SAN MIGUEL CORPORATION

40 San Miguel Avenue Mandaluyong City, Philippines 1550

Shelf Registration in the Philippines of
Fixed Rate Bonds in the aggregate principal amount
of up to ₱60,000,000,000.00

to be offered within a period of three (3) years
at an Issue Price of 100% of Face Value

to be listed and traded through the
Philippine Dealing & Exchange Corp.

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 February 10, 2017

SAN MIGUEL CORPORATION

40 San Miguel Avenue Mandaluyong City, Philippines 1550

Shelf Registration in the Philippines of

Fixed Rate Bonds in the aggregate principal amount

of up to ₱60,000,000,000.00

to be offered within a period of three (3) years

at an Issue Price of 100% of Face Value

to be listed and traded through the

Philippine Dealing & Exchange Corp.

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 February 10, 2017

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

This Prospectus ("this Prospectus" and, as the context may require, the term includes the relevant Offer Supplement) relates to the shelf registration and each offer and sale in the Philippines within the Shelf Period as defined below (each an "Offer") of fixed rate bonds (the "Bonds") with an aggregate principal amount of up to Sixty Billion Pesos (₱60,000,000,000.00) by San Miguel Corporation ("SMC", the "Company", the "Parent Company", or the "Issuer"), a corporation duly organized and existing under Philippine law. The Bonds will be issued at face-value ("Issue Price") and listed and traded through the Philippine Dealing & Exchange Corp. ("PDEx").

The Bonds shall be issued in tranches within a period of three (3) years from the effective date of the Registration Statement of the Bonds, subject to applicable regulations (the "Shelf Period"). The offer and sale of the Bonds, including the terms and conditions for each tranche shall be at the sole discretion of the Company. The specific terms of the Bonds for each tranche will be determined by the Company considering the prevailing market conditions and shall be provided in a supplement to be circulated at the time of the offer of the relevant tranche (the "Offer Supplement").

For each tranche of the Bonds, the Company shall distribute an Offer Supplement along with this Prospectus. The relevant Offer Supplement will contain the final terms for an offer of the Bonds and must be read in conjunction with this Prospectus and other Bond Agreements. Full information on the Issuer and such offer of the Bonds is only available through this Prospectus, the relevant Offer Supplement, and the other Bond Agreements. All information contained in this Prospectus are deemed incorporated by reference in an Offer Supplement.

The use of proceeds for each Offer will be set out in the relevant Offer Supplement.

The Company may declare dividends at the discretion of the Board of Directors of the Company (the "Board of Directors") and will depend upon the future results of operations and general financial condition and 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 that the Board of Directors may deem relevant.

On November 10, 2016, the Board of Directors authorized the sale and offer of the Bonds during the Shelf Period under such terms and conditions as the management of SMC may deem advantageous to it (the "Enabling Resolutions").

On December 12, 2016, the Company filed an application with the Philippine Securities and Exchange Commission ("SEC") to register the Bonds under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) ("SRC"). On February 13, 2017, the SEC issued an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the initial tranche of the Bonds, and any subsequent offering under the relevant rules requires the submission by the Company of the relevant updates and amendments to the Registration Statement and the issuance of the corresponding permit to sell by the SEC. As a listed company, SMC regularly disseminates such updates and information in its disclosures to the SEC and The Philippine Stock Exchange, Inc. ("PSE").

The Company will apply for the listing of the Bonds in the Philippine Dealing & Exchange Corp. ("PDEx"). However, there is no assurance that such a listing will be achieved either before or after the relevant issue date of the Bonds being offered at a particular time or whether such a listing will materially affect the liquidity of the Bonds on the secondary market. Such listing will be subject to the Company's execution of a listing agreement with PDEx that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis

The Bonds will be offered to the public through underwriters that may be engaged by the Company for each Offer (the "Underwriters"). The Company reserves the right to withdraw any offer and sale of the Bonds at any time, and the Underwriters reserve the right to reject any application to purchase the Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Bonds sought by such purchaser. If an offer of the Bonds is withdrawn or discontinued, the Company shall subsequently notify the

SEC and, as applicable, the PDEx. The Underwriters, any participating underwriter, co-manager and selling agent for any offer of the Bonds may acquire for their own account a portion of the Bonds.

No 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 Underwriters.

The Bonds will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and Offer Supplement and the offer and sale of the Bonds may, in certain jurisdictions, be restricted by law. The Company and the Underwriters 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.

The price of securities, such as the Bonds, 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. An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider several risk factors relating to the Company's business and operations, risks relating to the Philippines and risks relating to the Bonds, as set out in "Risk Factors" found on page 27 of this Prospectus, in addition to the other information contained in this Prospectus and the Offer Supplement, in deciding whether to invest in the Bonds. The risk disclosure discussion does not purport to disclose all the risks and other significant aspects of investing in the Bonds. A person contemplating an investment in the Bonds 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.

Unless otherwise stated, the information contained in this Prospectus has been supplied by SMC. 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.

All information in the Prospectus is as of the date hereof, unless otherwise indicated. 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 the Company does not make 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 each 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 or the Underwriters, or their respective affiliates or legal advisers, that any recipient of this Prospectus should purchase the Bonds. Each person contemplating an investment in the Bonds 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 Bonds. A person contemplating an investment in the Bonds 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 Bonds 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 Bonds, see the section on "Risks Factors" starting on page 27.

The Company owns land as identified in the section on Description of Property on page 137. 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.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CURRENT.

SAN MIGUEL CORPORATION

By:

RAMON S. ANG
President and Chief Operating Officer

REPUBLIC OF THE PHILIPPINES)
MANDALUYONG CITY, METRO MANILA) S.S.

SUBSCRIBED AND SWORN to before me this FEB / 0 2017 in Mandaluyong City, affiant exhibiting to me his Passport No. EC3542718 expiring on February 26, 2020 as competent evidence of identity.

Doc No. 284;
Page No. 58;
Book No. I;
Series of 2017.

PAULA KATHERINA A. GAN
Commission No. 0308-17
Notary Public for Mandaluyong City
Until Dec. 31, 2018
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 3024239; 01/04/17; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15; Q.C.

Table of Contents

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, 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 Underwriters 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 B.V. including as the context requires, its subsidiaries
AAIPC …………….	Atlantic Aurum Investments Philippines Corporation
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
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-Transfer
BTO …………….	Build-Transfer-Operate
BSP …………….	Bangko Sentral ng Pilipinas
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
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.
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
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
Fahrenheit Research .	Fahrenheit Research (M) Sdn. Bhd
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
K-Water …………….	Korea Water Resources Corporation
Kirin …………….	Kirin Holdings Company, Limited
LGU …………….	Local government unit
Livestock and Poultry	The Philippine Livestock and Poultry Feeds Act,

Feeds Act …………….	including its implementing rules and regulations
LPG …………….	Liquefied petroleum gas
Magnolia …………….	Magnolia Inc.
MNHPI …………….	Manila North Harbour Port, 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 …………….	Mass 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
Offer Supplement ….	The document which sets out the terms and conditions for each Offer
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.
PDTC …………….	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 Corp.
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.
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 Investment Holdings, Inc.
TPLEX	…………….	Tarlac–Pangasinan–La Union Expressway
TransCo	…………….	National Transmission Corporation
TRB	…………….	Toll Regulatory Board of the Philippines
Underwriters	………	Underwriters that may be engaged by the Company for each Offer
Universal LRT	..…….	Universal LRT Corporation (BVI) Limited
VAT	…………….	Value added tax
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, together with its subsidiaries (collectively 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 5.1% of the Philippine gross domestic product in 2015.

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 in the fuel and oil, energy, infrastructure, and investment in banking. 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 PSE.

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 third quarter of 2016, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure and banking industries.

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses with 22,311 regular employees and more than 100 production facilities in the Asia-Pacific region as of September 30, 2016. 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 and Nihon Yamamura Glass Company, Ltd. ("NYG") for packaging products.

Major developments in the SMC Group are discussed in *Management's Discussion and Analysis of Results of Operation and Financial Condition*, found on page 1855.

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 six (6) production facilities 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 also operates 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 household, institutional and foodservice 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 also has a presence in Indonesia and Vietnam.

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 Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds.

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"), SMC Yamamura Fuso Molds Inc. ("SYMFC"), Can Asia, Inc. ("CAI") 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, Polyethylene Terephthalate ("PET") and other packaging products and services such as beverage tolling for PET bottles and aluminum cans. The packaging business is the major source of packaging requirements of the other business units of SMC. It also supplies its products to customers across the Asia-Pacific region, the United States, South Africa, Australia and the Middle East, as well as to major multinational corporations in the Philippines, including Coca-Cola Femsa Philippines, Inc., Nestle Philippines and Pepsi Cola Products Philippines, Inc.

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, Vietnam, Indonesia and Thailand.

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 Corporation ("Petron"), which is involved in refining 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 an overall market share of 32.8% of the Philippine oil market for the year ended December 31, 2015, in terms of sales volume based on Petron estimates using its internal assumptions and calculation and industry data from 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 by earning income from billboards and locators, which are largely situated within the premises of the service stations.

