Novaliches, Quezon City, Metro Manila	Owned	Good			
	Greater Manila Area North	Tondo S.O. - Guidote St., Tondo Manila	Land-Rented	Good	63,577.11	October 15, 2015	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Valenzuela S.O. - Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila	Land & Land Improvement- Rented	Good	266,932.05	April 30, 2015	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Novaliches S.O. - Quirino Highway, Novaliches, Quezon City, Metro Manila	Land & Buildings- Rented	Good	666,474.00	December 31, 2015	Renewable upon mutual agreement of both parties
	Greater Manila Area North	Bottle Segregation Site - Maysilo, Malabon	Open Space- Rented	Good	100,000.00	September 30, 2016	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Greater Manila Area North	Bottle Segregation Site - #8002 Industrial Road, Gov. Pascual Ave. Portrero, Malabon	Open Space- Rented	Good	167,160.00	July 31, 2015	Renewable upon mutual agreement of both parties
	Greater Manila Area South	Brgy. 425, Zone 43, Sampaloc District, Manila	Owned	Good			
	Greater Manila Area South	M. Carreon St., Brgy. 864, Sta. Ana District, Manila	Owned	Good			
	Greater Manila Area South	Manila East Rd., Brgy. Dolores, Taytay, Rizal	Owned	Good			
	Greater Manila Area South	No. 100 Bernabe Subd., Brgy. San Dionisio, Sucat, Parañaque City, Metro Manila	Owned	Good			
	Greater Manila Area South	Mercedes Ave., Pasig City, Metro Manila	Owned	Good			
	Greater Manila Area South	Pasig S.O. - Mercedes Ave., Pasig City, Metro Manila	Land & Warehouse- Rented	Good	937,500.00	December 31, 2016	Renewable upon mutual agreement of both parties
	South Luzon Area	Silangan Exit, Canlubang, Calamba City, Laguna	Owned	Good			
	South Luzon Area	Maharlika Highway, Brgy. Isabang, Lucena City, Quezon	Owned	Good			
	South Luzon Area	Maharlika Highway, Brgy.	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Villa Bota, Gumaca, Quezon					
	South Luzon Area	Maharlika Highway, Brgy. Concepcion Grande Pequeña, Naga City, Camarines Sur	Owned	Good			
	South Luzon Area	Brgy. Mandaragat, Puerto Princesa City, Palawan	Owned	Good			
	South Luzon Area	Aurora Quezon and Calderron St., Brgy. Labangan, San Jose, Occidental Mindoro	Owned	Good			
	South Luzon Area	Brgy. Lankaan II, Governor's Drive, Dasmariñas, Cavite	Owned	Good			
	South Luzon Area	National Rd., Brgy. Balagtas, Batangas City, Batangas	Owned	Good			
	South Luzon Area	Ayala Highway, Brgy. Balintawak, Lipa City, Batangas	Owned	Good			
	South Luzon Area	Tirona Highway, Habay, Bacoar, Cavite	Owned	Good			
	South Luzon Area	T. de Castro St., Zone 8, Bulan, Sorsogon	Owned	Good			
	South Luzon Area	Matungao, Tugbo,	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Masbate City					
	South Luzon Area	Brgy. Bulilan Norte, Pila, Laguna	Owned	Good			
	South Luzon Area	Legazpi S.O. - Tahao Street, Bgy. Gogon, Legaspi City, Bicol	Land, Building & Land Improvements-Rented	Good	290,400.00	December 31, 2016	Renewable upon mutual agreement of both parties
	South Luzon Area	Dasmarinas S.O. - Brgy. Langkaan II, Governors Drive, Dasmarinas, Cavite	Warehouse-Rented	Good	260,115.43	January 31, 2016	Renewable upon mutual agreement of both parties
	South Luzon Area	Bacoor S.O. - Tirona Highway, Habay 1, Bacoor, Cavite	Warehouse-Rented	Good	191,391.86	March 31, 2015	Renewable upon mutual agreement of both parties
	South Luzon Area	Bulan S.O. - T. de Castro St., Zone 8, Bulan, Sorsogon	Warehouse-Rented	Good	44,642.86	January 31, 2016	Renewable upon mutual agreement of both parties
	South Luzon Area	Masbate S.O. - Magtungao, Tugbo, Masbate City	Warehouse-Rented	Good	77,142.86	January 31, 2015	Renewable at the option of the lessee
	South Luzon Area	Pila S.O. - Brgy. Bulilan Norte, National Highway, Pila, Laguna	Warehouse-Rented	Good	267,857.14	September 30, 2015	Renewable upon mutual agreement of both parties
	South Luzon Area	Sitio Aratan, Brgy. Pulong, Sta. Cruz, Sta. Rosa, Laguna	Warehouse-Rented	Good	54,000.00	June 30, 2015	Renewable upon mutual agreement of both parties
	Negros	Brgy. Granada, Sta. Fe,	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Bacolod City, Negros Occidental					
	Negros	Muelle Loney St., Brgy. Legaspi, Iloilo City	Owned	Good			
	Negros	National Hi-way, Brgy. 4, Himamaylan City, Negros Occidental	Owned	Good			
	Negros	Flores St., Brgy. Sum-Ag, Bacolod City, Negros Occidental	Owned	Good			
	Negros	Brgy., Camansi Norte, Numancia, Aklan	Owned	Good			
	Negros	Brgy. Libas, Roxas City, Capiz	Owned	Good			
	Negros	Brgy. Pulang Tubig, Dumaguete City	Owned	Good			
	Negros	Dumaguete Region Office - Brgy. Pulang Tubig, Dumaguete City	Land Improvement-Rented	Good	38,223.42	January 01, 2015	Renewable at the option of the lessee
	Negros	Dumaguete S.O. - Brgy. Pulang Tubig, Dumaguete City	Warehouse-Rented	Good	104,843.72	September 30, 2016	Renewable upon mutual agreement of both parties
	Negros	Bottle Segregation Site - Burgos Extension, Sta. Fe, Brgy. Granada, Bacolod City Warehouse	Warehouse-Rented	Good	30,000.00	April 30, 2015	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Visayas	National Highway, Brgy. Tipolo, Mandaue City	Owned	Good			
	Visayas	Access Rd., Fatima Village, Brgy. 73 (formerly part of Brgy. Sagcahan), Tacloban City, Leyte	Owned	Good			
	Visayas	Samar Region Office - San Bartolome St., Catbalogan, Samar	Office Space- Rented	Good	120,000.00	November 30, 2019	Renewable upon mutual agreement of both parties
	Visayas	Tagbilaran S.O. - BTH Warehouse, Tomas Cloma Ave., Taloto District, Tagbilaran City, Bohol	Warehouse- Rented	Good	75,000.00	February 29, 2016	Renewable upon mutual agreement of both parties
	Visayas	A. Del Rosario Ave., Brgy. Tipolo, Mandaue City	Owned	Good			
	Visayas	Fatima Village, Tacloban City, Leyte	Portion of Land-Rented; Portion of Land-Owned	Good	82,500.00	June 30, 2019	Renewable upon mutual agreement of both parties
	Mindanao	Brgy. Darong Sta. Cruz, Davao del Sur	Owned	Good			
	Mindanao	Ulas Crossing, Ulas, Davao City	Owned	Good			
	Mindanao	Bgy. Ulas, Talomo, Davao City	Warehouse- Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Mindanao	National Highway, Brgy. Magugpo, Tagum City	Owned	Good			
	Mindanao	Sergio Osmeña, Brgy. Poblacion, Koronadal City	Owned	Good			
	Mindanao	National Highway, Brgy. Lagao, Gen. Santos City	Owned	Good			
	Mindanao	National Highway, Brgy. Luyong Bonbon, Opol, Misamis Oriental	Owned	Good			
	Mindanao	R.T. Lim Blvd., Baliwasan, Zamboanga City	Owned	Good			
	Mindanao	Brgy. Mangangoy, Bislig City, Surigao del Sur (building only)	Owned	Good			
	Mindanao	Brgy. Bongtod, Tandag City, Surigao del Sur	Owned	Good			
	Mindanao	J.P. Rizal Ave., Poblacion, Digos City	Owned	Good			
	Mindanao	National Highway, Sta. Felomina, Dipolog City	Owned	Good			
	Mindanao	Pandan, Sta. Filomena, Iligan City	Owned	Good			
	Mindanao	Baybay, Liloy,	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Zamboanga del Norte					
	Mindanao	Butuan Region Office - Fort Poyohan, Molave St., Butuan City, Agusan del Norte	Land & Land Improvement-Rented	Good	75,148.59	May 31, 2015	Renewable upon mutual agreement of both parties
	Mindanao	Ozamis Region Office - Bonifacio St., Lam-an, Ozamis City, Misamis Occidental	Land & Building-Rented	Good	87,867.20	August 31, 2022	Renewable upon mutual agreement of both parties
	Mindanao	Iligan S.O. - Pandan, Sta. Filomena, Iligan City	Warehouse-Rented	Good	62,500.00	September 30, 2016	Renewable upon mutual agreement of both parties
	Mindanao	Liloy S.O. - Baybay, Liloy, Zamboanga del Norte	Warehouse-Rented	Good	44,642.86	September 30, 2016	Renewable upon mutual agreement of both parties
	Mindanao	Dipolog S.O. - Sta. Filomena, Dipolog City	Warehouse-Rented	Good	50,892.86	September 30, 2016	Renewable upon mutual agreement of both parties
	<u>Terminal</u>						
	Bataan Malt Terminal (land, building, machineries & equipment, furnitures & fixtures)	Mariveles, Bataan	Building & Facilities-Owned; Land-Rented	Good	534,279.76	April 30, 2025	Renewable upon mutual agreement of both parties
	<u>Investment Properties</u>	Brgy. Estefania, Bacolod City T-343646	Owned	Good			
		No. 31 Rosario St., Brgy.	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Granada, Bacolod City					
		Brgy. Penabatan, Pulilan, Bulacan	Owned	Good			
		L26 B11, Brgy. Sto.Domingo, Sta.Rosa, Laguna	Owned	Good			
		Brgy. Estefanía, Bacolod City (TCT 092- 2011004583)	Owned	Good			
		Brgy. Estefanía, Bacolod City (T-342729)	Owned	Good			
		Brgy. Estefanía, Bacolod City (TCT 092- 2012002536)	Owned	Good			
		Brgy. Estefanía, Bacolod City (TCT 092- 2012002535)	Owned	Good			
		Brgy. Estefanía, Bacolod City (TCT 092- 2012003076)	Owned	Good			
		Brgy. Estefanía, Bacolod City (TCT 092- 2012004929)	Owned	Good			
		Brgy. Estefanía, Bacolod City (TCT 092- 2013001438)	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		No. 047 Brgy. Estefanía, Bacolod City (TCT 092- 2011010662)	Owned	Good			
		Jaro, Iloilo 095- 2013000758	Owned	Good			
		Jaro, Iloilo 095- 2013000759	Owned	Good			
		Barrio of Tinajeros, Malabon City	Owned	Good			
		Bo. of San Jose and Poblacion Cabanatuan City	Owned	Good			
		Bo. of San Jose and Poblacion Cabanatuan City	Owned	Good			
		Bo. of San Jose and Poblacion Cabanatuan City	Owned	Good			
		Barrio of Mallorca, San Leonardo. Nueva Ecija	Owned	Good			
		Barrio of Mallorca, San Leonardo. Nueva Ecija	Owned	Good			
		Poblacion, San Leonardo, Nueva Ecija	Owned	Good			

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
		Lot 5009 Imus Estate, Imus Cavite	Owned	Good			
		Lot 623-E ,Imus Friar, Imus, Prov. of Cavite	Owned	Good			
		Lot 5159 Poblacion, Imus Prov. Of Cavite	Owned	Good			
		Lot 623-F, Imus Friar, Imus, Prov. of Cavite	Owned	Good			
	<u>Head Office</u>						
	Office Space	40 San Miguel Ave., Mandaluyong City	Owned	Good			
	B. INTERNATIONAL						
	<u>Breweries</u>						
	San Miguel Beer (Thailand) Ltd.	89 Moo2, Tiwanon Rd., Baan Mai, Muang , Pathumtani 12000, Thailand	Owned	Good			
	PT Delta Djakarta Tbk	Jalan Inspeksi Tarum Barat Desa Setia Darma Tambun Bekasi Timur 17510, Indonesia	Owned	Good			
	San Miguel Brewery Hong Kong Limited	22 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New	Building- Owned; Land- Rented	Good	HKD 183,697.00	2047	No renewal options

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Territories, Hong Kong					
	San Miguel (Guangdong) Brewery Co.,Ltd	San Miguel Road 1#, Longjiang Town, Shunde District, Guangdong Province, China	Owned	Good			
	San Miguel (Baoding) Brewery Co. Ltd.	Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China	Owned	Good			
	San Miguel Brewery Vietnam Ltd.	Quoc Lo 1 , Suoi Hiep , Dien Khanh , Khanh Hoa	Owned	Good			
	<u>Sales/Area Offices and Warehouses</u>						
	San Miguel Brewery Hong Kong Limited	9 th Floor, Citimark Building , No.28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, NT, Hong Kong	Land Rented	Good	HKD 17,676.00	2047	No renewal options
	San Miguel Brewery Hong Kong Limited	San Miguel Industrial Building, No. 9-11 Shing Wan Road, Tai Wai, Shatin, NT, Hongkong	Land Rented	Good	HKD 33,920.00	2047	No renewal options
	San Miguel (Guangdong) Brewery Co.,Ltd	Longjiang, Industrial Estate, Shunde District, Guangdong Province	Land Rented	Good	Entire rent paid at the start of lease term	May 01, 2053	For renewal at the expiry date.
	Guangzhou San Miguel Brewery Co. Ltd.						
	Shantou Sales Office	Room 803 and Room	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		804, Underground Parking, Huamei Garden, Shantou City					
	Guangzhou Admin Office	Unit 2428,24/F,Wu Yang New City Plaza No.111-115 Si You New Road,Guangzhou	Office Space-Rented	Good	RMB 75,181.05	December 31, 2017	At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties .
	Dongguan Sales Office	Unit 15,13/F,Zhong Huan Cai Fu Plaza,No.92 Hong Fu Road,Nancheng District,Dongguan City	Office Space-Rented	Good	RMB 4,800.00	April 30, 2015	At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties .
	Dongguan Sales Office	Unit 01H, 22/F, Star Remit Center, South Shop Village, Changping District, Dongguan City	Office Space-Rented	Good	RMB 1,918.51	April 30, 2015	At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties .

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Dongguan Sales Office	Unit 809, 8/F Xilaideng Business Center, No. 298 Hu Men Road, Hu Men District, Dongguan City	Office Space-Rented	Good	RMB 2,275.00	May 31, 2015	At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties .
	Shunde Sales Office	Unit 16, 3/F, Xinji Commercial Building No 2 Ma Di Road, Daling District, Shunde City	Office Space-Rented	Good	RMB 2,667.00	November 30, 2015	At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties .
	Shenzhen Sales Office	Unit 1316, 13/F, No. 49 Solar Silicon Valley, No.3 Yun Feng Road, Dalang Street, Longhua District, Shenzhen District	Office Space-Rented	Good	RMB 2,800.00	December 31, 2015	At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties .
	San Remo Taiwan (SRT)						
	San Miguel Company Ltd. Taiwan Branch-Taipei	5F-2, No.164, Fusing N. Rd., Taipei, Taiwan (ROC)	Office Space-Rented	Good	NT\$70,000.00	October 19,2015	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	San Miguel Company Ltd. Taiwan Branch-Kaohsiung	No.1440, Chengguan Rd., Renwu Dist.,Kaohsiung City, Taiwan (ROC)	Office Space-Rented	Good	NT\$55,555.00	March 31,2015	Renewable upon mutual agreement of both parties
	San Miguel China Investment Company Limited	Unit 607-608, 6 Floor Golden Land Building, No.32 Liang Ma Qiao Road, Chaoyang District, Beijing 100016	Office Space-Rented	Good	RMB 23,785.83	September 30, 2015	Renewable upon mutual agreement of both parties
	San Miguel (China) Investment Co. Ltd.	1-7A, 1-11A, 1-12A, 1-9C, 1-7C Parkview Tower Chaoyang District Beijing 100027, China	Owned	Good			
	San Miguel Baoding Brewery Company Limited						
	San Miguel Baoding Brewery Company Limited	4-3-102, 4-3-202, 4-3-302 JiXing Yuan, Baoding City	Owned	Good			
	San Miguel Baoding Brewery Company Limited	Shengli Street, Tianwei West Road, Baoding City ,Hebei Province, China	Land-Rented	Good	Entire rent paid at the start of lease term	June 01, 2046	Renewable upon mutual agreement of both parties
	San Miguel Baoding Brewery Company Limited	JinXia Villa, Baoding City, Hebei Province, China	Owned	Good			
	Shijiazhuang Sales Office	25-16E, YinDu Garden, Shifang Road, Shi Jia Zhuang City , Hebei Province, China	Office Space-Rented	Good	RMB 1,500.00	March 31, 2017	Renewable upon mutual agreement of both parties
	Handan Sales Office	6-1-302, Bai Hua Western	Office Space-	Good	RMB 1,500.00	December	Renewable upon

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		District, Xing Tai City, Hebei Province, China	Rented			31, 2015	mutual agreement of both parties
	San Miguel Marketing Thailand Limited						
	North sales office	403/8 Lumpoon Road, Wadked , Amphor Muang , Lumpoon	Office Space-Rented	Good	THB 5,265.00	October 31, 2015	Renewable upon mutual agreement of both parties
	North sales office	403/9 Lumpoon Road, Wadked , Amphor Muang , Lumpoon	Office Space-Rented	Good	THB 5,265.00	December 31, 2015	Renewable upon mutual agreement of both parties
	South sales office (Phuket)	14/4 Moo 4 , Tambon Wichit Amphor Muang, Phuket	Office Space-Rented	Good	THB 18,948.00	September 30, 2015	Renewable upon mutual agreement of both parties
	South sales office (Samui)	44/38 Moo 1 Tambon Maenam,Amphur Koh Samui Suratthani	Office Space-Rented	Good	THB 15,789.47	March 31, 2015	Renewable upon mutual agreement of both parties
	Northeast sales office	44/50 Moo 3 Chataphadung Rd, Thumbon Naimuang, Amphur Muang Khonkean	Office Space-Rented	Good	THB 8,422.00	December 31, 2015	Renewable upon mutual agreement of both parties
	Warehouse Pattaya	324 Moo12 Chaiyapruk 1 rd., Tambon Nongprue, Banglamung, Chonburi	Warehouse-Rented	Good	THB 174,628.63	September 30, 2015	Renewable upon mutual agreement of both parties
	Pattaya sales office	263/91 Moo 12 Tambon Nongprue Banglamung Chonburi	Office Space-Rented	Good	THB 14,705.88	February 28, 2015	Renewable upon mutual agreement of both parties
	San Miguel Brewery Vietnam Limited						

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
	San Miguel Brewery Vietnam Ltd.	Quoc Lo 1 , Suoi Hiep , Dien Khanh, Khanh Hoa	Land-Rented	Good	VND 11,908,145.00	November 12, 2024	Renewable upon mutual agreement of both parties
	Ho Chi Minh Sales Office	180 Nguyen Van Troi Street , Ward 8, Phu Nhuan District, HCM City	Office Space-Rented	Good	USD 8,989.75	February 28, 2017	Renewable upon mutual agreement of both parties
	Da Nang Sales Office	180 - 2/9 Street, Hoa Cuong Bac ward, Hai Chau District, Da Nang City, Vietnam	Office Space-Rented	Good	VND 24,000,000.00	October 05, 2017	Renewable upon mutual agreement of both parties
	Nha Trang Sales Office	48 B Yersin , Nha Trang City	Office Space-Rented	Good	VND 14,300,000.00	July 31, 2015	Renewable upon mutual agreement of both parties
	Ho Chi Minh Warehouse	1500/3C, An Phu Dong Ward, Dist 12, HCM City	Warehouse-Rented	Good	VND 33,000,000.00	April 10, 2015	Renewable upon mutual agreement of both parties
	<u>Power Plant</u>						
	San Miguel Baoding Utility	Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China	Owned	Good			
	<u>Investment Properties</u>						
	Guangzhou San Miguel Brewery	Room 302, Haitao Building, Marine Fisheries Pier, North Binhai Avenue, Haikou City	Owned	Good			

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
		1th-4th Floor, Xianda Building, Shuichan Pier, North Binhai Avenue, Haikou City	Owned	Good			
2	GINEBRA SAN MIGUEL, INC.						
	I. HEAD OFFICE						
	San Miguel Properties Centre (SMPC) Bldg.	3rd & 6th Floors SMPC Bldg., St. Francis Ave., Ortigas Centre, Mandaluyong City	Owned	Good			
	II. NORTH LUZON						
	<u>Plants</u>						
	Sta. Barbara Plant	Tebag West, Sta. Barbara, Pangasinan	Owned	Good			
	East Pacific Star Bottlers Phils. Inc.	San Fermin, Cauayan, Isabela	Owned	Good			
	<u>Warehouse / Sales Office</u>						
	Warehouse (SMC-SL)	Tebag West, Sta. Barbara, Pangasinan	Owned	Good			
	SMDCI Warehouse	Bo. Maimpis, San Fernando, Pampanga	Owned	Good			
	Porac Warehouse	Sta. Cruz, Porac, Pampanga	Rented	Good	355,250.00	December 31, 2014	Renewable upon mutual agreement

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
							of both parties
	Cauyan Sales Office	327 Prenza Highway, San Fermin, Cauayan Isabela	Rented	Good	20,000.00	December 31, 2015	Renewable upon mutual agreement of both parties.
	La Union Sales Office	Lee Building, Natl. Hiway, Brgy. Carlatac, San Fernando City, La Union	Rented	Good	15,000.00	December 31, 2014	Renewable upon mutual agreement of both parties.
	<u>Depot</u>						
	Alcohol Depot #1 (SMCSL - Damortis)	Brgy. Namonitan, Sto. Tomas, La Union	Owned	Good			
	Alcohol Depot #2 (SMCSL - Damortis)	Brgy. Namonitan, Sto. Tomas, La Union	Owned	Good			
	III. GMA						
	<u>Warehouse / Sales Office</u>						
	Cainta SO (Quicksourc Logistics, Inc.)	167 Felix Ave. Brgy. Sto. Domingo Cainta Rizal	Rented	Good	667,700.00	December 31, 2014	Renewable upon mutual agreement of both parties
	Antipolo SO	80 Marcos Hiway, Brgy. Mayamot, Antipolo City, Rizal 1870	Rented	Good	700,000.00	March 31, 2015	Renewable upon mutual agreement of both parties
	Valenzuela Warehouse (Inland Container Corporation)	#8 T.Santiago St., Canumay West, Plastic City, Valenzuela	Rented	Good	304,166.00	December 31, 2014	Renewable at the option of the lessee

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Paco Sales Office (KMC Realty)	Warehouse 5B, P. Correa St. Extension, Paco, Manila	Rented	Good	284,542.00	June 30, 2016	Annually renewed
	Las Piñas Sales Office	IMSPI Units 12 & 14 Vita Realty Compound, # 98 Marcos Alvarez Ave. Talon, LPC #1747.	Rented	Good	429,207.60	February 28, 2015	Annually renewed
	Warehouse - Cold Storage 1 (GMV Coldkeepers, Inc.)	107 North Main Avenue, LTI, Brgy. Biñan, Biñan Laguna	Rented	Good	Php50/pallet per day (based on actual volume)	March 14, 2015	Renewable upon mutual agreement of both parties
	Warehouse - Cold Storage 2 (GMV Corp)	107 North Main Avenue, LTI, Brgy. Biñan, Biñan Laguna	Rented	Good	Php50/pallet per day (based on actual volume)	March 14, 2015	Renewable upon mutual agreement of both parties
	IV. SOUTH LUZON						
	<u>Plants</u>						
	Lucena Plant	Bgy. Gulang-gulang, Lucena City, Quezon	Owned	Good			
	East Pacific Star Bottlers Phils. Inc.	Km 503 Hacienda Mitra, Paulog, Ligao City, Albay	Owned	Good			
	Calamba Tolling Plant (Hearty Beverage Options)	Sitio Pulang Lupa, Makiling, Calamba Laguna	Owned	Good			
	Cabuyao Plant	Silangan Industrial Estate, Bgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good			

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
	<u>Warehouse / Sales Office</u>						
	Warehouse (Southern Textile Mills, Inc.)	Bgy. Lawa, Calamba City, Laguna	Rented	Good	1,089,010.00	Continuing unless terminated and agreed by both parties	Lessee has the option to renew the contract under the terms and conditions as may be agreeable to both parties
	Ligao Sales Office	Km. 503, Hacienda Mitra, Brgy. Paulog, Ligao City, Albay 4504	Rented	Good	332,805.00	January 31, 2015	Renewable upon mutual agreement of both parties
	Warehouse (SMC-SL Old)	Silangan Industrial Estate, Bgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good			
	Warehouse (SMC-SL New)	Silangan Industrial Estate, Bgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good			
	<u>Depot</u>						
	Cotta Depot	Francisco Ferdinand St., Teacher's Village, Bgy. Cotta, Lucena City	Owned	Good			
	Tabangao Depot	Bgy. Tabangao, Aplaya, Batangas City	Owned	Good			
	Alcohol Depot (IDMC-BBTI- Tank 5 & 7)	Bauan, Batangas	Rented	Good	300,000.00	April 30, 2015	Renewable at the option of the lessee

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
	Alcohol Depot (IDMC-BBTI- Tank 1, 2 &3)	Bauan, Batangas	Rented	Good	500,000.00	September 30, 2016	Renewable at the option of the lessee
	<u>Land</u>						
	Newport Industries	Sitio Pulang Lupa, Makiling, Calamba Laguna	Rented	Good	1,543,572.91	December 31, 2020	Lessee has the option to extend lease for two years from expiry date under same terms and conditions.
	V. VISAYAS						
	<u>Plants</u>						
	Cebu Plant	Subangdaku, Mandaue City, Cebu	Owned	Good			
	Distileria Bago, Inc. (Alcohol Distillery)	Km 13.5 Bgy. Taloc, Bago City, Negros Occidental	Owned	Good			
	<u>Warehouse / Sales Office</u>						
	SMCSL Warehouse K	Ouano, Mandaue City	Owned	Good			
	SMCSL Warehouse I	Ouano, Mandaue City	Owned	Good			
	Bago City Sales Office	Km 13.5 Bgy. Taloc, Bago City, Negros Occidental	Owned	Good			
	<u>Depot</u>						

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
	Alcohol Depot (SMCSL)	Ouano, Mandaue City	Owned	Good			
	VI. MINDANAO						
	<u>Warehouse / Sales Office</u>						
	Admin Office (Phividec Industrial Estate)	Gracia Tagoloan, Misamis Oriental	Owned	Good			
	Storage Tanks (Phividec Industrial Estate)	Gracia Tagoloan, Misamis Oriental	Owned	Good			
	Land (Phividec Industrial Estate)	Gracia Tagoloan, Misamis Oriental	Rented	Good	43,601.00	49 years	Renewable upon mutual agreement of both parties
	Davao Warehouse & Sales Office	Brgy. Talomo, Ulas, Davao City	Owned	Good			
	Pagadian Sales Office (Ramona Construction & Enterprises)	BF Araw Avenue, Tiguma, Pagadian City	Rented	Good	7,589.90	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Cagayan de Oro Sales Office (LYL Apartment)	Unit 118, LYL Apartment, Kimwa Compound, Barangay Baloy, Cagayan de Oro City	Rented	Good	11,848.21	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
FOOD BUSINESS							