In Malaysia, Petron ranked third in the retail market with a 17.4% shared as of March 31, 2016, based on Petron estimates using its internal assumptions and calculations and industry data from Fahrenheit Research (M) Sdn. Bhd ("Fahrenheit Research"), a market research consultant appointed by Malaysian retail market participants to compile industry data.

Petron owns and manages the most extensive oil distribution infrastructure with 30 depots, terminals and airport installations and approximately 2,241 retail service stations in the Philippines, and 9 product terminals, one depot and a network of approximately 575 retail service stations in Malaysia, as of September 30, 2016. Petron also exports various petroleum products and petrochemical feedstock, including 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 Philippines. 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 its fuel oil production 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 clean 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 megawatts ("MW"), pursuant to the Independent Power Producer Administrator ("IPPA") agreements with Power Sector Assets and Liabilities Management Corporation ("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 4 x 35 MW cogeneration 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 on another coal-fired power plant in Limay, Bataan, both of which will have an initial capacity of 300 MW each. These power plants are expected to be commercially available by end of 2016 and early 2017.

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 September 30, 2016, 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 the Boracay Airport. In addition, it has the concession right to construct, operate and maintain the Mass Rail Transit Line 7 ("MRT-7") and has recently invested in Manila North Harbour Port Inc.

TPLEX

SMHC, through its subsidiary, Rapid Thoroughfares, Inc. ("Rapid"), owns a 70.11% equity interest in Private Infra Dev Corporation ("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 99.80% interest of SMHC in Trans Aire Development Holdings Corp. ("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. ("CTCII") has an effective 100.0% 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 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, 2015, SMHC has a 95.0% stake in Atlantic Aurum Investments B.V. ("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 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.
Skyway Stage 4

Skyway Stage 4 is a 34.81 km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 serves as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis. The project covers a concession period of 30 years (from start of operations), with an estimated cost of ₱52,704 million. Target completion date is 2022.

MRT-7

In October 2010, SMC, through SMHC, acquired a 51.0% stake in Universal LRT Corporation (BVI) Limited ("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 and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX.

As of July 1, 2016, SMC, through SMHC holds 100% ownership in Universal LRT.

Bulacan Bulk Water Supply Project

The Bulacan Bulk Water Supply Project aims to provide clean and potable water to the province of Bulacan that is environmentally sustainable and with a price that is equitable. The project also aims to help various water districts in Bulacan to meet the increasing water demand of consumers, expand its current service area coverage and increase the number of households served by providing a reliable source of treated bulk water. The project proponent will serve as the concessionaire for a period of 30 years (inclusive of the 2-year construction period) and has an estimated cost of ₱7,850 million for Stage 1 and 2. The target completion of the project is Q3 2018.

Manila North Harbor

Manila North Harbour Port, Inc. ("MNHPI") is the terminal operator of Manila North Harbor, a 52-hectare port facility situated at Tondo, City of Manila. The port has a total quay length of 5,200 meters and forty-one (41) berths which can accommodate all types of vessels such as containerized and non-container type vessels. Under the Contract for the Development, Operation and Maintenance of the Manila North Harbor entered with the Philippine Ports Authority on November 19, 2009, the Philippine Ports Authority awarded MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years, renewable for another 25 years. MNHPI commenced operations on April 12, 2010.

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 Southeast Asian Nations ("ASEAN") briefing, the Philippines announced a gross domestic product growth of 5.8% in 2015 and according to the International Monetary Fund ("IMF"), the Philippines is expected to experience a strong gross domestic product growth at the rate of 6.4% for 2016. 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 5.1% of the Philippine gross domestic product in 2015, 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, 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 90.0% by volume in 2015, according to Canadean data, with no significant changes thereafter. SMB has held this position since 1999. Ginebra is the market leader in the gin segment and also produces some of the most recognizable brands in the Philippine liquor market. SMC 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 foodservice customers. According to Nielsen, San Miguel Pure Foods has a 28% share of market in the Trade animal feeds industry as of June 2016. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38% for poultry and 35% for fresh meats (based on sow population of large commercial farms) as of December 2015 and 17% for flour as of June 2016. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 58% for hotdogs sold in Philippine supermarkets, 86% in the chicken nugget product category, and market shares of 40% for butter, 99% for refrigerated margarine, 16% for cheese, in each case based on value as of June 2016. According to Nielsen, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine as of June 2016. 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 advertising 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 32.8% of the Philippine oil market for the year ended December 31, 2015 in terms of sales volume based Petron's estimates using its internal assumptions and calculations and industry data from the DOE. In the first quarter of 2016, Petron also has a 17.4% share of the Malaysian retail market, based on Petron's estimates using its internal assumptions and calculations and industry data from Farenheit Research estimates, a market research consultant appointed by Malaysian retail market participants to compile industry data.

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 September 30, 2016, 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 cogeneration). 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 55.6% 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. SMC, together with K-Water, won the public bidding for the Bulacan Bulk Water project. This project will involve the supply of treated bulk water to 24 different water districts to the province of Bulacan. SMHC has also recently invested in MNHPI, the terminal operator of Manila North Harbor.

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.

Operating businesses provide sustainable stream of income and cash flows

The beverage, food and packaging businesses provide SMC with a sustainable stream of income. 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 2015, the core businesses of beverage, food and packaging businesses provided 33.8% of total SMC sales and 39.8% of total SMC earnings before interest, taxes, depreciation and amortization ("EBITDA"). For the period ending September 30, 2016, core businesses provided 36.1% of total SMC sales and 34.9% of total SMC EBITDA.

For the period ending September 30, 2016, SMC generated ₱96,381 million of EBITDA and ₱25,921 million of net income attributable to the Parent Company with ₱28,275 million of capital expenditure. In 2015, SMC generated ₱110,309 million of EBITDA and ₱12,448 million of net income attributable to the Parent Company with ₱59,973 million of capital expenditure. In 2014, it generated ₱88,542 million of EBITDA and ₱15,137 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 ₱38,517 million of net income attributable to the Parent Company with ₱65,865 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 also 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 and foreign exchange 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 increased its production of higher margin products with the completion of RMP-2. The RMP-2 is the second phase of a refinery expansion project, which includes further enhancements to its operational efficiencies, increase in conversion capability and reduce production of lower-value products. In addition to RMP-2 and the expansion of the service station network, Petron is operating the new coal cogeneration power plant to supply the power requirements of the Limay Refinery that replaced some of the existing turbo and steam generators. The new coal cogeneration 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 the 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.

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:

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, the absence of a liquid secondary market and volatility, and other risks relating to the Offer.

(For a more detailed discussion, see "*Risk Factors*" on page 27)

Use of Proceeds

The intended use of proceeds for each offer of the Bonds being offered shall be set in the relevant Offer Supplement under "*Use of Proceeds"*.

Offer Supplement

For each Offer, the Company shall distribute the Offer Supplement which shall be disclosed to the public through the filing with the SEC and the PSE and made available for download from the website of SMC specifically, in http://www.sanmiguel.com.ph.

The Offer Supplement shall contain the following information:

(a) description of each Offer, timetable, offer size of the specific offering, the applicable interest rate and the mode of settlement of the offering;
(b) capital structure of the Company after the offering;
(c) any changes to the risk factors and tax consequences of the offering;
(d) description of the specific distribution and underwriting arrangements; and

(e) amount and use of proceeds.

Plan of Distribution

SMC plans to undertake each Offer to institutional and retail investors through a public offering to be conducted through the Underwriters (for a more detailed discussion, see the relevant Offer Supplement).

Summary of Financial Information

Prospective purchasers of the Offer 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 (3) years ended December 31, 2015, 2014 and 2013 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, 2015, 2014 and 2013 are found on Appendix "B" of this Prospectus and the nine (9) months ended September 30, 2016 and 2015 are found on Appendix "A" of this Prospectus.

The summary of financial and operating information of SMC presented below as of and for the years ended December 31, 2015, 2014 and 2013 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 nine months ended September 30, 2016 and 2015 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 nine months ended September 30,	
	2013	**2014**	**2015**	**2015**	**2016**
		(Audited)		**(Unaudited)**	
	(in millions except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Sales	₱ 747,303	₱ 773,723	₱673,925	₱503,302	₱498,312
Cost of sales	630,892	660,913	532,923	401,550	367,110
Gross profit	116,411	112,810	141,002	101,752	131,202
Selling and administrative expenses	(60,690)	(57,035)	(62,319)	(42,733)	(57,965)
Interest expense and other financing charges	(30,970)	(29,710)	(32,521)	(24,110)	(25,324)
Interest income	3,539	4,012	4,315	3,265	2,769
Equity in net earnings (losses) of associates and joint ventures	(502)	1,701	(386)	(83)	210
Gain on sale of investments and property and equipment	41,192	777	(81)	75	104
Other income (charges) – Net	(14,087)	6,307	(4,073)	(8,033)	(6,010)
Income before income tax from continuing operations	54,893	38,862	45,937	30,133	44,986
Income tax expense	3,700	10,284	16,944	9,960	13,851
Income from continuing operations	-	-	-	20,173	31,135
Income(Loss) after income tax from discontinued operations	-	-	-	(1,091)	11,818
Net income	₱51,193	₱28,578	₱ 28,993	₱19,082	₱42,953
Attributable to:					
Equity holders of the Parent Company	₱ 38,517	₱ 15,137	₱12,448	₱6,304	₱25,921
Non-controlling interests	12,676	13,441	16,545	12,778	17,032
	₱51,193	₱ 28,578	₱ 28,993	₱ 19,082	₱42,953
Earnings per common share attributable to equity holders of the Parent Company basic	₱ 13.63	₱3.80	₱ 2.53	₱1.01	₱3.85
Earnings per common share attributable to equity holders of the Parent Company diluted	₱ 13.55	₱ 3.78	₱ 2.53	₱1.00	₱3.84

	As of the years ended December 31,			As of the nine months ended September 30,
	(Audited) (in millions except per share figures or where otherwise indicated)			(Unaudited)
	2013	2014	2015	2016
Consolidated Statements of Financial Position Data				
Assets				
Total current assets	₱ 480,221	₱ 530,450	₱ 422,611	₱456,773
Total non-current assets	689,482	687,039	823,411	818,002
Total assets	₱ 1,169,703	₱ 1,217,489	₱ 1,246,022	₱1,274,775
Liabilities and Equity				
Current liabilities				
Total current liabilities	₱ 335,546	₱ 354,411	₱ 319,719	₱287,312
Total non-current liabilities	468,764	473,158	541,426	553,516
Equity				
Equity attributable to equity holders of the Parent Company	237,324	240,900	238,137	283,275
Non-controlling interests	128,069	149,020	146,740	150,672
Total equity	365,393	389,920	384,877	433,947
Total liabilities and equity	₱ 1,169,703	₱ 1,217,489	₱ 1,246,022	₱1,274,775

	For the years ended December 31,			For the nine months ended September 30,	
	2013	2014	2015	2015	2016
	(Audited)			(Unaudited)	
	(in millions except per share figures or where otherwise indicated)				
Cash Flow Data					
Net cash provided by (used in):					
Operating activities	₱ 47,199	₱39,432	₱ 67,039	₱35,324	₱46,445
Investing activities	(24,679)	17,505	(58,818)	(31,909)	(21,225)
Financing activities	42,563	9,904	(88,253)	(70,117)	(31,771)
Effect of exchange rates changes in cash and cash equivalents	1,023	152	2,184	2,744	2,045
Net increase/(decrease) in cash and cash equivalents	66,106	66,993	(77,848)	(63,958)	(4,506)
Cash and cash equivalents at beginning of year	125,507	191,613	258,606	258,606	180,758
Cash and cash equivalents at end of period	₱191,613	₱ 258,606	₱ 180,758	₱ 194,648	₱176,252

Summary of the Offer

A discussion containing the "*Summary of the Offer*" shall be set out in the relevant Offer Supplement. However, any such summary should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus and such Offer Supplement, including, but not limited to, the discussion on the "*Description of the Offer Bonds*" and "*Plan of Distribution*", and agreements executed in connection with a particular offer of Bonds as a whole. Such overview may not contain all of the information that prospective investors should consider before deciding to invest in the Bonds. Accordingly, any decision by a prospective investor to invest in the Bonds should be based on a consideration of this Prospectus, such Offer Supplement and agreements executed in connection with a particular offer of Bonds as a whole.

Description of the Bonds

The detailed terms and conditions of each Offer shall be set out in the relevant Offer Supplement under "*Description of the Offer Bonds*". However, any such discussion under "*Description of the Offer Bonds*" does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors of SMC, the information contained in this Prospectus, the relevant Offer Supplement and other agreements relevant to each Offer and to perform their own independent investigation and analysis of the Issuer and the Bonds. Prospective Bondholders must make their own appraisal of the Issuer and the offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in each Offer. They must not rely solely on any statement or on the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Bonds being offered.

Risk Factors

General Risk Warning

An investment in the Bonds 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 Bonds. 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, and results of operations of the Company and cause the market price of the Bonds to decline. All or part of an investment in the Bonds could be lost. Investors deal in a range of investments each of which may carry a different level of risk. This section entitled "Risk Factors and Other Considerations" does not purport to disclose all of the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may request publicly available information on the Bonds and the Company from the SEC. Each Investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of, the securities to be invested in or the nature of risks involved in the trading of securities.

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Prospectus, including the audited financial statements of the Company and notes relating thereto included in this Prospectus, before making any investment decision relating to the Bonds. The occurrence of any of the events discussed below and any additional risks and uncertainties not currently known to SMC or that are currently considered immaterial could have a material adverse effect on the business, results of operations, financial condition and prospects of SMC and prospective investors may lose all or part of their investment.

The means by which the Company plans to address the risks discussed herein are principally presented in the sections of this Prospectus entitled "Description of Business - Strengths of the Company," "Description of Business - Business Strategies" and "Management Discussion and Analysis of Results of Operations and Financial Condition."

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 and SMC from the SEC and PDEx.

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. 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, 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 Investment Holdings Inc. (“Top Frontier”) and Privado Holdings Corp. (“Privado”) are the major shareholders of SMC and hold approximately 66.09% and 15.69% of the common shares of SMC, respectively, and collectively control approximately 81.78% of the voting rights of the common shares of SMC, as of September 30, 2016. 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, and NYG for a number of packaging products. 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 Créme*, *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 Program 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 September 30, 2016, approximately 17.0% of the employees of the SMC Group were parties to various collective bargaining agreements and there are 33 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 of relevant government agencies, 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 139 and *Compliance with Environmental Laws* on page 61.

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"). 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 60.

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 60 and "*The Company - Competitive Strengths - Strong Commitment to Product Innovation*" on page 78.

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

A significant portion of the sales of the SMC Group (78.7%) is denominated in Philippine Peso in 2015, 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 September 30, 2016, the percentage of outstanding debt of the SMC Group denominated in foreign currencies was 42.6%.

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 57.

Covenants in existing debt agreements

The existing debt agreements of the Company contain various covenants and a cross-default clause in relation to indebtedness of a material subsidiary of the Company. Under such cross-default clause, if a default by such material subsidiary under its debt agreement is not cured or waived, the default could result in the default by the Company under its own existing debt agreements. Moreover, the ability of the Company and its subsidiaries to comply with covenants contained in their respective debt agreements may be affected by events beyond the control of the Company or its subsidiaries, including but not limited to prevailing economic, financial and industry conditions. Even if the Company is able to comply with all of the applicable covenants and potential defaults by it or its subsidiaries may be cured or waived, any default by the Company on its existing debt agreements or an occurrence of a cross-default could adversely affect the business of the Company by, among other things, limiting its ability to take advantage of financing and investment opportunities that may be beneficial to the Company and to the SMC Group.

The cross-default clause is subject to monetary thresholds and cure periods as agreed with the relevant lenders and to compliance with procedural requirements before the Company can be declared in default under such debt instruments. Moreover, to mitigate this risk, the Company exercises prudent financial risk management and has an established system to regularly monitor and ensure compliance by the Company and its subsidiaries with their respective debt and financing covenants.

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 60.

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

Majority of the beverage drinkers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. The alcoholic beverage market in the Philippines is highly price elastic. If the business raises the prices of its products, sales volumes will likely decline or slow down. In the case of the beer business, subsequent price increases were implemented to cover for higher business costs and the annual increase in excise taxes beginning January 2013. This slowed down sales performance in 2013 albeit volume recovery was noted beginning 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 is subject to an excise tax, and increases in excise taxes or VAT, may reduce overall consumption of the SMB's products, SMB's profit margins or both. On January 1, 2013, the Philippine government implemented a new excise tax structure, i.e., a two-tiered tax structure with annual rate increases and gradual transition to unitary rate by 2017. Additional non-scheduled increases in excise tax or VAT rates are also possible. Previous increases in excise tax rates have adversely affected the SMB's sales volume. The scheduled increases in excise tax or other taxes to which SMB is subject to may (i) reduce consumption of SMB's products if passed on to the consumers by way of upward price adjustments, (ii) reduce the SMB's margins if prices remain unchanged, or (iii) have both such effects if additional taxes are not fully passed on to the consumers.

Proposed legislation imposing tax on sweetened beverages, may slow down consumption of SMB's ready-to-drink juice and ready-to-drink tea products and reduce the company's profit margins if approved and implemented if prices remain unchanged or not fully passed on to the consumers.

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

SMB operates in a competitive environment and faces competition from domestic or local producers, which sells both its own brand and foreign brands it produces under license, and from foreign brewers. SMB competes with producers of other alcoholic beverages, primarily gin, rum, brandy and alcopops which are close substitutes to beer.

SMB also faces competition from well-established and dominant players in the various segments of the non-alcoholic beverage industry (i.e., ready-to-drink juice, ready-to-drink tea, bottled water and pure juice).

In the broader 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 also competes with other discretionary items, including both other food and beverage products and other goods and services generally. The consolidation of SMB's competitors, the entrance of a new, larger competitor into the markets, or unanticipated actions or irrational behavior by existing competitors, could lead to downward pressure on prices or a decline in the SMB's market share.