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
	<u>Main Office</u>						
	JMT Corporate Condominium Building	ADB Avenue, Ortigas Center, Pasig City	Owned	Good			
	<u>Administration Office</u>						
	Agro-Industrial Cluster and Great Food Solutions Iloilo Office	Melliza St., Brgy. Zamora, Iloilo City	Good	Good			
	Sta. Maria Vetmed Office	Brgy. Guyong, Sta. Maria, Bulacan	Good	Good			
	<u>Manufacturing Plants/Facilities/Farms/Hatcheries/Cold Storage</u>						
	Bataan Feedmill	Mindanao Avenue, cor 10th Avenue, BEZ, Mariveles, Bataan	Owned	Good			
	Bin Duong Feedmill and Farm	Cau Sat Hamlet, Lai Hung Village, Ben Cat, Binh Duong, Vietnam	Owned	Good			
	BMEG Pangasinan Feedmill	Km. 189, Brgy. Bued, Binalonan, Pangasinan	Owned	Good			
	Bukidnon Feedmill	Milmar Compound, Impalutao, Impasug-ong, Bukidnon	Owned	Good			
	Bulacan Feedmill	Brgy. Magmarale, San Miguel, Bulacan	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Bulacan Hatchery	Km. 37, Pulong Buhangin, Sta. Maria, Bulacan	Owned	Good			
	Calamba Hatchery	Brgy. Licheria, Calamba City	Owned	Good			
	Calauan Experimental Farms	SMC Cmpd., Brgy. Mabacan, Calauan, Laguna	Owned	Good			
	Cebu Poultry Dressing Plant	Brgy. Canduman, Mandaue City	Owned	Good			
	Davao Poultry Dressing Plant	Brgy. Sirawan, Toril Davao City	Owned	Good			
	Feeds Spent Drying and Rendering Plant	SMC Complex, Quebiawan, San Fernando, Pampanga	Owned	Good			
	Feeds Spent Drying Plant	Mc Arthur Hi-way, Valenzuela City	Owned	Good			
	General Santos Warehouse	SMPFC Cmpd., Rivera St., Brgy. Calumpang, Gen. Santos City	Owned	Good			
	Golden Bay Grain Terminal	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas	Owned	Good			
	Grandparent Hatchery	Kapitan Bayong, Impasug-ong, Bukidnon	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Isabela Cattle Farm	Bo. San Luis, Cauayan, Isabela	Owned	Good			
	Isabela Feedmill	Brgy. Soyung, Echague, Isabela	Owned	Good			
	Mabini Flourmill	Brgy. Bulacan, Mabini, Batangas	Owned	Good			
	Magnolia Ice Cream Plant	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good			
	Magnolia Plant	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite	Owned	Good			
	Monterey Meat Plant	Governor's Drive, Langkaan, Dasmariñas, Cavite	Owned	Good			
	Orion Experimental Training Farm	Brgy. General Lim, Orion, Bataan	Owned	Good			
	Otis Warehouse	Mendiola Ext., Otis, Pandacan, Manila	Owned	Good			
	Polomolok Cattle Farm	Matin-ao, Polomolok, South Cotabato	Owned	Good			
	Processed Meats Cavite Plant	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite	Owned	Good			
	Processed Meats Fairview Warehouse	34 Consul St., Fairview	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Park Subdivision, Fairview, Quezon City					
	Processed Meats Indonesia Plant	Jl. Raya Bogor Km. 37 Sukamaju, Cilodong, Indonesia	Owned	Good			
	Processed Meats Vietnam Plant	An Tay, Ben Cat, Binh Duong, Vietnam	Owned	Good			
	San Miguel Farm	Magmarale, San Miguel, Bulacan	Owned	Good			
	Sumilao Farm	San Vicente, Sumilao, Bukidnon	Owned	Good			
	Tabangao Flourmill	Brgy. Tabangao, Batangas City	Owned	Good			
	Tarlac Feedmill	Luisita Industrial Park, San Miguel, Tarlac City	Owned	Good			
	<u>Land</u>						
	Golden Avenue Corp.	San Miguel Ave., corner Tektite Road, Pasig City	Owned	Good			
	<u>Manufacturing Plants/Facilities/Farms/Hatcheries</u>						
	Bataan Feedmill (lot only)	Mindanao Avenue, cor 10th Avenue, BEZ, Mariveles, Bataan	Rented	Good	1,004,135.65	February 28, 2054	Renewable for a maximum of 25 years after the expiration of the contract

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Cagayan de Oro Feedmill	Brgy. Baloy, Tablon, Cagayan de Oro City	Rented	Good	777,515.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Cariño & Sons Agri-Dev't Inc. - Poultry	Brgy. Aya, San Jose, Batangas	Rented	Good	457,600.00	December 31, 2016	Continuing unless terminated and agreed by both parties
	CCSO Tolling Services - Poultry	Brgy. Anislag, Daraga, Albay	Rented	Good	112,860.25	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Davao Fresh Foods Corp. - Poultry	Tugbok Dist., Calinan, Davao City	Rented	Good	294,606.82	December 31, 2014	Continuing unless terminated and agreed by both parties
	Elim Dressing Plant - Poultry	Mailen, Clarin, Misamis Occidental	Rented	Good	274,892.16	December 31, 2014	Continuing unless terminated and agreed by both parties
	Green Pine Dressing Plant - Poultry	Km. 9, Tag-ibo, Butuan City	Rented	Good	228,808.80	December 31, 2014	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Johanna's Chicken Processing Center - Poultry	Brgy. Bocohan, Lucena City and Brgy. Lagalag, Tiaong, Quezon	Rented	Good	2,242,330.00	Lucena - June 30, 2015; Tiaong - May 31, 2015	Continuing unless terminated and agreed by both parties
	Maharlika Agro Marine Ventures Corp. - Poultry	IP4 El Salvador, Misamis Oriental	Rented	Good	1,141,656.32	December 31, 2014	Continuing unless terminated and agreed by both parties
	Matutum Meat Packaging Corp. - Fresh Meats	Purok 3, Brgy. Glamang, Polomolok, South Cotabato	Rented	Good	120,792.89	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Mindanao Cargo Forwarder - Poultry	Sirawan Toril, Davao City	Rented	Good	93,000.00	December 31, 2014	Continuing unless terminated and agreed by both parties
	MK Business Ventures, Inc. - Poultry	Brgy. Boalan, MCLL Highway, Zamboanga City	Rented	Good	272,945.26	December 31, 2014	Continuing unless terminated and agreed by both parties
	MKC Poultry Dressing Plant - Poultry	Brgy. Tagburos, Puerto Princesa City	Rented	Good	22,400.00	September 30, 2016	Continuing unless terminated and agreed by both parties
	Pollo Fresco Agri-Development Corp. - Poultry	Polomolok, South Cotabato	Rented	Good	108,839.84	December 31, 2014	Continuing unless terminated and

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
							agreed by both parties
	Polytrade Sales and Services, Inc. - Poultry	Sta. Rita Industrial Estate, Sagurong, Pili, Camarines Sur and Lagundi, Mexico, Pampanga	Rented	Good	770,344.30	Processing plant - December 31, 2018; Dry Warehouse/ Marination - January 31, 2016	Continuing unless terminated and agreed by both parties
	Silangan Poultry Farms - Poultry	Brgy. Kayumanggi, Lipa City	Rented	Good	739,625.00	February 01, 2017	Continuing unless terminated and agreed by both parties
	St. Jude Dressing Plant - Poultry	Mohon, Tagoloan, Misamis Oriental	Rented	Good	298,908.13	December 31, 2014	Continuing unless terminated and agreed by both parties
	St. Jude Slaughterhouse - Fresh Meats	Sta. Ana, Tagoloan, Misamis Oriental	Rented	Good	13,004.46	December 31, 2014	Continuing unless terminated and agreed by both parties
	Surewealth Realty Inc. - Poultry	Brgy. General Lim, Orion, Bataan	Owned	Good			
	<u>Foreshore</u>						
	Flour Mabini	Brgy. Bulacan, Mabini, Batangas	Rented	Good	14,166.66	December 20, 2014	Continuing unless terminated and agreed by both

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
							parties
	Flour Tabangao	Brgy. Tabangao, Batangas City	Rented	Good	2,412.15	August 24, 2024	Continuing unless terminated and agreed by both parties
	GBGTC Foreshore	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas	Rented	Good	13,965.50	June 30, 2025	Continuing unless terminated and agreed by both parties
	<u>Sales & Administration Offices/Warehouses</u>						
	Food Group Admin Office	SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig City	Owned	Good			
	Food Group Consolidated Warehouse	403 F. Legaspi Street, Maybunga, Pasig City	Rented	Good	5,989,913.27	SMIS, PHC, & Magnolia - December 31, 2014; Flour - June 14, 2015	Continuing unless terminated and agreed by both parties
	Food Group Shared Services Center	10th Flr., Raffles Corporate Centre, F. Ortigas Jr., Pasig City	Rented	Good	Jan to Sep: Php 516,190; Oct to Dec: Php 541,990	October 09, 2016	Renewal for another period of five (5) years by the Lessee in writing at least thirty (30) days prior to expiration of the existing

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
							contract
	Food Group Purchasing Office	4F JMT Corp. Cond. ADB Avenue, Ortigas Center, Pasig City	Rented	Good	191,983.44	December 31, 2014	Renewable upon mutual agreement of both parties
	AFSI Warehouse - Feeds	1st Industrial Zone, Ecozone, Sitio San Ramon, Brgy. Talisayan, Zamboanga City	Rented	Good	269,010.00	December 31, 2014	Continuing unless terminated and agreed by both parties
	Alejo Sim Warehouse - Feeds	Nancayasan, Urdaneta, Pangasinan	Rented	Good	227,520.00	March 15, 2015	Continuing unless terminated and agreed by both parties
	Asialink VAO Office - Poultry	San Roque, Sto Tomas, Batangas	Rented	Good	7,040.00	March 31, 2015	Continuing unless terminated and agreed by both parties
	Bacolod Office - San Miguel Integrated Sales	William Lines Warehouse, Magsaysay cor. Araneta Sts., Singcang, Bacolod City	Rented	Good	18,000.00	December 31, 2015	Continuing unless terminated and agreed by both parties
	Bacolod Sales Office - Agro-Industrial Cluster and Great Food Solutions	Door 3 & 4, VCY Center, Hilado Extension, Kamagong St., Bacolod City	Rented	Good	39,237.94	July 15, 2015	Continuing unless terminated and agreed by both parties
	Bacolod Sales Office - Feeds	Brgy. Banago, Bacolod	Rented	Good		December	Continuing unless

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		City			37,136.80	31, 2014	terminated and agreed by both parties
	Bali Office - San Miguel Pure Foods Indonesia	Jl.Raya Pemogan No.222 Denpasar Bali	Rented	Good	IDR 833,000.00	October 08, 2015	Renewable upon consent of both parties
	Bandung Office - San Miguel Pure Foods Indonesia	3rd Flr Jl. Soekarno Hatta No. 606, Bandung	Rented	Good	IDR 4,537,000.00	January 01, 2015	Renewable upon consent of both parties
	Bicol Finance and Sales Office - Agro-Industrial Cluster	Sta. Rita Industrial Estate, Sagurong, Pili, Camarines Sur	Rented	Good	30,000.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Bohol - Agro-Industrial Cluster	Albur Dressing Plant, Eastern Poblacion, Alburquerque, Bohol	Rented	Good	6,428.57	December 31, 2014	Continuing unless terminated and agreed by both parties
	Budex Warehouse - Feeds	Bangcud, Malaybalay City, Bukidnon	Rented	Good	115,000.00	July 31, 2015	Continuing unless terminated and agreed by both parties
	Bukidnon Admin Office - Agro-Industrial Cluster	Gellor Bldg., Propia St., Malaybalay	Rented	Good	72,600.00	December 31, 2014	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Bulacan Sales Office - Feeds	382 McArthur Hi-way, Tuktukan, Guiguinto, Bulacan	Rented	Good	60,647.32	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Bulacan Warehouse - Flour	Sta. Rita, Guiguinto, Bulacan	Rented	Good	70,072.64	May 31, 2018	Continuing unless terminated and agreed by both parties
	Butuan Admin Office - Agro-Industrial Cluster	Km. 9, Tag-ibo, Butuan City	Rented	Good	5,892.86	December 31, 2014	Continuing unless terminated and agreed by both parties
	Cagayan de Oro Admin Office - Agro- Industrial Cluster and Great Food Solutions	3rd Flr., HBL Bldg., Gusa, Cagayan de Oro City	Rented	Good	119,821.43	December 31, 2014	Continuing unless terminated and agreed by both parties
	Cagayan de Oro Office - San Miguel Integrated Sales	Door 5, Banyan Place, Alwana Compound, Cugman, Cagayan de Oro City	Rented	Good	26,620.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Calamba - Agro-Industrial Cluster	3rd and 4th Flr. Dencris Bus. Center, Brgy. Halang, Calamba City, Laguna	Rented	Good	107,624.45	March 31, 2017	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Capas Warehouse - Feeds	Cristo Rey, Capas, Tarlac	Rented	Good	294,030.00	April 30, 2015	Continuing unless terminated and agreed by both parties
	Cebu Admin Office - Agro-Industrial Cluster	6th Flr., Clotilde Bldg., Casuntingan, Mandaue City	Rented	Good	148,500.00	September 30, 2016	Continuing unless terminated and agreed by both parties
	Cileungsi Mini Outlet - San Miguel Pure Foods Indonesia	Pasar Cileungsi Blok A1 No.61	Rented	Good	IDR 1,208,000.00	November 17, 2015	Renewable upon consent of both parties
	CSU Warehouse - Feeds	Brgy. Pavia, Iloilo	Rented	Good	446,430.00	December 31, 2015	Continuing unless terminated and agreed by both parties
	Davao Admin Office - Agro-Industrial Cluster, Great Food Solutions and San Miguel Integrated Sales	2nd Flr. ARC Bldg., cor Dakudao Ave. and Lakandula St., Agdao, Davao City	Rented	Good	114,960.35	December 31, 2014	Continuing unless terminated and agreed by both parties
	Dumaguete Admin Office - Agro-Industrial Cluster	2nd Floor THS Bldg., Real St., Dumaguete City, Negros Oriental	Rented	Good	11,353.57	June 30, 2015	Continuing unless terminated and agreed by both parties
	Fresh Meats Selling Stations	Mega Q Mart and Farmers Market, Quezon City	Rented	Good	249,315.69	Q Mart - August 14, 2016; Farmers - December 31, 2014	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Fieldman Warehouse - Feeds	Sta. Rita East, Agoo, La Union	Rented	Good	112,410.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Fortune Warehouse - Feeds	Pagdaraoan, San Fernando, La Union	Rented	Good	117,857.14	March 15, 2015	Continuing unless terminated and agreed by both parties
	Go Warehouse - Feeds	Del Pilar, Alicia, Isabela	Rented	Good	882,000.00	June 30, 2015	Continuing unless terminated and agreed by both parties
	Ho Chi Minh Admin Office - San Miguel Hormel Vietnam Co. Ltd.	6F Mekong Tower, 235-241 Ward 13, Tan Binh, Ho Chi Minh City	Rented	Good	VND 32,000,000.00	August 31, 2015	Parties may agree to renew the contract two months before the current contract expires
	Iloilo Office - San Miguel Integrated Sales	YK Marine Bldg., Iloilo Fishing Port Complex, Brgy. Tanza, Bay-bay, Iloilo City	Rented	Good	16,968.65	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	JEC Warehouse - Flour	Malainin, Baan, Batangas	Rented	Good	100,000.00	April 30, 2015	Monthly extension up to April 30, 2015