Production difficulties

Although SMB continuously seeks to enhance the efficiency and manufacturing capabilities of its production facilities, SMB may, from time to time, experience production difficulties that may cause shortages and delays in deliveries, as is common in the manufacturing industry. If SMB will be unable to increase the efficiency and manufacturing capabilities of its production facilities in line with increased customer demand in the future, this may adversely and materially affect its business and operations. Furthermore, SMB may have to incur significant additional capital expenditures in the future to be able to meet increasing demand for its products.

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, including those of San Miguel Pure Foods had experienced outbreaks of disease in the past such as Porcine Epidemic Diarrhea, Porcine Reproductive and Respiratory Syndrome and Actinobacillus Pleuropneumonia for hogs and Fowl Cholera and Newcastle Disease for broilers which negatively affected farm efficiencies.

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 growing operations, bird proofing to prevent the entry of other birds into its poultry farms and implementation of strict visitor screening and sanitation procedures for entry into 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 92.

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 unreasonable 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 60.

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. 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, fats, rinds, and skin resulting in a tariff rate of 5.0% to 10% 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 due to the outbreak of Foot and Mouth Disease. If this ban were to be lifted in the future, San Miguel Pure Foods would face competition from lower-priced Chinese imports.

Based on news articles, some imported flour is being sold at a lower price per bag versus the locally milled wheat flour. The Philippine Association of Flour Millers Inc. ("PAFMIL") sought an investigation as it believes that the prices of some of the imported flour in the Philippines are lower than the retail prices in their country of origin. After further review, the Tariff Commission imposed a five-year anti-dumping duty of up to 16.19% on some imported wheat flour which resulted in a reduction of imported flour in the domestic market.

San Miguel Pure Foods employs least cost production including improving the production efficiencies, use of alternative raw materials and optimizing the grain terminal output as well as develops new offerings that can compete against the imported products as measures to address such competition. If San Miguel Pure Foods is unable to compete effectively with lower priced imports, its market share and sales may decrease, and its business, financial condition, results of operations and prospects could be materially and adversely affected. For more information, please see discussion on "*Food Business - Business Strategies - Improve profitability through cost leadership*" on page 81.

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 the price of crude oil and petroleum products

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 the crude oil that is the main raw material for these refined petroleum products. Crude oil accounted for approximately 56% and approximately 45% of the total cost of goods sold of Petron in 2015 and in the first nine months of 2016, respectively.

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 example, in the latter part of 2014, the global oil market was especially volatile with crude oil prices plunging by as much as approximately US$40/bbl in just four months. Dubai crude oil price declined from an average of approximately US$102/bbl in August 2014 to an average of approximately US$60/bbl in December 2014. The volatility continued, albeit at a more gradual manner, with oil prices extending their downward trend throughout 2015 until January 2016 when Dubai crude oil price reached a bottom of approximately US$23/bbl. Thereafter, crude prices steadily recovered with Dubai crude oil price averaging US$46/bbl in June 2016.

Petron holds approximately two (2) months' worth of crude oil and finished petroleum products inventory in the Philippines and two (2) weeks for Malaysia. 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. The Philippine government has historically intervened to restrict increases in the prices of petroleum products in the Philippines from time to time. For example, on October 2, 2009, then-President Gloria Macapagal-Arroyo declared a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng." President Arroyo subsequently issued Executive Order 839 mandating that prices of petroleum products in Luzon be kept at October 15, 2009 levels effective October 23, 2009. As a result of this price freeze, Petron was unable to raise prices for its refined petroleum products, which adversely affected its profitability during the period until the price freeze was lifted on November 16, 2009. 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 of its 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 relies primarily on a small number of suppliers for a significant portion of its crude oil requirements in the Philippines and Malaysia.

Petron purchases a significant portion of the crude oil for its Philippine operations from Saudi Arabian Oil Company ("Saudi Aramco"). Petron has a term contract with Saudi Aramco entered into in 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 the Petron or Saudi Aramco decides to terminate the contract upon at least 60 days' written notice prior to its expiration date. As of September 30, 2016, neither the Petron nor Saudi Aramco has terminated the contract.

In addition, the company also purchases a significant portion of the crude oil for its Philippine operations from Kuwait Petroleum Corporation ("KPC"). Petron has a contract with KPC to purchase various Kuwait crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. As of September 30, 2016, neither Petron nor KPC has terminated the contract.

Petron completed RMP-2 for the Limay Refinery in the fourth quarter of 2014 and declared commercial operations in January 2016. RMP-2 has increased the total crude oil requirements of the Limay Refinery and improved its flexibility to digest heavier, more sour crude, allowing Petron to expand its crude sourcing. To meet the increased demand, Petron needs to purchase more crude, including Saudi Aramco crude and Kuwait crude. The supply of crude oil by Saudi Aramco and KPC is subject to a variety of factors beyond Petron's control, including political developments in and the stability of Saudi Arabia, Kuwait 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, the company purchases a significant portion of the crude oil supply requirements for its refinery in Port Dickson, Malaysia (the "Port

Dickson Refinery") from ExxonMobil Exploration and Production Malaysia, Inc. ("EMEPMI") pursuant to a long-term supply contract. A disruption in the operations of Saudi Aramco, of KPC or of EMEPMI, or a decision by any of Saudi Aramco, KPC or EMEPMI to amend or terminate their respective contracts with the company, could negatively impact its crude oil supply. If the supply of crude oil from Saudi Aramco, KPC or EMEPMI were disrupted, Petron would be required to meet any consequent supply shortfall through other suppliers or spot market purchases.

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 to provide additional value to the company. The completion of the RMP-2 has given the Limay Refinery greater flexibility to use heavier, more sour alternative crude. The Port Dickson Refinery is designed to process sweet crude oil. Petron's crude oil optimization strategy for the Port Dickson Refinery includes diversification in processing different types of sweet crude oil. However, there can be no assurance that Petron will be able to successfully implement its crude oil optimization strategies and diversify to using other crude oil efficiently or in a timely manner.

If Petron is unable to obtain an adequate supply of crude oil or is only able to obtain such supply at unfavorable prices, its margins and results of operations would be materially and adversely affected.

The business, financial condition and results of operations of Petron may be adversely affected by intense competition and cyclicality in global and regional refining capacities.

Petron faces intense competition in the sale of petroleum and other related products in the markets in which it operates. Petron competes with a number of multinational, national, regional and local competitors in the refined petroleum products business for market share of petroleum products sales. See "*Business—Competition*" for more information about the competition faced by the company. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Participants in the reseller and LPG sectors in the Philippines continue to rely on aggressive pricing and discounting in order to expand their market share. The Malaysian operations of Petron are subject to government price controls, as a result of which competition in those market sectors that are subject to government quotas is based primarily on the allocation of the applicable quotas by the Malaysian government. See "*—The fuel business in Malaysia is regulated by the Malaysian government, and Petron is affected by Malaysian government policies and regulations relating to the marketing of fuel products*."

The competitiveness of Petron will depend on its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations and comply with and obtain additional quotas from the Malaysian government. If the company is unable to compete effectively with its competitors, its financial condition and results of operations, as well as its business prospects could be materially and adversely affected.

In addition, the Philippine oil industry is affected by ongoing smuggling and illegal trading of petroleum products. These illegal activities have resulted in decreases in sales volume and sales price for legitimate oil market participants in the Philippines. Petron's ability to compete effectively will depend to a degree on the proper enforcement of Philippine regulations by the Philippine government, which is beyond its control.

Furthermore, the global and regional refining industry has historically experienced periods of tight supply, resulting in increased prices and margins, as well as periods of substantial capacity additions, resulting in oversupply and reduced prices and margins. Any downturn in prices or margins resulting from existing or future excess industry capacity could have a material adverse impact on the business, financial condition and results of operations of Petron.

Any significant disruption in operations or casualty loss at the refineries of Petron could adversely affect its business and results of operations and result in potential liabilities.

Petron's operation of its refineries and implementation of its expansion plans could be adversely affected by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, fires, explosions, release of toxic fumes, engineering and environmental problems, natural disasters and other unforeseen circumstances and problems. For example, in November 2008, the main electrical facilities in the utilities area of the Limay Refinery were damaged by a fire, which necessitated repairs and resulted in higher maintenance and repair costs for 2009.

These types of disruptions could result in product run-outs, facility shutdowns, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of Petron. There can be no assurance that operational disruptions will not occur in the future or that insurance will adequately cover the entire scope or extent of the losses or other financial impact on the Company.

Petron has insurance policies that cover majority of its assets and operations in order to mitigate the potential impact of risks. The policies include property damage, marine cargo, third party liability, personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption. Petron self-insures some risks which have a low probability of occurring and for which insurance policies are not readily available or are priced unreasonably high.

The fuel business in Malaysia is regulated by the Malaysian government, and Petron is affected by Malaysian government policies and regulations relating to the marketing of fuel products.

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the automatic pricing mechanism ("APM"), pursuant to which it 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. See "*Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011*." The Malaysian government may subsidize fuel prices so that increases in international crude oil prices are not borne fully by Malaysian consumers. Effective December 1, 2014, the Malaysian government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 petroleum and diesel on a monthly basis based on the Mean of Platts Singapore ("MOPS") for the previous month. If government-mandated prices are lower than the total built-up cost of Petron, it receives subsidies from the Malaysian government. Conversely, if government-mandated prices are higher than the Petron's total built-up cost, it pays duties to the Malaysian government. See "*Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011.*" A substantial portion of the revenue of Petron has been derived from sales of refined petroleum products in Malaysia that are subject to price controls.

In addition, the sale of diesel in Malaysia is subject to a quota system that applies to oil companies and eligible users and customers to ensure that subsidized diesel sold at service stations (meant strictly for road transport vehicles) is not sold illegally to industrial or commercial customers at unregulated prices. Diesel sales at service stations that exceed the volumes permitted under the company's or its customers' quotas are not eligible for government subsidies. Accordingly, in instances when the government-mandated prices are lower than the total built-up costs of Petron, the company endeavors to limit diesel sales to volumes covered by the quotas. See "*Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011.*" There can be no assurance that the Malaysian government will increase quotas, grant applications or not decrease Petron's quotas or those of any of its customers in the future. A substantial portion of the Petron's revenue is derived from sales of diesel in Malaysia that are subject to the quota system. Accordingly, if the Malaysian government decreases or does not increase its quotas or those of any of its selected transportation sector customers, the financial condition and results of operations of Petron may be materially and adversely affected.

Continued compliance with safety, health, environmental and zoning laws and regulations may adversely affect the results of operations and financial condition of Petron.

The operations of the fuel and oil business are subject to a number of national and local laws and regulations in the countries in which it operates, including safety, health, environmental and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, the storage, handling, discharge and disposal of waste, the location of storage facilities, and other aspects of the business of the company. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against Petron, including the revocation or suspension of the licenses or operation of its facilities.

Petron has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, it has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations. For example, the company built a light virgin naphtha isomerization unit and a gas oil hydrotreater in 2006 to ensure that the Limay Refinery complied with the standards mandated by the Philippine Clean Air Act of 1999 *the "Clean Air Act"). See "*Regulatory and Environmental Matters—Philippines*." Additional facilities were also built to comply with environmental requirements mainly in relation to the RMP-2. These included a refinery wastewater treatment plant, sour water stripping facilities, sulphur recovery units, a flue gas desulfurizer and a flare system. There can be no assurance that Petron will be in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental and zoning matters, the costs of which could be material.

In addition, safety, health, environmental and zoning laws and regulations in the Philippines and Malaysia have become increasingly stringent. There can be no assurance that the adoption of new safety, health, environmental and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in the Petron being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities. For example, in November 2001, the City of Manila, citing concerns of safety, security and health, passed an ordinance reclassifying the area occupied by Petron's main storage facility in Pandacan, Manila, from industrial to commercial, thereby prohibiting the continued operation of the facility in Pandacan as a petroleum storage facility and necessitating a relocation to other alternative sites in Luzon. In accordance with the Supreme Court decision in the case relating to the petroleum storage facilities in Pandacan, Petron ceased operations of its petroleum storage facilities in Pandacan in August 2015. Petron also decided to eventually relocate its lubricant blending plant located in Pandacan to another site.

Another example is that the Euro IV-standard fuels became mandatory in the Philippines in 2016. In Malaysia, the government is considering implementation of Euro 4M and Euro 5M fuels in phases: Euro 4M for RON 97 by September 1, 2015, Euro 4M for RON 95 by October 1, 2018, Euro 5M (sulfur specification only) for diesel by September 1, 2020, and Euro 5M for RON 95 and RON 97 by January 1, 2025. See "*Regulatory and Environmental Matters—Malaysia—Environmental Laws—Environmental Quality Act, 1974*." Petron has made and is making capital expenditures to ensure that its refineries comply with Euro IV standards, Euro 4M and Euro 5M standards, as applicable, as these standards are mandated by the Philippine and Malaysian governments, respectively. If Petron fails to complete its planned refinery upgrades or enhancements on time, it may have to import additional products in the spot market to blend with its own production to ensure compliance with the relevant standards, which could have a material adverse effect on the financial condition and results of operations of Petron.

In addition, if the measures implemented by Petron to comply with applicable laws, regulations and standards are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose it to potential liabilities, including administrative penalties. If Petron 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 Petron and damage to its reputation, as well as orders that could limit or affect its operations. There is no assurance that Petron will not become involved in future litigation or other proceedings relating to safety, health and environmental matters. Litigation or other proceedings are inherently unpredictable and may be time-consuming and disruptive to the business and operations, regardless of the merits of the claims. There is no assurance that Petron will not be held responsible in any such future litigation or other proceedings, the costs of which could be material. Environmental compliance and remediation costs at sites on which the Petron's facilities are located or other locations and related litigation and other proceedings could materially and adversely affect the financial condition and results of operations of Petron.

Failure to respond quickly and effectively to product substitution or government-mandated product formulations may adversely affect the business and prospects of Petron.

Any potential increase in oil prices and environmental concerns could make it more attractive for the customers to switch to alternative fuels such as natural gas, ethanol and palm oil methyl ester fuel blends. 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 government has enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline and diesel fuels sold or distributed by every oil company in the Philippines, and these types of requirements may be increased in the future. In Malaysia, the government initially mandated that all diesel used for automotive purposes be comprised of 5% palm oil methyl ester. This was subsequently increased to 7% in the second half of 2014. 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.

The business strategies of Petron require significant capital expenditures, financing, and expansion of marketing and logistical support, which are subject to a number of risks and uncertainties, and its financial condition and results of operations may be adversely affected by its debt levels.

Petron's business is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures. Petron's ability to maintain and increase its sales, net income and cash flows may be affected by the timely and successful completion of its planned capital expenditure projects. Petron's current business strategies involve, among others, (i) continued investment in the Limay Refinery to support the increased utilization from RMP-2 and improve refinery operations; (ii) continued expansion of its retail service station, LPG and lubes network in the Philippines; (iii) expansion and upgrade of its logistics capacity; and (iv) expansion of Malaysia operations with new service station additions and facilities improvement in Port Dickson Refinery to enable it to produce Euro 5M-standard fuels. If Petron fails to complete its planned capital expenditure projects on time or within budget or at all, 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, results of operations and financial condition could be adversely affected. Furthermore, there can be no assurance that following the completion of the RMP-2, the Limay Refinery will run at the expected capacity or achieve the expected production profile, or that there will be sufficient demand and logistical support for the Petron's increased production. Any of the foregoing factors could adversely affect the Petron's business, financial condition and results of operations.

In addition, Petron has incurred a substantial amount of debt to finance its capital expenditure projects, a significant portion of which is due in five years or less. Petron's 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 the 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 or at all. Failure by the Petron to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

Changes in applicable taxes, duties and tariffs could increase Petron's operating costs and adversely affect its business, results of operations and financial condition.

Petron's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, duties for the import of crude oil and petroleum products into the Philippines were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% VAT on the sale or importation of petroleum products in 2006. Malaysia's system of import duties and sales taxes was replaced by a goods and service tax effective April 1, 2015. There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on s business, financial condition and results of operations of Petron.

Risks Relating to the Energy Business

Increased competition

The Government has sought to implement measures designed to enhance the competitive landscape of the power market, particularly for the unregulated sectors of the industry. These measures include the privatization of NPC-owned-and-controlled power generation assets, the establishment of the WESM, the start of the Retail Competition and Open Access ("RCOA"), and implementation of mandatory Competitive Selection Process (CSP) for Distribution Utilities. Further, Republic Act No. 10667 or the Philippine Competition Act was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development.

The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources, and may have more extensive experience than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. These competitors may therefore 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 them to produce electricity at a lower cost and to sell electricity at a lower price. SMC Global Power may therefore be unable to meet the competitive challenges it will face.

As a result of increased competition, SMC Global Power could also come under pressure to review or renegotiate the terms of existing offtake agreements with customers, which may lead to an adjustment of tarrifs, and the business, financial performance and results of operations of SMC Global Power could be adversely affected. To the extent that distribution utilities of industrial offtakers agree to purchase from other generation companies instead of purchasing from SMC Global Power, the ability of SMC Global Power to increase its sales and sell additional electricity to distribution utilities or industrial offtakes through its generation facilities would be adversely affected.

SMC Global Power, through its subsidiaries, has a diversified portfolio which allows it to be more competitive with its supply offers. It is also managed by an experienced management team composed of experts with 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 cultivate its good working relationship with its offtakers which ensures continuity of its customer base.

Disruptions in fuel supply

The operations of the Sual Power Plant, Limay Cogeneration Power Plant, Ilijan Power Plant, Limay Greenfield Power Plant, and Davao Greenfield Power Plant depend on the availability of fuel, in particular coal and natural gas. SMC Global Power, through its subsidiaries, is responsible, at the cost of the latter, for supplying the fuel requirement of these power plants except for Ilijan Power Plant. SMC Global Power, though its subsidiaries, has entered into fuel supply agreements for its power plants. For example, SCPC has existing coal supply agreements with internationally recognized coal suppliers, such as PT Bayan Resources TBK ("Bayan") and PT Kaltim Prima Coal ("KPC").