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Juan Sim Warehouse - Feeds	Carmay East, Rosales, Pangasinan	Rented	Good	330,610.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Kambal Pandesal Training Center - Flour	6 C. Mina St., Mabolo, Cebu City	Rented	Good	21,739.13	April 01, 2015	Continuing unless terminated and agreed by both parties
	LSL Multi-Serve Company - Feeds	Km 8 Pareñas Compound, Diversion Road, Buhangin, Davao City	Rented	Good	832,725.00	December 31, 2014	Continuing unless terminated and agreed by both parties
	Makassar Office - San Miguel Pure Foods Indonesia	BTN Pao-pao Permai Blok B7 No.8 Rt.002 Rw.006 Kel.Pacinonggang Kec.Somba Opu Kab.Gowa Sulawesi Selatan	Rented	Good	IDR 625,000.00	September 10, 2015	Renewable upon consent of both parties
	Malitlit Warehouse - Feeds	Brgy. Malitlit, Sta. Rosa, Laguna	Rented	Good	1,016,960.00	December 31, 2014	Continuing unless terminated and agreed by both parties
	Mandaue Admin Office - San Miguel Integrated Sales	2nd Flr. Planters Bldg., West Office, SMC Shipping & Lighterage Comp., Ouano Wharf, Mandaue City, Cebu	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Medan Office - San Miguel Pure Foods Indonesia	Jl.Kenanga Raya No.34D Kel.Tanjung Sari Kec.Medan Selayang	Rented	Good	IDR 1,333,000.00	June 17, 2015	Renewable upon consent of both parties
	MGC Warehouse - Feeds	MGC Compound, Luzon Avenue, Brgy. Mariveles, Bataan	Rented	Good	1,337,239.35	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	MIMIJOE Warehouse - Feeds	Km. 9, Sasa, Davao City	Rented	Good	823,467.71	December 31, 2014	Continuing unless terminated and agreed by both parties
	Namayan Warehouse - Feeds	979 C. Castaneda Street, Mandaluyong City, Metro Manila	Rented	Good	300,000.00	April 15, 2015	Continuing unless terminated and agreed by both parties
	NFA Isabela Warehouse - Feeds	Northern Philippine Grains Complex, Echague, Isabela	Rented	Good	251,250.00	March 31, 2015	Continuing unless terminated and agreed by both parties
	Ormoc Admin Office - Agro-Industrial Cluster	Door 4, 2nd Flr., Tan Bldg., Lilia Avenue, Cogon, Ormoc City	Rented	Good	7,865.00	December 31, 2018	Continuing unless terminated and agreed by both parties
	Ozamis Office - Agro-Industrial Cluster	Mailen, Clarin, Misamis Occidental	Rented	Good	8,000.00	December 31, 2014	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Paddad Warehouse - Feeds	Brgy. Victoria, Alicia, Isabela	Rented	Good	75,600.00	December 31, 2014	Continuing unless terminated and agreed by both parties
	Palembang - San Miguel Pure Foods Indonesia	Jl.Residen Amaludin Sako Kenten Kelurahan Sukamaju, Palembang	Rented	Good	IDR 3,000,000.00	January 31, 2015	Renewable upon consent of both parties
	Pampanga Admin Office - Agro-Industrial Cluster	RRK Bldg., Jose Abad Santos Ave., Dolores, City of San Fernando, Pampanga	Rented	Good	141,000.00	September 15, 2015	Continuing unless terminated and agreed by both parties
	Pampanga Admin Office - San Miguel Integrated Sales	2F Rickshaw Arcade, Greenfield Square, Km. 76, Mc Arthur Highway, Sindalan, San Fernando City, Pampanga	Rented	Good	34,237.50	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Pampanga Livestock Selling Station - Fresh Meats	Sta.Barbara, Bacolor, Pampanga	Rented	Good	155,073.33	October 31, 2015	Continuing unless terminated and agreed by both parties
	Paragas Warehouse - Feeds	835 Brgy. Babasit, Manaoag, Pangasinan	Rented	Good	168,000.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Pasacao Warehouse - Feeds	Pongol, Balogo, Pasacao, Camarines Sur	Rented	Good	439,285.71	June 30, 2015	Continuing unless terminated and

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
							agreed by both parties
	Pasar Cibinong Mini Outlet - San Miguel Pure Foods Indonesia	Jl.Raya Bogor Kelurahan Cirimekar Cibinong Pasar Blok B No.165 Cibinong	Rented	Good	IDR 1,416,000.00	September 30, 2015	Renewable upon consent of both parties
	Pasar Citeureup Mini Outlet - San Miguel Pure Foods Indonesia	Jl.Lebak Pasar 2 Blok A5 No.29 Pasar Citeureup Bogor, Jawa Barat	Rented	Good	IDR 1,250,000.00	August 30, 2015	Renewable upon consent of both parties
	Food Group Integrated Sales Office	20F JMT Corporate Condominium Building, ADB Avenue, Ortigas Center, Pasig City	Rented	Good	330,732.90	December 31, 2018	Renewable upon consent of both parties
	Pili- COSAY Warehouse - Feeds	Santiago, Pili, Camarines Sur	Rented	Good	400,017.86	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Pondok Gede Mini Outlet - San Miguel Pure Foods Indonesia	Kompleks Pertokoan Dirgantara 1 Rt.01 Rw.09 Jl.Pondok Gede Raya No.30 Lubang Buaya	Rented	Good	IDR 750,000.00	November 20, 2015	Renewable upon consent of both parties
	Porro Warehouse - Feeds	Port Area ,San Fernando Port, Porro Point Special Economic and Freeport Zone	Rented	Good	127,609.71	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Pozzorubio Warehouse - Feeds	Brgy. Cablong, Mc Arthur Highway, Pozzorubio, Pangasinan	Rented	Good	113,400.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Prime Orion Warehouse - Feeds	Maharlika Highway, Calamba, Laguna	Rented	Good	97,184.00	July 31, 2017	Continuing unless terminated and agreed by both parties
	Ramon Warehouse - Feeds	Bugallon Norte, Ramon, Isabela	Rented	Good	63,775.51	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	San Miguel Corporation Shipping and Lighterage - Feeds	Ouano Wharf, Looc, Mandaue City, Cebu	Owned	Good			
	Siain Warehouse - Feeds	Brgy. Loboc, Lapaz, Iloilo City	Rented	Good	317,038.69	December 31, 2014	Continuing unless terminated and agreed by both parties
	Surabaya Office - San Miguel Pure Foods Indonesia	Perumahan Citra Harmoni Block C4 No. 15 Sidodadi Taman Sidoarjo Jawa Timur	Rented	Good	IDR 2,583,000.00	April 30, 2015	Renewable upon consent of both parties
	Tacoma Warehouse - Feeds	2nd St., Baseco Compound, Port Area, Manila	Rented	Good	431,658.94	December 01, 2014	Continuing unless terminated and agreed by both

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
							parties
	UGMC Warehouse - Feeds	Diamantina, Cabatuan, Isabela and Marabulig I, Cauayan City Isabela	Rented	Good	252,530.61	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Warrensburg Warehouse - Feeds	10th Avenue, FAB, Mariveles, Bataan	Rented	Good	2,025,000.00	December 31, 2014	Continuing unless terminated and agreed by both parties
	Wedison Warehouse - Feeds	Nungnungan II, Cauyan City	Rented	Good	123,214.29	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	William Sim - Feeds	Urdaneta, Pangasinan	Rented	Good	359,988.66	December 31, 2014	Continuing unless terminated and agreed by both parties
	YKK Warehouse - Feeds	Moncada, Tarlac	Rented	Good	252,725.00	December 26, 2014	Continuing unless terminated and agreed by both parties
	Yogyakarta Office & Warehouse - San Miguel Pure Foods Indonesia	Jl.Pandega Padma DP1 6D Catur Tunggal Depok, Sleman, Yogyakarta	Rented	Good	IDR 416,000.00	Admin Office - July 14, 2015	Renewable upon consent of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Zamboanga Admin Office - Agro-Industrial Cluster	Door 2, Nuño Bldg., Guiwan Highway, Zamboanga City	Rented	Good	12,979.88	December 31, 2014	Continuing unless terminated and agreed by both parties
	<u>Cold Storage / Reefer Vans/Depots</u>	-					
	3G Logistics & Storage Inc.- Poultry and Fresh Meats	Hernan Cortes St., Tipolo, Mandaue City	Rented	Good	458,210.03	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	557 Feather Meal Corporation - Poultry	Brgy. San Nicolas Balas, Concepcion, Tarlac	Rented	Good	1,685,812.35	September 15, 2018	Continuing unless terminated and agreed by both parties
	Aces AMS Integrated Poultry Processing Corporation - Poultry	Km. 342, Purok III, Garit Norte, Echague, Isabela	Rented	Good	589,442.25	Processing Plant - December 31, 2016; Cold Storage - November 30, 2014	Continuing unless terminated and agreed by both parties
	Adriano Dressing Plant - Poultry	95 Landicho St., Brgy. Balasing, Sta. Maria, Bulacan	Rented	Good	101,133.83	May 31, 2016	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Agape R & R Foods - Poultry	Campaclan, Sibulan, Neg. Oriental	Rented	Good	50,830.45	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Albur Dressing Plant - Poultry	Eastern Poblacion, Alburquerque, Bohol	Rented	Good	10,625.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	ARS Dressing Plant - Poultry and Fresh Meats	Purok 5, Brgy. Rizal, Santiago City, Isabela	Rented	Good	301,606.25	Poultry - December 31, 2014; Fresh Meats - November 30, 2016	Continuing unless terminated and agreed by both parties
	Cebu Sherilin Agro-Industrial Corp. - Poultry	Brgy. Pangdan, Naga City, Cebu	Rented	Good	1,287,820.00	May 31, 2015	Continuing unless terminated and agreed by both parties
	Coldlink Asia Logistics Corp. - Poultry	PC Suico St., Tabok, Mandaue City	Rented	Good	124,259.45	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Corden Agro Industries - Poultry	Brgy. Tungay, Sta. Barbara, Iloilo	Rented	Good	385,426.29	December 31, 2017	Continuing unless terminated and

<i>Company Name / Subsidiary</i>	<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
						agreed by both parties
Depot Sanyo - San Miguel Pure Foods Indonesia	Jl. Raya Bogor Km. 35 Sukamaju, Cilodong, Depok, Indonesia	Rented	Good	IDR 1,083,000.00	December 01, 2015	Renewable upon consent of both parties
Diaz Dressing Plant - Poultry	Km. 104, Brgy. Tabuating, San Leonardo, Nueva Ecija	Rented	Good	949,321.18	Holding room - October 30, 2017; Laboratory - June 30, 2018	Continuing unless terminated and agreed by both parties
ECA Resources, Inc. - Poultry	Tumbler, Polomolok, South Cotabato	Rented	Good	233,052.74	March 10, 2017	Continuing unless terminated and agreed by both parties
Elite Ads Corporation - Poultry	BDC Bldg., Floremer Subd., AS Fortuna St., Banilad, Mandaue City	Rented	Good	3,571.43	December 31, 2014	Continuing unless terminated and agreed by both parties
Endang - San Miguel Pure Foods Indonesia	Jl. Pandega Padma DP1 6D Catur Tunggal Depok, Sleman, Yogyakarta	Rented	Good	IDR 625,000.00	February 28, 2015	Renewable upon consent of both parties
Estrella Ice Plant & Cold Storage Co. Inc. - Poultry	No. 1787 East Service Rd. Lawang Bato, NLEX Valenzuela City	Rented	Good	2,660,485.80	June 30, 2017	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Everest Cold Storage, Inc. - Poultry and Fresh Meats	Brgy. Sambag Jaro Iloilo City	Rented	Good	873,909.85	Poultry - February 28, 2015; Fresh Meats - March 31, 2015	Poultry - Continuing unless terminated and agreed by both parties; Fresh Meats - Renewable by mutual agreement of the parties under such terms and conditions as they may agree upon
-	GMV Coldkeepers, Inc. - Poultry	Puerto Princesa, Palawan	Rented	Good	72,800.00	December 31, 2014	Continuing unless terminated and agreed by both parties
	Integrated Meat and Poultry Processing, Inc. - Poultry	Brgy. Tumalo, Hermosa, Bataan	Rented	Good	638,925.83	Holding room - January 31, 2015; Laboratory - January 31, 2018	Continuing unless terminated and agreed by both parties
	Jentec Storage, Inc. - Poultry, Fresh Meats, and Magnolia	JG Building, Raymundo Ave., Brgy. Rosario, Pasig City; Brgy. Caroyroyan, Pili, Camarines Sur; Brgy. Maliao, Pavia, Iloilo	Rented	Good	2,235,383.50	Poultry/Magnolia - December 31, 2014; Fresh Meats - Continuing unless terminated and agreed	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
						by both parties	
	Koldstor Centre Philippines, Inc. - Poultry, Fresh Meats and Magnolia	Anabu Hills Industrial Estate, Anabu 1-c, Imus Cavite	Rented	Good	4,548,212.79	March 31, 2016	Poultry: Continuing unless terminated and agreed by both parties; Fresh Meats: Renewable by mutual agreement of the parties under such terms and conditions as they may agree upon
	La Primera Pollo, Inc. - Poultry	111 Pulong Gubat, Balagtas, Bulacan	Rented	Good	67,067.00	February 28, 2015	Continuing unless terminated and agreed by both parties
	LDP Farms Food Corporation - Poultry	Brgy. Rabon, Rosario, La Union and Mabilao, San Fabian, Pangasinan	Rented	Good	1,018,307.62	Cold Storage: La Union - December 31, 2015, Pangasinan - February 28, 2014; Laboratory - September	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
						30, 2015	
	Malogo Agri-ventures & Management Service Corporation - Poultry	Singko de Noviembre St., Silay City, Negros Occidental	Rented	Good	321,552.43	Cold storage - December 31, 2016; Warehouse - Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Mayharvest Corp. - Poultry and Fresh Meats	Brgy. Caysio, Sta. Maria, Bulacan	Rented	Good	1,069,753.71	Poultry - July 31, 2016; Fresh Meats - July 31, 2016	Poultry - Continuing unless terminated and agreed by both parties; Fresh Meats - Automatic renewal on a month-to-month basis upon expiry
	METS Logistics, Inc. - Magnolia	Governor's Drive, Bo. Bancal, Carmona, Cavite	Rented	Good	41,161.75	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Negros Crown Enterprises, Inc. - Poultry	Real St., Dumaguete City	Rented	Good	16,830.36	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	New Vreed Dressing Plant - Poultry	Mangan-Vaca, Subic, Zambales	Rented	Good	85,064.29	October 31, 2015	Continuing unless terminated and agreed by both parties
	Ormoc Blast Freezing Facility- Poultry	Door 1, 2nd Flr., Tan Bldg., Lilia Avenue, Cogon, Ormoc City	Rented	Good	5,833.33	Dec. 31, 2018	Continuing unless terminated and agreed by both parties
	O-Star Foods Plant Corp. - Poultry	Brgy. Calabnugan, Sibulan, Negros Oriental	Rented	Good	73,076.43	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	Pavia Warehouse - Poultry	19B San Jose St., Cogon Dist., Tagbilaran City	Rented	Good	7,391.92	Dec. 31, 2014	Continuing unless terminated and agreed by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Polar Bear Freezing & Storage - Poultry and Fresh Meats	Phividec Industrial Estate, Sugbongcogon, Tagoloan, Misamis Oriental and Boloboloc, Sibulan, Negros Oriental	Rented	Good	554,556.79	Poultry: Misamis Oriental - February 28, 2016, Negros Oriental - Continuing unless terminated and agreed by both parties; Fresh Meats - Renewable by mutual agreement of the parties	Poultry - Continuing unless terminated and agreed by both parties; Fresh Meats - Renewable by mutual agreement of the parties
	Polar Bear Storage - Poultry	Daliao, Toril, Davao City	Rented	Good	539,945.13	February 28, 2016	Continuing unless terminated and agreed by both parties
	PT Haga Jaya Kemasindo Sarana - San Miguel Pure Foods Indonesia	Jl. Raya Bogor Km. 37 Sukamaju, Cilodong, Depok, Indonesia	Rented	Good	IDR 8,580,000.00	Continuing unless terminated and agreed by both parties (contract still in process)	Renewable upon consent of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	PT. Sewu Segar Nusantara - San Miguel Pure Foods Indonesia	Jl. Beringin Bendo Kawasan Industri Ragam II Kav. 8 RT 06/08 Taman Sepayang, Surabaya	Rented	Good	IDR 27,500,000.00	December 24, 2014	Renewable upon consent of both parties
	Rombe Philippines, Inc. - Purefoods-Hormel	Km. 47 Dampol, 1st. Pulilan, Bulacan	Rented	Good	1,048,949.83	December 31, 2016	Continuing unless terminated and agreed by both parties
	Royal Cargo Combined Logistics Inc. - Purefoods-Hormel	Sta. Aqueda Ave., Pascor Drive, Parañaque City	Rented	Good	9,844,074.60	November 30, 2016	Renewable upon mutual agreement of both parties
	San Juan Reefer Van - Fresh Meats	Bgry. Lubing, San Juan, La Union	Rented	Good	161,589.29	June 15, 2016	Continuing unless terminated and agreed by both parties
	San Roberto Development Corporation - Poultry	San Patricio, Banago, Bacolod City	Rented	Good	28,600.00	Continuing unless terminated and agreed by both parties	Continuing unless terminated and agreed by both parties
	San Simon Products Corp. - Fresh Meats	San Simon, Pampanga	Rented	Good	2,057,961.80	December 31, 2017	Automatic renewal on a month-to-month basis upon expiry

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	San Vicente Dressing Plant - Poultry	Brgy. San Vicente, San Jacinto, Pangasinan	Rented	Good	1,218,252.95	Sales Office - December 31, 2015; Cold Storage - February 28, 2015; Laboratory- December 31, 2014	Continuing unless terminated and agreed by both parties
	SG Farms - Poultry	Brgy. San Isidro, San Simon, Pampanga	Rented	Good	578,378.08	July 07, 2019	Continuing unless terminated and agreed by both parties
	Subzero Ice and Cold Storage - Poultry and Fresh Meats	Sitio Lower Bunugao, Brgy. Bungao, Toril, Davao City	Rented	Good	208,977.19	Poultry - February 28, 2016; Fresh Meats - September 30, 2016	Poultry - Continuing unless terminated and agreed by both parties; Fresh Meats - Renewable by mutual agreement of the parties under such terms and conditions as they may agree upon
	Tiga Raksa Satria - San Miguel Pure Foods Indonesia	3rd Flr. Jl. Soekarno Hatta No. 606, Bandung	Rented	Good	IDR 2,750,000.00	January 01, 2015	Renewable upon consent of both parties

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
	V & F Ice Plant and Cold Storage, Inc. - Poultry	San Roque, Sto. Tomas, Batangas and Sumulong Highway, Brgy. Mambugan, Antipolo, Rizal	Rented	Good	5,623,269.85	Rizal - June 30, 2017; Batangas - July 31, 2016	Continuing unless terminated and agreed by both parties
	Vifel Ice Plant and Cold Storage Inc. - Poultry and Purefoods-Hormel	Lapu-Lapu Ave. cor. Northbay Blvd., Navotas, Metro Manila	Rented	Good	4,242,412.04	Poultry - September 30, 2017; PHC - August 18, 2016	Poultry - Continuing unless terminated and agreed by both parties; PHC - Renewable upon mutual agreement of both parties
PACKAGING BUSINESS							
	A. DOMESTIC						
1	SAN MIGUEL YAMAMURA PACKAGING CORPORATION						
	SMYPC Main Office, SMYPC Trading and SMYPC Contract Packaging						
	Building / Office Space	San Miguel Properties Centre, Saint Francis St., Mandaluyong City	Owned	Good			
	SMYPC Rightpak Plant, SMYPC Canlubang PET & Caps Plant, SMYPC MCLP Canlubang Plant and SMYPC Leasing Operations						

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Land	Canlubang Industrial Estate, Canlubang, Laguna	Owned	Good			
	SMYPC Cebu Beverage Packaging Plant, SMYPC Mandaue Glass Plant and SMYPC MCLP Mandaue Plant						
	Land	SMC Mandaue Complex, Hi-way, Tipolo, Mandaue City, Cebu	Owned	Good			
	SMYPC Cebu Beverage Packaging Plant						
	Warehouse	SMC Wharf, Tipolo, Mandaue City, Cebu	Owned	Good			
	SMYPC Mandaue Glass Plant						
	Warehouse	Quano Wharf, Mandaue City	Owned	Good			
	SMYPC San Fernando Bev. Packaging Plant						
	Land and Warehouse	Barangay Maimpis, City of San Fernando, Pampanga (Gate 2, SMC PET Plant)	Owned	Good			
	SMYPC Pet Recycling Plant and SMYPC MCLP San Fernando Plant						
	Land	SMC San Fernando Complex, Quebiauan,	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		San Fernando City					
	SMYPC Manila Glass Plant and SMYPC Glass Business Office						
	Land	Muelle dela Industria St., Binondo Manila	Owned	Good			
	SMYPC Glass Business Office						
	Land	Barrio Halayhay, Tanza, Cavite	Owned	Good			
	SMYPC Manila Plastics Plant						
	Land	Tomas Claudio St., Beata, Pandacan, Manila	Owned	Good			
	SMYPC Manila Plastics Plant						
	Warehouse	Plastic City Compound, Valenzuela City	Rented	Good	117,000.00	April 30, 2015	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	Plastic City Compound, Valenzuela City	Rented	Good	152,600.00	February 28, 2015	Renewable for a period in accordance with the mutual written agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Warehouse	Tomas Claudio St., Beata, Pandacan, Manila	Rented	Good	11,250.00	December 31, 2014	Renewable for a period in accordance with the mutual written agreement of both parties
2	SAN MIGUEL YAMAMURA ASIA CORPORATION						
	Land and Warehouse	Km 27, Aguinaldo Highway, Imus, Cavite	Owned	Good			
	Land	Canlubang Industrial Estate, Canlubang, Laguna	Owned	Good			
	Warehouse	Warehouse 8001, GP Mamlasan, Biñan, Laguna	Rented	Good	1,506,001.00	June 30, 2015	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	(Bldg 3) B JY and Sons CPD Veterans Center Western Bicutan, Taguig City, Metro Manila	Rented	Good	719,400.00	April 16, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	Calamba, Laguna	Rented	Good	202,176.00	January 31, 2015	Renewable for a period in accordance with the mutual written

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
							agreement of both parties
3	SMC YAMAMURA FUSO MOLDS CORPORATION	Governor Dr., Bo. De Fuego, Bgy. San Francisco, Gen. Trias, Cavite	Owned	Good			
4	SAN MIGUEL PAPER PACKAGING CORPORATION	Dr. A Santos Avenue, Sucat, Parañaque City	Owned	Closed			
5	MINDANAO CORRUGATED FIBREBOARD, INC.	Km 12 Sasa, Davao City	Owned	Good			
6	CAN ASIA, INC.						
	Land	Bgy. San Francisco de Malabon, Gen. Trias, 4107 Cavite	Owned	Good			
	Warehouse	JY and Sons CPD Veterans Center Western Bicutan, Taguig City, Metro Manila	Rented	Good	778,891.60	January 31, 2015	Renewable for a period in accordance with the mutual written agreement of both parties
	B. INTERNATIONAL						
7	SAN MIGUEL YAMAMURA PACKAGING INTERNATIONAL LTD. AND SAN MIGUEL YAMAMURA GLASS (VIETNAM) LTD.	9/F Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, N.T. Hongkong, PRC	Owned	Good			

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
8	ZHAOQING SAN MIGUEL YAMAMURA GLASS COMPANY LTD.	12 North Avenue, Housha St., Zhaoqing City Guangdong Province, PRC 526020	Land Rights Use	Good			
9	FOSHAN SAN MIGUEL YAMAMURA PACKAGING COMPANY LTD.	3 Dongdi Road, Junan Township, Guangdong Province, PRC	Land Rights Use	Good			
10	SAN MIGUEL YAMAMURA HAIPHONG GLASS COMPANY LTD.	17-A Ngo Quyen St., Ngo Quyen District, Haiphong City, Vietnam	Land Rights Use	Good			
11	SAN MIGUEL YAMAMURA PHU THO PACKAGING COMPANY LTD.	1 Le Van Khuong Street, Hiep Thanh Ward, District 12, Ho Chi Minh City, Vietnam	Land Rights Use	Good			
12	SAN MIGUEL YAMAMURA PLASTICS FILMS SDN. BHD.	No. 172, Jalan Usaha 5, lots 83, 84, 85, 75, 76 Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia	Land Rights Lease	Good			
13	SAN MIGUEL YAMAMURA PACKAGING AND PRINTING SDN. BHD. AND PACKAGING RESEARCH CENTRE SDN. BHD.	Lot 5078 and 5079, Jalan Jenjarum 28/39, Seksyen 28, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia	Owned	Good			
14	SAN MIGUEL YAMAMURA WOVEN PRODUCTS SDN. BHD.	Lot 9 and 10, Jalan Usuha 4, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia Lot 4305, Jalan Usaha 8,	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia					
15	SAN MIGUEL YAMAMURA AUSTRALASIA	1 Culverston Road Minto NSW 2566, Australia	Rented	Good	AUD 111,589.98	July 31, 2020	Renewable upon mutual agreement of both parties
16	COSPAK PLASTICS PTY. LTD.	21 Huntsmore Road Minto NSW 2566, Australia	Rented	Good	AUD 22,390.82 - Unit 1 AUD 17,275.50 - Unit 2	Nov 30, 2022 - Unit 1 Oct 31, 2023 - Unit 2	Renewable upon mutual agreement of both parties
17	COSPAK NZ LTD. PREMIER PLASTICS LTD.	27 Ross Reid Place East Tamaki Auckland New Zealand 2013	Rented	Good	NZD 105,996.48	September 30, 2018	Renewable upon mutual agreement of both parties
18	FOSHAN NANHAI COSPAK PACKAGING COMPANY LIMITED	Beijia Team of Niande Village Committee, Nanfeng Road, Leping Town, Sanshui District, Foshan City, Guangdong Province, PRC	Rented	Good	1/9/2011 - 31/3/2014: Rent/Month - ¥39,968.00 1/4/2014 - 31/3/2017: Rent/Month - ¥43,964.80	March 31, 2017	Renewable upon mutual agreement of both parties
FUEL AND OIL BUSINESS							
1	PETRON CORPORATION						
	<u>Terminals and Depots</u>						
	Depot	J.P.de Carreon St. Punta Aparri, Cagayan	Rented except Building &	Good	11,103.09	December 31, 2021	Renewable at the option of the