There is no assurance that there will not be any interruption or disruption in, or change in terms of, the fuel supplies to these power plants, or that there will be sufficient fuel in the open market or sufficient transportation capacity available to ensure that these power plants receive sufficient fuel supplies for their operations on a timely basis or at all. There is also no assurance that SMC Global Power, through its subsidiaries, will be able to purchase all of its required fuel supplies from its regular suppliers that produce fuel of acceptable and known quality. Consequently, SMC Global Power could experience difficulties ensuring a consistent quality of fuel, which could negatively affect the stability and performance of these power plants. Such factors, which may include events which are beyond the control of SMC Global Power, could affect the normal operation of these power plants which could have material adverse effect on the business, financial condition and results of operations of SMC Global Power.

SMC Global Power through its subsidiaries has fuel supply agreements with recognized, reputable, and reliable domestic and international coal suppliers, such as but not limited to PT Bukit Asam (Persero) TBK, Glencore International AG, PT Trubaindo Coal Ming, Noble Resources International Pte. Ltd., Vitol Asia Pte. Ltd., PT Katlim Prima Coal, Avra Commodities Pte. Ltd., and Bayan, for its power plants. The diversity of coal suppliers of SMC Global Power provides assurance of fuel supply limiting any issues with any specific region or supplier. For Natural Gas, NPC/Psalm is contractually obligated to deliver supply of fuel to the Ilijan Power Plant under the IPPA Agreement. SMC Global Power has no direct relationship with the supplier of natural gas. However, events of shutdown or gas restrictions can be interpreted as a force majeure or may be covered by the outage provisions of the downstream Power Supply Agreements ("PSAs") of SPPC, limiting any adverse effects to SMC Global Power of disruptions in the supply of natural gas.

Reliance on Independent Power Producers for the operation and maintenance of the IPPA Power Plants

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. Independent Power Producers ("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, through its subsidiaries, 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") and RSCs may have a right to terminate those contracts for outages beyond applicable outage allowances in the PSCs, and replacement contracts may not be entered into on comparable terms or at all. 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 IPP partners in operating its existing power portfolio by monitoring their adherence to the minimum operating protocols specified in the IPPA and ECAs in line with international best practices.

Market limitations under the EPIRA

Based on the latest ERC data as of September 30, 2016, SMC Global Power, through its IPPA and IPP subsidiaries, 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.[1] 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 prescribed by the EPIRA. Such inability to expand and grow the power business could materially and adversely affect the business 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 the current levels, SMC Global Power is within the market share cap even with the addition of its greenfield power projects under construction today.

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 projects. 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.

Under the Engineering, Procurement and Construction ("EPC") contracts, SMC Global Power will be indemnified in the event of delay and/or default of the EPC Contractor. To ensure timely deliver and performance, the EPC Contracts provide for a schedule of payments of the contract price based on agreed milestones. SMC Global Power checks on the accomplishments of the EPC Contractor prior to the release of the corresponding payment per milestone.

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-

[1] Market share is computed by dividing the total capacity of the Company (2,903,000 kW) with the installed generating capacity of Luzon grid or national grid (13,057,758 kW and 17,585,167 kW, respectively) from ERC Resolution No. 3 Series of 2015.

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 (1^{st}) was filed on July 20, 2012, which was subsequently amended on October 24, 2012, and the second (2^{nd}) 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.

SIDC also submitted a letter dated October 28, 2014 requesting the TRB to approve the implementation of the toll rate increase for the additional works for Stage 2 Phase 2. SIDC has already provided all the required certificates and requirements needed by TRB for the approval of implementation of adjusted toll rate. Up to the present, the TRB has not yet acted on the request for the one-time increase in toll rate of ₱1.361/km due to be implemented upon completion of Stage 2 Phase 2 Additional Lanes of STAR Tollway in 2014.

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 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 2015, the SMC Group sales of about 5.1% 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.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position of SMC.

Acts of terrorism, clashes with separatist groups and violent crimes

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 lead 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 Bond Offering

The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant financial markets; and (v) 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.

An active or liquid trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Even if the Bonds are listed on the PDEx, trading in securities such as the Bonds may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors, which may affect liquidity. Although the Bonds are intended to be listed on PDEx as soon as reasonably practicable, no assurance can be given that an active trading market for the Bonds will develop and, if such a market were to develop the Joint Issue Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities.

The Company has no control over this risk as active trading of the Bonds is highly dependent on the bondholders.

The Issuer may be unable to redeem the Bonds.

At maturity, the Issuer will be required to redeem all of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The failure by the Issuer to repay, repurchase or redeem tendered Bonds would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Issuer.

The Issuer has a very strong business franchise in the Philippines. It has a strong recurring cash flow and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Issuer believes that it has sufficient resources which will allow it to service the principal and interest of the Bonds.

Holders of the Bonds may not be able to reinvest at a similar return on investment.

Prior to the relevant maturity dates of the Bonds, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Bonds on the relevant Optional Redemption Dates (see "*Description of the Offer Bonds*" in the relevant Offer Supplement). In the event that the Company exercises this early redemption option, all Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

The Bondholder may face possible gain or loss if the Bonds are sold at the secondary market.

As with all fixed income securities, the Bonds' market values move (either up or down) depending on the change in interest rates. The Bonds when sold in the secondary market are worth more if interest rates decrease since the Bonds have a higher interest rate relative to the market. Likewise, if the prevailing interest rate increases, the Bonds are worth less when sold in the secondary market. Therefore, holders may either make a gain or incur a loss when they decide to sell the Bonds.

The Bonds may not be able to retain its credit rating.

There is no assurance that the rating of the Bonds will be retained throughout the life of the Bonds. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

The Bonds have no preference under Article 2244(14) of the Civil Code.

No other loan or other debt facility currently or to be entered into by the Issuer shall have preference of priority over the Bonds as accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines, and all banks and lenders under any such loans or facilities that are notarized have waived the right to the benefit of any such preference or priority. However, should any bank or bondholder hereinafter have a preference or priority over the Bonds as a result of notarization, then the Issuer shall at the Issuer's option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds as may be practicable.

Use of Proceeds

The intended use of proceeds for each offer of Bonds being offered shall be set in the relevant Offer Supplement under "*Use of Proceeds*".

Determination of Offer Price

Each series of the Bonds shall be issued on a fully paid basis and at an issue price that is at par.

Plan of Distribution

The detailed plan of distribution and underwriting arrangement for each offer of Bonds shall be set out in the relevant Offer Supplement.

Capitalization

The unaudited consolidated short-term and long-term debt and capitalization of the Issuer as of the relevant period shall be set out in the relevant Offer Supplement.

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 5.1% of the Philippine gross domestic product in 2015. 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, and investment in banking. 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 September 30, 2016, SMC had a market capitalization of ₱194,224 million, with a common share price of ₱81.60. The consolidated sales and recurring EBITDA of SMC in 2015 were ₱673,925 million and ₱110,309 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, 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 PSE.

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, and banking industries.

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 90% in 2015, according to the Canadean data, with no sigfinicant change thereafter. 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 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 household, institutional and foodservice customers. The food business is conducted through San Miguel Pure Foods. In addition to its Philippine operations, the food business has presence in Indonesia and Vietnam.

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 Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds.

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 an overall market share of 32.8% of the Philippine oil market for the year ended December 31, 2015 in terms of sales volume, based on Petron's estimate using its internal assumptions and calculations and industry data from 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 2,241 service stations in the Philippines as of September 30, 2016. 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, nine (9) product terminals, one depot and a network of approximately 575 service stations as of September 30, 2016. Petron holds a 17.4% share of the retail market as of the first quarter of 2016, based on Petron's estimates using its internal assumption and calculations and industry data from Fahrenheit Research, a 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 cogeneration 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 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 based on the latest available ERC data as of September 30, 2016. 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. It also has a stake in Manila North Harbour Port, Inc.