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
			Facilities				lessor
	Depot	PFDA CMPD., Navotas, M.M.	Rented except Building & Facilities	Good	933,270.00	December 31, 2039	Renewable upon mutual agreement of both parties
	Depot	Parola, Brgy. Maunlad, Puerto Princesa City, Palawan	Rented Except Building & Facilities	Good	4,548.83	November 30, 2020	Renewable at the option of the lessee
	Depot	Brgy. Camangi, Pasacao Camarines Sur	Rented except Building & Facilities	Good	176,400.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Depot	Poros Pt., San Fernando, La Union	Rented except Building & Facilities	Good	42,103.26	November 30, 2020	Renewable upon mutual agreement of both parties
	Depot	Gen. Trias, Rosario, Cavite	Rented except Building & Facilities	Good	211,420.00	December 31, 2017	Renewable at the option of the lessee
	Depot	Tandayag, Amlan, Negros Oriental	Rented except Building and Facilities	Good	11,478.06	November 30, 2018	Renewable at the option of the lessee
	Depot	Bo. San Patricio, Bacolod City, Negros Occidental	Rented except Building & Facilities	Good	66,559.86	August 31, 2018	Renewable at the option of the lessee
	Depot	Bo. San Patricio, Bacolod	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		City, Negros Occidental					
	Depot	Lapuz, Iloilo City	Rented except Building & Facilities	Good	496,530.59	August 31, 2018	Renewable upon mutual agreement of both parties
	Depot	LIDE, Isabel, Leyte	Rented except Building & Facilities	Good	201,300.00	Yearly renewal	Renewable upon mutual agreement of both parties
	Depot	MEPZ, Lapu- lapu City	Rented except Building & Facilities	Good	56,280.00	August 31, 2020	Renewable upon mutual agreement of both parties
	Depot	Bo. Linao, Ormoc City, Leyte	Rented except Building & Facilities	Good	27,734.99	August 31, 2018 May 31, 2025	Renewable upon mutual agreement of both parties
	Depot	Arnaldo Blvd., Culasi, Roxas, City	Rented except Building & Facilities	Good	22,920.18	December 31, 2021	Renewable upon mutual agreement of both parties
	Depot	Anibong, Tacloban City	Rented except Building & Facilities	Good	12,907.54	August 31, 2018	Renewable at the option of the lessee
	Depot	Graham Ave., Tagbilaran, Bohol	Rented except Building & Facilities	Good	3,958.16	August 31, 2018	Renewable at the option of the lessee
	Depot	Km. 9, Bo. Pampanga, Davao City	Rented except Buildings & Facilities	Good	139,314.01	August 31, 2018	Renewable at the option of the lessee
	Depot	Purok Cabu, Bawing,	Rented except	Good		September	Renewable at the

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		General Santos City	Buildings & Facilities		257,961.73	01, 2035	option of the lessee
	Depot	Bo. Tuminobo, Iligan City, Lanao del Norte	Rented except Building & Facilities	Good	8,391.66	August 31, 2018	Renewable at the option of the lessee
	Depot	Jimenez, Misamis Occidental	Rented except Building and Facilities	Good	29,755.52	December 16, 2019	Renewable upon mutual agreement of both parties
	Depot	Talisay, Nasipit, Agusan del Norte	Rented except Building and Facilities	Good	514,103.00	January 1, 2038	Renewable upon mutual agreement of both parties
	Depot	Tagoloan, Misamis Oriental PNOC- 13,836 sq m	Rented except Building and Facilities	Good	12,036.42	August 31, 2018	Renewable at the option of the lessee
	Depot	Tagoloan, Misamis Oriental NVRC- 13,499 sq m.	Owned	Good			
	Depot	Bgy. Campo Islam, Lower Calarian, Zamboanga City	Rented except Building and Facilities	Good	25,133.65	August 31, 2018	Renewable at the option of the lessee
	Depot (LPG Operation)	Lakandula Drive, brgy. Bonot, Legaspi City	Rented except Building & Facilities	Good	38,056.60	August 31, 2018	Renewable at the option of the lessee
	Depot (Gasul - San Fernando)	San Fernando, Pampanga	Rented except Building and Facilities	Good	8,543.46	August 31, 2018	Renewable at the option of the lessee

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Sales Office	Roxas St., Brgy. Ilaya, Calapan City, Oriental Mindoro	Rented	Good	18,343.00		Renewable upon mutual agreement of both parties
	Sales Office	1020 A Mabini St., San Jose, Occidental Mindoro	Rented	Good	6,655.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Terminal	Bo. Mainaga, Mabini, Batangas	Rented except Building & Facilities	Good	35,000.00	August 31, 2018	Renewable at the option of the lessee
	Terminal	Petron Bataan Refinery, Limay, Bataan	Rented except Building & Facilities	Good	1,295.58	August 31, 2018	Renewable at the option of the lessee
	Terminal	Jesus St., Pandacan, Manila	Rented except Building & Facilities	Good	2,373,733.00	August 31, 2019	Renewable at the option of the lessee
	Terminal	Looc, Mandaue City, Cebu	Rented except Building & Facilities	Good	52,416.79	August 31, 2018	Renewable at the option of the lessee
	Terminal	Looc, Mandaue City, Cebu	Owned	Good			
	Terminal (Gasul – Pasig)	Bo. Ugong, Pasig, M.M	Rented except Building & Facilities	Good	842,309.29	August 31, 2018	Renewable at the option of the lessee

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Airport Installations	Davao Airport	Rented except Building & Facilities	Good	32,262.50	May 31, 2028	Renewable upon mutual agreement of both parties
	Airport Installations	Brgy. Airport, Mandurriao, Iloilo City	Rented except Building & Facilities	Good	17,625.00	May 31, 2015	Renewable upon mutual agreement of both parties
	Airport Installations	Laoag Airport Installation, Laoag Airport, Brgy. Araniw, Laoag City	Rented except Building & Facilities	Good	3,480.00	October 31, 2029	Renewable upon mutual agreement of both parties
	Airport Installations	NAIA Airport Installation (Petron) & JOCASP, JOCASP Compound, NAIA Complex, Pasay City	Rented except Building & Facilities	Good	361,946.73	December 31, 2035	Renewable at the option of the lessee
2	PETRON MALAYSIA REFINING & MARKETING BHD						
	<u>Refinery</u>						
	Port Dickson Refinery	Lot 2646 - Lot 2648, Port Dickson, Negeri Sembilan	Owned	Good			
	<u>Terminals and Depots</u>						
	Port Dickson Terminal	Batu 1.5, Jalan Pantai, 71009 Port dickson , Negeri Sembilan.	Owned	Good			
	Bagan Luar Terminal	LOT NO: 95-125 128 2328-2338 SEC 4	Owned	Good			

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
		Butterworth, Penang					
	KVDT- MPP (tie-in facilities for MPP/KVDT)	GM 1397 Lot 194 Mukim and Daerah Port Dickson Negeri Sembilan	Rented except Building & Facilities	Good	MYR 5,780	June 2016	Renewable upon mutual agreement of both parties
3	PETRON FUEL INTERNATIONAL SDN BHD						
	Kuantan Terminal	Lot 1836, Kem Sungai Karang, Tanjung Gelang, Kuantan Port, Kuantan. PAHANG	Rented	Good	Terminal 1 - MYR 15,689.2 Terminal 2 - MYR 10,806.80	Terminal 1 Dec 2027 Terminal 2 Dec 2017	Current rate is MYR10.96/sq.ft for first 3 years & shall be increased 10% every 3 years thereafter Current rate is MYR8.01/sq.ft for last 7 years (rate revised every 7 years). Land owner will propose new rate when closer to contract expiry date
	Pasir Gudang Terminal	Jalan Cecair Satu, Kawasan Perdagangan Bebas, Lembaga Pelabuhan Johor, 81707 Pasir Gudang, Johor.	Rented	Good	MYR 9,787.9	June 2051	An option for renewal for a period of thirty (30) years.
	Westport JV	Terminal Bersama Sdn	Rented	Good	MYR 54,994.50	Aug 2024	Renewable upon

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
		Bhd, Jeti Petrokimia, Pelabuhan Barat, 49290 Pulau Indah, Selangor					expiry of lease term
4	PETRON OIL (M) SDN BHD						
	Tawau Terminal	Jalan Tg Batu Laut, 91000 Tawau, SABAH	Rented except Building & Facilities	Good	MYR29.97	Oct 2902	No option stated in the agreement
	Sandakan Terminal	Jalan Kampung Karamunting, Sandakan, SABAH	Rented except Building & Facilities	Good	MYR 587.7	May 2022	No option stated in the agreement
	Sepangar Bay Terminal	P.O. Box 10558, Kota Kinabalu 88806, Sabah	Rented except Building & Facilities	Good	MYR 21,666.6	Dec 2015	An option for renewal for a period of thirty (30) years
POWER BUSINESS							
1	SAN MIGUEL ENERGY CORPORATION						
	1000MW Sual Coal-Fired Thermal Power Plant	Brgy. Pangascasan, Sual, Pangasinan	IPPA with PSALM	Good			
2	SOUTH PREMIERE POWER CORP.						
	1200MW Ilijan Natural Gas Combined Cycle Power Plant	Brgy. Ilijan, Batangas City, Batangas	IPPA with PSALM	Good			
3	STRATEGIC POWER DEVT. CORP.						
	345MW San Roque Multi-Purpose Hydroelectric Power Plant	Brgy. San Roque, San Manuel, Pangasinan	IPPA with PSALM	Good			

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
4	SMC POWERGEN INC.						
	2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant (Units 1 &3) and 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant (Units 4 &5 - ongoing construction)	Brgy. Lamao, Limay, Bataan	Owned	Good			
5	DAGUMA AGRO-MINERALS, INC.						
	Land	Tambler, General Santos City	Owned	Good			
6	SMC CONSOLIDATED POWER CORPORATION						
	2 X 150 MW Coal-Fired Power Plant	Barangay Lamao, Limay, Bataan	Plant-Owned	On-going construction of power plant			
7	SAN MIGUEL CONSOLIDATED POWER CORPORATION						
	2 X 150 MW Coal-Fired Power Plant	Barangay Culaman, Malita, Davao del Sur	Plant-Owned	On-going construction of power plant			
TELECOMMUNICATIONS BUSINESS							
1	BELL TELECOMMUNICATION PHILIPPINES, INC.						
	Base Station	Chrysantemum	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		St.Barangay Loma, Binan, Laguna					
	Warehouse	Soler corner Calero Street, Sta. Cruz, Manila	Owned	Good			
	Main Office	4F 808 Bldg. Meralco Avenue, Brgy. San Antonio, Pasig City	Owned	Good			
	Cell Site	Roof Deck SMC Head Office Building	Owned	Good			
	Cell Site	Roof Deck 808 Building Pasig City	Owned	Good			
	Colocation	3rd & 4th Floor Telecom Plaza Building	Owned	Good			
	Space Rental on Data Center	Telecom Plaza Building, Sen.Gil Puyat Ave., Makati City	Owned	Good			
	Space Rental on 6th Floor Office	6F Telecom Plaza Building, Sen.Gil Puyat Ave., Makati City	Owned	Good			
	Cell Site	160 Sauyo Road, Novaliches, Quezon City	Rented	Good	25,000.00	Sept. 21, 2024	Renewable upon mutual agreement of both parties
	Cell Site	18 Esguerra Street, Pinagbuhatan, Pasig City	Rented	Good	35,000.00	May 28, 2024	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Cell Site	108 Pioneer St., Brgy. 190, Zone 20, Don Carlos Village, Pasay City	Rented	Good	25,000.00	Oct. 26, 2024	Renewable upon mutual agreement of both parties
	Cell Site	19 Interior Aria St., Sta. Cecilia. Brgy. Talon Dos, Las Piñas City	Rented	Good	25,000.00	Oct. 31, 2024	Renewable upon mutual agreement of both parties
	Cell Site	20 Alcalde Jose St., Kapasigan, Pasig City	Rented	Good	25,000.00	Sept. 16, 2024	Renewable upon mutual agreement of both parties
	Cell Site	STA. ELENA COR. TABORA STS., SAN NICOLAS, MANILA	Rented	Good	33,000.00	June 04, 2024	Renewable upon mutual agreement of both parties
	Cell Site	293 Eduque St., Balut, Tondo, Manila	Rented	Good	25,000.00	June 10, 2024	Renewable upon mutual agreement of both parties
	Office Space	No. 40 San Miguel Avenue, Ortigas Center, Mandaluyong City	Owned	Good			
	Parking Space	40 San Miguel Avenue, Ortigas Center, Mandaluyong City	Owned	Good			
	Cell Site	4 St. Peter St., Brgy. 179, Zone 19, Maricaban, Pasay City	Rented	Good	25,000.00	Sept. 25, 2024	Renewable upon mutual agreement of both parties
	Cell Site	114 Circle Road, Santos Village, Zapote, Las Piñas	Rented	Good	25,000.00	June 18, 2024	Renewable upon mutual agreement

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		City					of both parties
	Cell Site	434 F. Legaspi St., Maybunga, Pasig City	Rented	Good	35,000.00	June 27, 2024	Renewable upon mutual agreement of both parties
	Cell Site	B26 L23 Blue Berry St., Good Harvest Park Subd., Brgy. 172, Caloocan City	Rented	Good	22,500.00	May 28, 2024	Renewable upon mutual agreement of both parties
	Cell Site	No. 1144 Kagitingan St., Brgy. 34 Zone 2, Tondo, Manila	Rented	Good	20,000.00	Dec. 8, 2024	Renewable upon mutual agreement of both parties
	Cell Site	18A Windgate Villa St., Brgy. Culiati, Quezon City	Rented	Good	25,000.00	Sept. 17, 2024	Renewable upon mutual agreement of both parties
	Cell Site	Blk. 7 Lot 11, Pinadama St., NGCHP Pilot Area, Brgy. Commonwealth, Quezon City	Rented	Good	25,000.00	Oct. 23, 2024	Renewable upon mutual agreement of both parties
	Cell Site	32-B Magat Salamat St., Brgy. Bagumbayan, Project 4, Quezon City, Zone 1	Rented	Good	25,000.00	June 08, 2024	Renewable upon mutual agreement of both parties
	Cell Site	Pasig Boulevard corner E. Rodriguez Jr. Avenue, Bagong Ilog, Pasig City	Rented	Good	45,000.00	Dec. 7, 2024	Renewable upon mutual agreement of both parties
	Cell Site	KM, 25 Quirino Highway,	Rented	Good		June 08,	Renewable upon

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Amparo Subd., Brgy. 179, Caloocan City			20,000.00	2024	mutual agreement of both parties
	Cell Site	No. 2311 Nickel St., Brgy. 773, San Andres Bukid, Sta. Ana, Manila	Rented	Good	25,000.00	December 09, 2024	Renewable upon mutual agreement of both parties
	Cell Site	Blk. 6, Lot 6 E. P. Village Phase 2, Brgy. Pinagsama, Taguig City	Rented	Good	25,000.00	Aug. 8, 2024	Renewable upon mutual agreement of both parties
	Cell Site	15 Olivia cor. Narcissus Sts. Brgy. Roxas District, Quezon City	Rented	Good	25,000.00	Oct. 1, 2024	Renewable upon mutual agreement of both parties
	Cell Site	B1 L4, Vanguard, Purok 7, Brgy. 178, Caloocan City	Rented	Good	20,000.00	Aug. 4, 2024	Renewable upon mutual agreement of both parties
	Cell Site	149 Ybardolaza, Scout De Guia, Brgy. Sacred Heart, Quezon City	Rented	Good	25,000.00	Nov. 3, 2024	Renewable upon mutual agreement of both parties
	Cell Site	ROXAS BLVD. CORNER DR. J. QUINTOS ST., ERMITA, MANILA, Zone 2	Rented	Good	35,000.00	Oct. 15, 2018	Renewable upon mutual agreement of both parties
	Cell Site	#8002 Industrial Road, Gov. Pascual Ave. Potrero, Malabon City	Rented	Good	34,590.00	Aug. 25, 2024	Renewable upon mutual agreement of both parties
	Cell Site	23 Santol St., Amparo Subd., Caloocan City	Rented	Good	15,000.00	Sept. 17, 2024	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Cell Site	115 North Bay Blvd., Brgy. North Bay Blvd., South, Navotas City	Rented	Good	40,000.00	June 04, 2024	Renewable upon mutual agreement of both parties
	NOTE: There are more than 200 co-located sites which Bell Telecommunication Philippines, Inc. entered into a sub-lease agreement with a related party.						
2	EASTERN TELECOMMUNICATIONS PHILIPPINES, INC.						
	Condominium Unit	Pearl Drive cor. Amethyst St., Brgy. San Antonio, Pasig City, Metro Manila	Owned	Good			
	Land/Building	Magenta Drive Corner Yellow St., Goodwill 2 Subdivision, Barangay San Dionisio, Paranaque City.	Owned	Good			
	Land	Lots 2080 & 2081 along M.H. Evangelista St., Barrio San Nicolas, San Antonio, Zambales	Owned	Good			
	Land/Building	Along Governor Drive Barangay Bancal, Carmona, Cavite	Owned	Good			
	Land/Building	No. 1861 P. Florentino Street, Sampaloc District,	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
		Manila					
	Condominium Unit	2nd Floor, Midland Plaza, Adriatico Street, Malate District City Manila	Owned	Good			
	Land/Building	Nasugbu, Batanggas	Owned	Good			
	Technical office	Telecoms Plaza, Sen. Gil Puyat Avenue Makati City, Metropolitan Manila	Buiding- Owned; Land-Rented	Good	76,160.00	July 22, 2018	Renewable upon mutual agreement of both parties
	Technical office	2nd Floor, National Press Club Building, Magallanes Drive, Intramuros, City of Manila	Rented	Good	50,005.56	February 28, 2015	Renewable upon mutual agreement of both parties
	Technical office	4th Floor, Araneta Square Mall, Bonifacio Monumento Circle, Caloocan City, Metropolitan Manila	Rented	Good	66,606.60	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Technical office	4th Floor, Old FTI Adminstration BLDG., Tauig City Metropolitan Manila	Rented	Good	19,471.00	December 31, 2015	Renewable upon mutual agreement of both parties
	Technical office	Carmela Industrial Complex Calamba, Laguna	Rented	Good	26,191.95	Continuing unless terminated and agreed by both	Renewable upon mutual agreement of both parties

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
						parties	
	Technical office	EPZA Compound, Rosario, Cavite	Rented	Good	13,481.79	December 31, 2014	Renewable upon mutual agreement of both parties
	Technical office	GoodWill II Subdivision, Parañaque City, Metropolitan Manila	Rented	Good	2,500.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Technical office	Skyfreight Building, NAIA Road, Parañaque City Metropolitan Manila	Rented	Good	23,982.90	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
3	TELECOMMUNICATIONS TECHNOLOGIES PHILS., INC.						
	Land	No. 120 Maharlika Highway (National Road), Brgy. Tallungan, Aparri, Cagayan	Owned	Good			
	Land	Calamaniugan-Sta. Ana Highway (National Road), Brgy. Bulala, Calamaniugan, Cagayan Valley	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Land	Maharlika Highway (National Road) Brgy. Bagumbayan, Lal-Lo, Cagayan Valley	Owned	Good			
	Land	No. 31 Rizal Street, Brgy. Centro 4 (Poblacion) Tuguegarao City	Owned	Good			
	Land	Cabaruan Road, Barrio Cabaruan, Cauayan, Isabela	Owned	Good			
	Land	Provincial Road, Brgy. Guinatan, Ilagan, Isabela	Owned	Good			
	Land	Judge Taguinod corner Tumanut Streets, Brgy. Villasis, Santiago City, Isabela	Owned	Good			
	Land	Aratal Street corner Maharlika Highway (Provincial Road), Barrio Roxas, Solano, Nueva Vizcaya	Owned	Good			
	Land	Dumlao Blvd. corner Basa St., Brgy. Don Domingo, Maddela, Bayombong, Nueva Vizcaya	Owned	Good			
	Land/Building	Jose Abad Santos Avenue, Tondo District,	Owned	Good			

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
		Manila					
	Land (Warehouse)	Corners of Comandante/Calero/Soler Streets, Sta. Cruz District, Manila (M3)	Owned	Good			
	Land	Corners of Heroes Del 96/M Arce/Calaanan Streets, Barangay Calaanan, Caloocan City (M4)	Owned	Good			
4	DOMINER POINTE, INC.						
	Office	Suite 402, Prestige Tower, F. Ortigas Jr. Road, Ortigas Center, Pasig City	Rented	Good	6,696.43	April 27, 2015	Renewable upon mutual agreement of both parties
	Core Site (Sta. Rosa)	Sta Rosa Industrial Complex Brgy Pulong Sta Cruz Sta Rosa City Laguna	Owned	Good			
	Warehouse	Dr. A. Santos Avenue, Barangay San Antonio, Paranaque City	Owned	Good			
	Core Site (Tipolo)	A. Del Rosario Ave., Brgy Tipolo, Mandaue City	Owned	Good			
5	SOMETE LOGISTICS AND DEVELOPMENT CORP.						

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Office	Suite 402, Prestige Tower, F. Ortigas Jr. Road, Ortigas Center, Pasig City	Rented	Good	6,696.43	April 27, 2015	Renewable upon mutual agreement of both parties
	Cell Site	Dr. A. Santos Avenue, Barangay San Antonio, Paranaque City	Owned	Good			
	Cell Site	Purok 6, Rivera Compound, Barangay Moonwalk Paranaque City	Rented	Good	14,018.69	January 6, 2023	Renewable upon mutual agreement of both parties
	Cell Site	Alphaland, Southgate Tower, 2258 Chino Roces Avenue Corner Edsa Makati City	Rented	Good	22,321.43	October 07, 2023	Renewable upon mutual agreement of both parties
	Cell Site	9-11 Waling -Waling St., Araneta, Industrial Subd., Brgy Potrero, Malabon city	Rented	Good	25,000.00	October 08, 2023	Renewable upon mutual agreement of both parties
	Cell Site	King Solomon cor Bueno St., Camarin, Caloocan City	Rented	Good	21,052.63	Oct 20, 2024	Renewable upon mutual agreement of both parties
	Cell Site	474-478 Jabonero St., San Nicolas, Manila	Rented	Good	61,842.11	July 22, 2019	Renewable upon mutual agreement of both parties
	Cell Site	216 218 Pablo Dela Cruz St., Brgy. San Bartolome,	Rented	Good	42,105.26	October 21, 2024	Renewable upon mutual agreement

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
		Novaliches, Quezon City					of both parties
	Cell Site	1068 Soler St., Brgy 293, Binondo, Manila	Rented	Good	35,000.00	September 24, 2024	Renewable upon mutual agreement of both parties
INFRASTRUCTURE BUSINESS							
1	SAN MIGUEL HOLDINGS CORP.						
	Office Space	Wing A 11/F San Miguel Properties Centre St. Francis St., Mandaluyong City	Owned	Good			
	Office Space	Wing B 11/F San Miguel Properties Centre St. Francis St., Mandaluyong City	Owned	Good			
2	OPTIMAL INFRASTRUCTURE DEVELOPMENT INC.						
	Land	Road Lot 14/Road 9 New Harbour Center, Tondo, Manila	Owned	Good			
3	RAPID THOUROUGHFARES INC.						
	Land	Brgy. Malipangpang, San Ildefonso Bulacan	Owned	Good			
	Land	Brgy. Sta. Arcadia, Cabantuan City, Nueva	Owned	Good			

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
		Ecija					
4	PRIVATE INFRA DEV CORPORATION						
	Condominium	Unit 6, Upper Ground, Pioneer Highlands Condominium, Tower 2, Pioneer corner Madison Streets, Mandaluyong City (inclusive of 3 Parking slots located at Basement 1 and Basement 3)	Owned	Good			
	Condominium (Parking Slots)	5 Parking Slots located at the Basement Level (B3 and B5) of Pioneer Highlands Condominium, Tower 2, Pioneer corner Madison Streets, Mandaluyong City	Owned	Good			
	Office Space	Satellite Office 3, Barangay Salcedo, San Manuel, Tarlac City	Provided by DMCI	Good			
	Lodging Facility (for additional SO3 technical staff - Project Assigned; Seconded)	Urdaneta Village Townhomes, McArthur Highway, Nancayasan, Urdaneta, Pangasinan	Rented	Good	20,000.00	February 28, 2015	Renewable on terms and conditions mutually agreed upon by both parties (contract for the extension until 28 February 2015 being finalized)

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Lodging Facility (for SO3 technical staff - Project Assigned; Seconded)	Magallanes Street, Urdaneta Village, Urdaneta, Pangasinan	Rented	Good	25,000.00	May 14, 2015	Renewable on terms and conditions mutually agreed upon by both parties (contract for the extension until 14 May 2015 being finalized)
	Office Space	Core Office, Barangay Amacalan, McArthur Highway, Gerona, Tarlac	Owned (Buildings & Structures Only)	Good			
	Office Space and Lodging Facility (for TPLEX ROW team)	Urdaneta Field Office, Del Prado Compound, Alexander street, Poblacion, Urdaneta City, Pangasinan	Rented	Good	10,000.00	December 31, 2015	Renewable on terms and conditions mutually agreed upon by both parties
	Patrol Base Detachment for Special Cofu Active Auxiliary (SCAA)	Transfer Certificate of Title No. 87440, Villasis, Pangasinan	Rented	Good	3,000.00	March 31, 2015	Renewable on terms and conditions mutually agreed upon by both parties
	Patrol Base Detachment for SCAA	Transfer Certificate of Title No. 19927, Barrio Nancolobasan, Urdaneta, Pangasinan	Rented	Good	3,000.00	May 04, 2015	Renewable on terms and conditions mutually agreed upon by both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Patrol Base Detachment for SCAA	Transfer Certificate of Title No. 248739, Urdaneta, Pangasinan	Rented	Good	3,000.00	May 07, 2015	Renewable on terms and conditions mutually agreed upon by both parties
	Patrol Base Detachment for SCAA	Anonas, Urdaneta City, Pangasinan	Rented	Good	4,500.00	May 10, 2015	Renewable on terms and conditions mutually agreed upon by both parties
	Lodging Facility (For entitled O&M staff - Permanent Relocation Assistance Program)	2 in Sitio Mabilog, Barangay San Pascual, Tarlac City and 2 in Poblacion II, Gerona, Tarlac	Rented	Good	20,000.00	September 30, 2015	Renewable on terms and conditions mutually agreed upon by both parties
5	TRANS AIRE DEVELOPMENT HOLDINGS, CORP.						
	Office Space	24/F San Miguel Properties Center, 7 St. Francis St., Ortigas Center, Mandaluyong City	Owned	Good			
	Office Space	Godofredo P. Ramos Airport, Caticlan, Malay, Aklan	Rented	Good	73,500.00	Sept. 30, 2016	Subject to renewal or extension as mutually agreed between the parties

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
	Staff House	Godofredo P. Ramos Airport, Caticlan, Malay, Aklan	Rented	Good	25,000.00	July 02, 2015	Subject to renewal or extension as mutually agreed between the parties
	AVSEC Barracks	Godofredo P. Ramos Airport, Caticlan, Malay, Aklan	Rented	Good	9,000.00	Dec. 14, 2015	Subject to renewal or extension as mutually agreed between the parties
6	UNIVERSAL LRT CORPORATION (BVI) LIMITED						
	Office Space	4th Floor, Pacific Star Bldg. Low Rise, Makati Avenue	Rented	Good	6,540.00	Continuing unless terminated and agreed by both parties	Subject to renewal or extension as mutually agreed between the parties
7	TERRAMINO HOLDINGS, INC						
	Office Space	Suite 2402 Discovery Center 25 ADB Avenue Ortigas Center Pasig City	Rented by Gerodias Suchianco Estrella Law Firm (Service Provider)	Good			
8	ALLOY MANILA TOLL EXPRESSWAYS INC.						