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

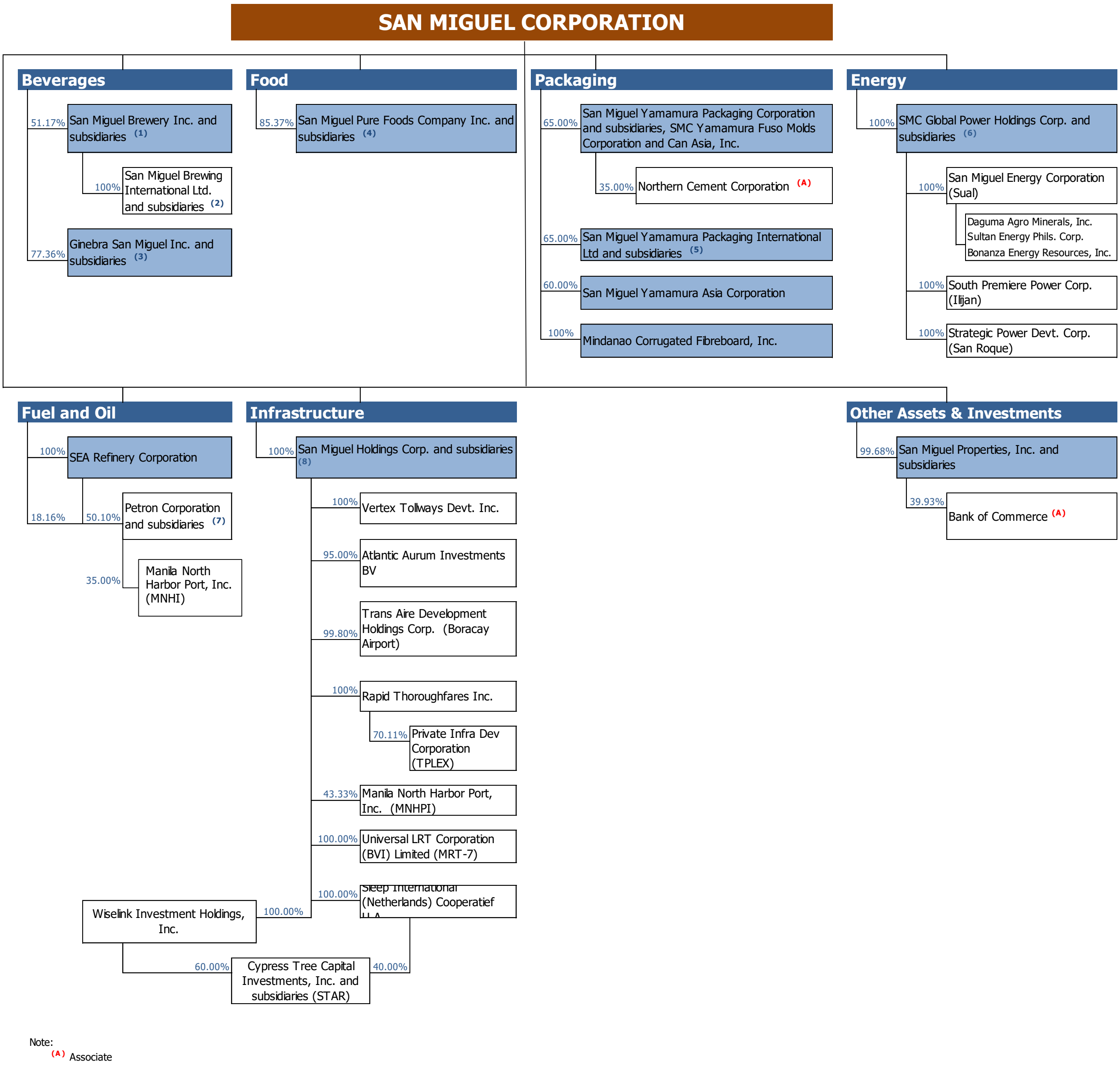
	2013		2014		2015		As of and for the Nine Months Ended September 30, 2016	
	Revenues	**%**	**Revenues**	**%**	**Revenues**	**%**	**Revenues**	**%**
	(in millions)		(in millions)		(in millions)		(in millions)	
Beverages	₱ 89,452	12.0%	₱ 94,516	12.2%	₱ 99,002	14.7%	₱ 82,500	16.6%
Food	99,773	13.4%	102,999	13.3%	106,860	15.9%	80,582	16.2%
Packaging	25,187	3.4%	24,226	3.1%	25,050	3.7%	19,749	4.0%
Energy	74,044	9.9%	84,294	10.9%	77,507	11.5%	60,700	12.2%
Fuel and Oil	463,638	62.0%	482,535	62.4%	360,178	53.4%	247,770	49.7%
Infrastructure	5,503	0.7%	922	0.1%	13,288	2.0%	14,672	2.9%
Other Operations, Investments and Eliminations	(10,294)	(1.4%)	(15,769)	(2.0%)	(7,960)	(1.2%)	(7,661)	(1.6%)
Total	**₱ 747,303**	**100.0%**	**₱ 773,723**	**100.0%**	**₱673,925**	**100.0%**	**₱ 498,312**	**100.0%**

The foreign operations of the SMC Group in 2015 contributed about 21.31% of consolidated sales and 16.49% of consolidated net income. Foreign sales are broken down by market as follows:

	(%) to Consolidated Sales		
Market	**2013**	**2014**	**2015**
Malaysia	24.91	23.87	17.76
Indonesia	1.02	0.96	0.78
China	0.93	0.92	0.89
Vietnam	0.42	0.32	0.24
Others	1.75	0.91	1.64

Corporate Organization

Set forth below is the corporate organizational chart of SMC as of September 30, 2016.



Major Subsidiaries:

San Miguel Brewery Inc. subsidiaries include Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary

San Miguel Brewing International Ltd. subsidiaries include San Miguel Brewery Hong Kong Limited and subsidiaries, PT Delta Djakarta Tbk and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited

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.

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 and San Miguel Pure Foods International Limited and subsidiary and San Miguel Hormel (Vn) Co., Ltd.

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

SMC Global Power Holdings Corp. subsidiaries include San Miguel Electric Corp., SMC PowerGen Inc., PowerOne Ventures Energy Inc., APEC, SMC Consolidated Power Corporation, and San Miguel Consolidated Power Corporation.

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 Sdn. 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

San Miguel Holdings Corp. subsidiaries include Optimal Infrastructure Development, Inc., Terramino Holdings, Inc. and subsidiary, Alloy Manila Toll Expressways Inc. and ULCOM Company 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 5.8% in 2015 and according to the IMF, the Philippines is expected to experience a strong gross domestic product growth at the rate of 6.4% for 2016. 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 5.1% of the Philippine gross domestic product in 2015, 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, 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 90% by volume in 2015, according to Canadean data, with no significant change thereafter. SMB has held this position since 1999. Ginebra is the market leader in the gin segment and also produces some of the most recognizable brands in the Philippine liquor market. SMC 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 key food categories and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. Based on data from certain Philippine government agencies and internal assumptions and calculations, According to Nielsen, San Miguel Pure Foods has a 28% share of market in the Trade animal feeds industry as of June 2016. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38% for poultry and 35% for fresh meats (based on sow population of large commercial farms) as of December 2015 and 17% for flour as of June 2016. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 58% for hotdogs sold in Philippine supermarkets, 86% in the chicken nugget product category, and market shares of 40% for butter, 99% for refrigerated margarine, 16% for cheese, in each case based on value as of June 2016. According to Nielsen, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine as of June 2016. 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 advertising 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 32.8% of the Philippine oil market for the year ended December 31, 2015 in terms of sales volume based on Petron’s estimates using its internal assumptions and calculations and industry data from the DOE. Petron had a 17.4% share of the Malaysian retail market as of first quarter of 2016, based on Petron’s estimates using its internal assumption and calculations and industry data from Fahrenheit Research, a 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 September 2016, based on the ERC 2015 installed generating capacity data. 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 owns the power plant in Limay, Bataan (cogeneration). 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 55.6% 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 and a stake in Manila North Harbour Port, Inc.

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.

Operating businesses provide sustainable stream of income and cash flows

The beverage, food and packaging businesses provide SMC with a sustainable stream of income. 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 2015, the core businesses of beverage, food and packaging businesses provided 33.8% of consolidated sales and 39.8% of total EBITDA of SMC. For the period ending September 30, 2016, core businesses provided 36.1% of total SMC sales and 34.9% of total SMC EBITDA.

For the period ending September 30, 2016, SMC generated ₱96,381 million of EBITDA and ₱25,921 million of net income attributable to the Parent Company with ₱28,275 million of capital expenditure. In 2015, SMC generated ₱110,309 million of EBITDA and ₱12,448 million of net income attributable to the Parent

Company with ₱59,973 million of capital expenditure. In 2014, it generated ₱88,542 million of EBITDA and ₱15,137 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 ₱38,517 million of net income attributable to the Parent Company with ₱65,865 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 cogeneration power plant to supply the power requirements of the Limay Refinery that replaced some of the existing turbo and steam generators. The new coal cogeneration 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.

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

Issuance of ₱20,000,000,000.00 Fixed Rate Peso-denominated Retail Bonds by Petron

On October 27, 2016, Petron issued and listed in the Philippine Dealing & Exchange Corp. (PDEx) fixed rate peso-denominated bonds (the "Bonds") with an aggregate principal amount of ₱20,000,000,000.00 the first tranche of Petron's shelf registration of ₱40,000,000,000.00 of Fixed Rate Bonds.

The ₱20,000,000,000.00 fixed rate bonds consist of Series A Bonds - ₱13,000,000,000.00 maturing in five years with an interest rate of 4.0032% per annum - and Series B Bonds - ₱7,000,000,000.00 maturing in seven years with an interest rate of 4.5219% per annum.

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

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

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

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

Acquisition of Portavin Holdings Pty. Ltd

On February 01, 2017, San Miguel Yamamura Packaging International Ltd. acquired 100% of the outstanding shares of stock of Portavin Holdings Pty. Ltd., the leading wine services supplier in Australia, for a total consideration of approximately 27 million Australian Dollars. The acquisition expands the presence of SMC's packaging business in Australia and New Zealand which will also fully compliment the recent purchase of the glass packaging assets of Endeavor Glass Packaging Ltd. and packaging operations in the Australasia regions, through Cospak and Vinocor.