<i>Company Name / Subsidiary</i>		<i>Address</i>	<i>Rented / Owned</i>	<i>Condition</i>	<i>Monthly Rental (In PhP, Unless Otherwise Indicated)</i>	<i>Expiry of Lease Contract</i>	<i>Terms of Renewal/Options</i>
	Land	Km44 South Luzon Expressway North Bound, Sitio Latian, Brgy. Mapagong, Calamba City, Laguna	Owned	Good			
9	VERTEX TOLLWAYS DEVT. INC.						
	Office Space	#40 San Miguel Ave. Mandaluyong City	Owned	Good			
	PMO Office	DMCI Field Office Macapagal Blvd. Brgy. Tambo Paranaque City	Provided by DPWH				
10	STAR INFRASTRUCTURE DEVELOPMENT CORPORATION						
	Land	Brgy. Lapu Lapu Ibaan Batangas	Owned	Good			
	Office Space	7th floor Electra House Condominium, 115 - 117 Esteban St. Cor. via Rufino St. Legaspi Village, Makati City	Rented	Good	45,049.70	January 31, 2015	Renewable every two years
OTHERS							
1	SAN MIGUEL CORPORATION						
	Iligan Coconut Oil Mill	Sta.Filomena, Iligan City	Owned	Good			
	Land and Warehouse	A. Del Rosario Ave, Brgy.	Owned	Good			

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		Tipolo, Mandaue City					
	Land	Banilad Mandaue - Petron Station	Owned	Good			
	Land	Alfonso Cavite - Management Training Center	Owned	Good			
	Office Space	Meralco Ave., Pasig City - 808 Building	Owned	Good			
	Warehouse Only	Northbay Blvd., Navotas, Metro Manila	Owned	Good			
	Land	San Fernando Pampanga SMFI Poultry	Owned	Good			
	Office Space	San Miguel Ave., Mandaluyong City - SMC Corporate Office	Owned	Good			
	Land	San Rafael, Tarlac - Petron Station	Owned	Good			
	Land	Tagaytay- Petron Station	Owned	Good			
	Land	Tunasan - Petron Station	Owned	Good			
2	PROPERTIES BUSINESS						
	San Miguel Properties, Inc.						
	Bel Aldea Subdivision	Brgy. San Francisco, Gen. Trias, Cavite	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Maravilla Subdivision	Brgy. San Francisco, Gen. Trias, Cavite	Owned	Good			
	Asian Leaf Subdivision	Brgy. San Francisco, Gen. Trias, Cavite	Owned	Good			
	Office Spaces	San Miguel Properties Centre, Mandaluyong City	Owned	Good			
	Office Building	155 Edsa (SMITS), Ortigas Center, Mandaluyong City	Owned	Good			
	Land	620 Lee St., Mandaluyong City	Owned	Good			
	Land	San Isidro Road cor. Unnamed road lot, Brgy. Tatalon, Cabuyao, Laguna	Owned	Good			
	Land and Building	808 Bldg. Meralco Avenue corner General Lim St. Brgy. San Antonio, Pasig City	Owned	Good			
	Land	Filinvest Corporate City, Muntinlupa	Owned	Good			
	Land	Brgy. Canlubang and Majada, Calamba City, Laguna	Owned	Good			

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	Land	Bo. de Fuego, Gen. Trias, Cavite	Owned	Good			
	Land	Barrio Sinaliw Munti, Alfonso, Cavite	Owned	Good			
	Land	Barangays Of Mabatac, Sinaliw And Kaytitinga, Sitios Of Amuyong & Haulian, Alfonso, Cavite	Owned	Good			
	Land	Brgys. Lourdes and Santiago, Lubao, Pampanga	Owned	Good			
	Land	Brgy. Asid (Malinta), Masbate	Owned	Good			
	Land	Brgy. Tagabuli, Sta. Cruz, Davao del Sur	Owned	Good			
	Land	Sitio Landing, Brgy. Darong, Sta. Cruz, Davao del Sur	Owned	Good			
	Land	Brgy. Darong, Sta. Cruz, Davao del Sur	Owned	Good			
	Land	Brgy. Bato, Sta. Cruz, Davao del Sur	Owned	Good			
	Land	Brgy. Yapak, Boracay Island, Malay, Aklan	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Land	327 Brgy. Prenza-San Fermin, Cauayan City, Isabela	Owned	Good			
	Land	471 F. Ortigas St., Brgy. Hagdang Bato Libis, Mandaluyong City	Owned	Good			
	Land/Building/Improvements	San Miguel Corporation - Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City	Owned	Good			
	Land	Dr. A Santos Ave. (Sucat Road), Parañaque City	Owned	Good			
	Land	Brgy. Boot, Tanuan, Batangas	Owned	Good			
	Land	Brgy. Glamang (Silway), Polomolok, South Cotabato	Owned	Good			
	Land	Maragondon / Mabacao - Magallanes Road, Brgy. Mabato, Maragondon, Cavite	Owned	Good			
	Land	Acacia St., Brgy. Hagdang Bato, Mandaluyong City	Owned	Good			
	Land	Sixto Avenue, Maybunga, Pasig City	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Land	National Road, Barangay Bunawan, Davao City	Owned	Good			
	Bel-Aldea Realty, Inc.						
	Land and Building	No. 77 IPO St. Brgy. Paang Bundok, La Loma, Quezon City	Owned	Good			
	Bright Ventures Realty, Inc.						
	Land	A. Marcos cor M.H. del Pilar and A. Mabini Sts., Addition Hills, San Juan City	Owned	Good			
	Land	No. 168 Pilar Corner P. Zamora Sts., Brgy. Addition Hills, San Juan City	Owned	Good			
	Brillar Realty and Development Corp.						
	Land	Limbones Island, Brgy. Papaya, Nasugbu, Batangas	Owned	Good			
	Dimanyan Wakes Holdings, Inc.						
	Land	Bo. Bulalacao, Bulalacao Island, Coron, Palawan	Owned	Good			
	Busuanga Bay Holdings Inc.						

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	Land	Bo. Bulalacao, Bulalacao Island, Coron, Palawan	Owned	Good			
	Bulalacao Property Holdings, Inc.						
	Land	Bo. Bulalacao, Bulalacao Island, Coron, Palawan	Owned	Good			
	Calamian Prime Holdings, Inc.						
	Land	Bo. Bulalacao, Bulalacao Island, Coron, Palawan	Owned	Good			
	Palawan White Sands Holdings Corp.						
	Land	Bo. Bulalacao, Bulalacao Island, Coron, Palawan	Owned	Good			
	Coron Islands Holdings, Inc.						
	Land	Bo. Bulalacao, Bulalacao Island, Coron, Palawan	Owned	Good			
	Rapidshare Realty and Development Corporation						
	Land	341 Northwestern St., Brgy. Wack-Wack, Greenhills, Mandaluyong City	Owned	Good			
	SMC Originals, Inc.						
	Land	Antonio Arnaiz Avenue	Owned	Good			

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		corner Estacion St., Brgy. Pio del Pilar, Makati City					
	Silang Resources, Inc.						
	Land	Brgy. Biluso, Silang, Cavite	Owned	Good			
	Tanauan Resources, Inc.						
	Land	No. 34 McKinley Road, Brgy. Forbes Park (North Side), Makati City	Owned	Good			
	SMPI Makati Flagship Realty Corp.						
	Land and Building	117 Legaspi and Gallardo Sts., Legaspi Village, Makati City	Owned	Good			
	Carnell Realty, Inc.						
	Land	621 Lee St., Mandaluyong City	Owned	Good			
	Grandioso Realty Corporation						
	Land	Brgy. Tumbler, General Santos City	Owned	Good			
	Sta. Cruz Resource Management, Inc.						
	Land and Building	No. 50 Mercedes Cor. Hydra St., Bel-Air 3, Makati City	Owned	Good			

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	Maison 17 Properties, Inc.						
	Land	116 Legaspi and Gallardo Sts., Legaspi Village, Makati City	Owned	Good			
	Integrated Geosolutions, Inc.						
	Land	Bo.Diezmo, Cabuyao, Laguna	Owned	Good			
	Legacy Homes, Inc.						
	Land	Brgy. Bungoy, Dolores, Quezon	Owned	Good			
	Excel Unified Land Resources Corp.						
	Wedge Woods Subdivision	Silang, Cavite	Owned	Good			
	512 Acacia Holdings, Inc.						
	Land	512 Acacia Ave., Ayala Alabang Village Phase II- A, Barangay Alabang, Muntinlupa City	Owned	Good			
	La Verduras Realty Corp.						
	Land	No.28 Delgado Street, San Antonio Village, Pasig City	Owned	Good			
	First Monte Sierra Realty Corporation						

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	Land	Brgy. San Antonio, Basco, Batanes	Owned	Good			
	Lanes and Bi-Ways Realty Corp.						
	Land	403 Columbia St., East Greenhills, Mandaluyong City	Owned	Good			
	Premiata Realty, Inc.						
	Land	52 Mercedes cor 61 Aries, Bel Air 3, Makati City	Owned	Good			
	Picanto de Alta Realty Corp.						
	Land	1331 J.P. Laurel St. Brgy. 643 Zone 066, San Miguel District, Manila	Owned	Good			
	Kingsborough Realty, Inc.						
	Land	37 Gen. Delgado St., San Antonio Village, Pasig City	Owned	Good			
3	PACIFIC CENTRAL PROPERTIES, INC.						
	Land	Limay, Combined Power Plant, Limay Bataan	Owned	Good			
	Land	Dauin, Negros Oriental	Owned	Good			

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	Land	Outlook Drive, Baguio City	Owned	Good			
4	SMC SHIPPING AND LIGHTERAGE CORP.						
	Land	Cortes, Bohol	Owned	Good			
	Land	Sucat, Paranaque City	Owned	Good			
	Land	Mariveles Bataan Lot #1 and #2 - Barrio of Lucanin, Municipality of Mariveles, Province Of Bataan	Owned	Good			
	Land	Mariveles Bataan Lot #1 and #2 - Barrio of Lucanin, Municipality of Mariveles, Province Of Bataan	Owned	Good			
	Land	Mariveles Bataan Lot #3 - Barrio of Agnipa & Cabcaban, Municipality of Mariveles, Province of Bataan	Owned	Good			
	Land	B4 Lot9 North Harbour, City of Manila	Owned	Good			
	Building (Admin Buildings, Warehouses, Terminals, Parking Shed, Loading Bay)	Ouano Wharf, Looc, Manduae City	Owned	Good			

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	Building (KCSLI)	Dad cleland avenue, Looc, Lapu Lapu City	Owned	Good			
5	SM BULK WATER CO., INC.						
	Land	Bobulusan, Guinobatan, Albay	Owned	Good			
	Land	Brgy. Batang, Ligao City	Owned	Good			
6	SMC STOCK TRANSFER SERVICE CORPORATION						
	Office Space	Units 1505-07 Robinsons Equitable Tower ADB Avenue cor. Poveda, Ortigas Center, Pasig City	Owned	Good			
	Parking Space	Parking slots No. 31, 32 & 33 Robinsons Equitable Tower ADB Avenue cor. Poveda, Ortigas Center, Pasig City	Owned	Good			
Note: All owned properties are free of liens and encumbrances.							

Parties to the Offer

Issuer	SAN MIGUEL CORPORATION 40 San Miguel Avenue, Mandaluyong City
Joint Lead Underwriters	BDO CAPITAL & INVESTMENT CORPORATION 20th Floor, South Tower, BDO Corporate Center 7899 Makati Avenue, Makati City BPI CAPITAL CORPORATION 8th Floor, BPI Building 6750 Ayala Avenue corner Paseo de Roxas, Makati City CHINA BANKING CORPORATION China Bank Building 8745 Paseo de Roxas cor. Villar St., Makati City 1226 THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED HSBC Centre, 3058 Fifth Avenue West, Bonifacio Global City, Taguig City ING BANK N.V., MANILA BRANCH 20/F Tower One and Exchange Plaza, Ayala Triangle Ayala Avenue, 1226 Makati City PNB CAPITAL AND INVESTMENT CORPORATION 9 th Floor PNB Financial Center President Diosdado Macapagal Boulevard, Pasay City 1300 RCBC CAPITAL CORPORATION 21/F Tower 2, RCBC Plaza 6819 Ayala Ave. Makati City 0727 SB CAPITAL INVESTMENT CORPORATION 18/F Security Bank Centre, 6776 Ayala Ave., Makati City, 0719 STANDARD CHARTERED BANK 8/F Standard Chartered Bank Building, 6788 Ayala Ave., Makati City 1226
Co-Lead Managers	FIRST METRO INVESTMENT CORPORATION 45/F GT Tower International, 6813 Ayala Avenue corner H.V. dela Costa Street, Makati City UNITED COCONUT PLANTERS BANK UCPB Corporate Offices, 7907 Makati Avenue, Makati City
Co-Manager	ASIA UNITED BANK Joy Nostalg Center, No. 17 ADB Avenue, Ortigas Center, Pasig City
Selling Agents	THE TRADING PARTICIPANTS OF THE PHILIPPINE STOCK EXCHANGE, INC.

BANK OF COMMERCE

Ground Floor, San Miguel Properties Buidling,
No. 7 St. Francis Street, Mandaluyong City

**Legal Counsel to the
Issuer**

PICAZO BUYCO TAN FIDER & SANTOS

Penthouse, Liberty Center
104 H. V. dela Costa Street, Salcedo Village, Makati
City

**Legal Counsel to the
Joint Lead
Underwriters and
Bookrunners**

SYCIP SALAZAR HERNANDEZ & GATMAITAN

Sycip Law Center
105 Paseo de Roxas, Makati City

**Receiving Agent,
Registrar and Paying
Agent**

SMC STOCK TRANSFER SERVICE CORPORATION

Podium Level, SMC Head Office
40 San Miguel Avenue, Mandaluyong City

Depository Bank

BANK OF COMMERCE

Ground Floor, San Miguel Properties Building
No. 7 St. Francis Street, Mandaluyong City

Independent Auditors

R.G. MANABAT & CO.

The KPMG Center
5th Floor, 6787 Ayala Avenue
Makati City