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 September 30, 2016, the SMC Group has 22,311 regular employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. As of September 30, 2016, the approximate number of employees in each of the businesses is set forth below:

Number of Employees

Beverages	5,429
Food	3,377
Packaging	3,733
Energy	652
Fuel and Oil	3,040
Infrastructure	3,128
Other Operations and Investments	2,952
Total	22,311

As of September 30, 2016, approximately 17% 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 33 labor unions represent the employees of the subsidiaries of SMC. In the past decade, 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.

The beverages business of SMC had sales of ₱99,002 million and ₱82,500 in 2015 and the first nine months of 2016, respectively. The following table sets forth certain information with respect to the beer, liquor and non-alcoholic beverage sales of SMC in 2015 and the first nine months of 2016:

	Year Ended December 31, 2015		**Period Ended September 30, 2016**	
	(₱ in millions, except percentages)			
Beer and Non-Alcoholic Beverages…..…………	82,374	83.2	69,298	84.0
Liquor………………………………………………..	16,628	16.8	13,202	16.0
Total………………………………………………	**99,002**	**100.0%**	**82,500**	**100.0%**

Beer and NAB Business

SMB is the largest producer of beer in the Philippines, with a total market share of approximately 90% by volume in 2015, according to Canadean data. It has six (6) production facilities strategically located across the Philippines and a highly-developed distribution system with a network of close to 500 dealers and serving approximately 400,000 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 50 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. SMBIL has a sales office in Taiwan, which is one of SMBIL's major export markets while other countries are served through various importers and distributors. Apart from this, SMBIL also has licensing agreements in Nepal and the UK as well as a distribution agreement in Cambodia.

In 2015, SMB was the largest contributor to the beverages business of SMC, which accounted for 83.2% of sales of the beverages business. SMB markets its beer under the following brands: *San Miguel Pale Pilsen*, which is SMB's flagship brand, *San Miguel Super Dry*, *San Mig Light*, *San Miguel Premium All-Malt, San Miguel Flavored Beer, Cerveza Negra, Red Horse, San Mig Zero, Oktoberfest Brew,* and *Gold Eagle. San Mig Zero*, described as the lowest calorie, lowest carb and zero sugar beer, is the most recent addition to SMB's beer portfolio. SMB also exclusively distributes *Kirin Ichiban* in the Philippines.

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.

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).

With SMB's expansion in the NAB business, the company's portfolio now includes *Magnolia Healthtea* (ready-to-drink tea), *Magnolia Fruit drink* (ready-to-drink juice), *Magnolia Purewater* (bottled water) alongside *Cali,* the country's only malt-based non-alcoholic drink. Distribution of imported *Berri* (pure juice) in the Philippine is also handled by SMB.

Beer remains to be the key business of SMB, accounting for over 90% of total company revenues.

Philippine Beer & Beverage Industry

In 2015, the Philippine beverage market had a size of 14 billion liters with the non-alcoholic beverages and alcoholic drinks accounting for 58.0% and 18.0%, respectively, based on Canadean. The rest of the market is comprised of hot beverages and dairy drinks.

Sales of beverages 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. The company believes there is a positive correlation between per capita gross domestic product and beverage consumption in the Philippines. In 2015, gross domestic product per capita in the Philippines was over ₱74,000.00 while beer consumption per capita was 15 liters per person for beer and 81 liters per person for non-alcoholic beverages.

In terms of the beer market, the Philippines is the third (3rd) largest in Southeast Asia (following Vietnam and Thailand) and the sixth (6th) largest beer market in greater Asia by sales volume. In 2015, sales volume for beer in the Philippines was 15 million hectoliters, per Canadean.

The beer market in the Philippines is highly concentrated, with SMB and Asia Brewery Inc. ("ABI"), as key players. SMB recorded a high market share of approximately 90.0% by volume in 2015, according to Canadean data 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 ABI which was established in 1981. The market share of ABI was estimated at 9.0% in 2015. Recently, a joint venture company called AB Heineken Philippines Inc. was formed between ABI and Heineken. 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.

Meanwhile, the non-alcoholic beverage market is fragmented, with many players in different sub-categories such as carbonates, water, juice and ready-to-drink tea, among others. Key players include ABI, Philippine Spring Water Resources Inc. (PSWRI), Universal Robina Corp. (URC), Coca-Cola FEMSA Philippines Inc. (CCFPI), Pepsi-Cola Products Philippines Inc. (PCPPI) and Asiawide Refreshments Corp. (ARC), among others.

The beverage market in the Philippines is seen to sustain its growth at an average rate of 2.0% in the medium term.

Strengths

The principal strengths of the beverage business include the following:

Strong market share and brand leadership

From a single product produced in a single brewery in 1890, San Miguel beer has, over the years, expanded with an array of popular beer products catering to the distinct tastes and preferences of beverage drinkers in the Philippines. In the beer market, *San Miguel Pale Pilsen*, the flagship brand of SMB, has been an iconic Philippine brand for most of the 20^{th} 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 beer portfolio of eleven 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 also imports and distributes *Kirin Ichiban* under a distribution agreement with Kirin and is sold in key outlets. The beer products of SMB have been internationally recognized for quality, garnering more than 80 gold, silver and bronze medals as well as more than ten (10) trophies and awards from the Monde Selection International since 2000. For non-alcoholic beverages, the portfolio includes *Magnolia Healthtea, Magnolia Fruit drink, Magnolia Purewater, Cali,* and imports *Berri* for local distribution. The various products carry distinct attributes that cater to the various segments of the Philippine beverage market.

Strong brand equity

SMB brands have consistently led in the market for beer in the Philippines, the largest alcoholic beverage segment in the country. The top five (5) beer brands in the country are all produced by SMB. Despite the entry of local competition in 1981 and the introduction of locally-brewed versions of foreign brands, craft beers and imported beers, SMB has maintained a high market share supported by the popular acceptance and widespread availability of the products of SMB. Imported brands account for less than 1% 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.

SMB conducts trademark nationwide and local events such as *San Miguel Oktoberfest, Red Horse Muziklaban, Sarap Mag Babad* summer program and *National Beer Drinking* contest. It has a presence in major fiestas and festivals, thereby increasing brand exposure to the consumers.

Efficient manufacturing process for Beer and NAB

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 Darong, Sta. Cruz in Davao del Sur, with a total annual production capacity of approximately 18 million hectoliters. The facilities are equipped with automated equipment capable of manufacturing 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 products are 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 over 50 sales offices, third-party 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 more than 400,000 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 products 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 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 50 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. SMB continues to exhibit strong cash flows due to efficient working capital management and prudent capital expenditure programs.

Business Strategies for Beer and NAB

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 while diversifying into non-alcoholic beverages as an additional source of growth. It plans to achieve this through the following:

Assert market leadership in the alcoholic market and expand NAB business

SMB intends to fortify its market leadership in the beer and alcoholic beverage 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 growth opportunities exist 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.

In the non-alcoholic beverage market, SMB intends to sustain the expansion of its NAB business through enhanced brand visibility and availability in key channels and areas.

Expand the market for Beer and NAB Business

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 mainstream and economy markets, where sales are highly price elastic. For the more upscale 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 celebrity endorsers such as Vic Sotto and PBA players June Mar Fajardo and Marc Pingris for *Ito ang Beer* ("*This is the Standard of Beers*") campaign while demand-generating programs include beerhouse and bar tours and various consumer promotions.

Grow in different market segments and tap growing channels

The premium market for beer in the Philippines is relatively a small segment, but plays an important role in brand-building and overall market development. The segment offers 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, *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 counter foreign brands. In addition to the upscale segment, SMB intends to continuously tap growth segments in the mainstream market such as the business process outsourcing sector, overseas Filipino workers, tourism and gaming industries and construction through initiatives tailor-fit for these segments and utilization of channels which cater to these markets. The company likewise conducts initiatives to tap the millennials via digital advertising in addition to traditional TV, radio and print ads. SMB also recognizes the importance of the 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 for Beer and NAB

SMB intends to expand its trade reach and increase the visibility and availability of its products to support volume growth and profitability. 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. 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 presence 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 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. To excite the market, SMB introduced canned variants of *San Miguel Flavored Beer* and released limited edition *San Miguel Pale Pilsen* cans in 2014. In 2016, SMB likewise introduced draft variants for *Premium All-Malt, Super Dry* and *Cerveza Negra*. SMB also intends to pursue other 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 and 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 2013, 2014, 2015 and the third quarter of 2016 are set forth in the table below:

	As of and for the years ended December 31,			**As of and for the nine months ended September 30,**	
	2013	**2014**	**2015**	**2015**	**2016**
	(₱ in millions, except percentages)				
Sales	75,053	79,005	82,374	58,790	69,298
Gross profit	35,648	36,211	37,563	26,825	31,694
Gross profit margin(1)	47.5%	45.8%	45.6%	45.6%	45.7%
EBITDA(2)	24,614	25,106	25,685	17,869	20,825
EBITDA margin(3)	32.8%	31.8%	31.2%	30.4%	30.1%
Net income before tax	17,851	19,595	19,339	14,108	17,216
Net income before tax margin(4)	23.8%	24.8%	23.5%	24.0%	24.8%

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 and NAB Sales

SMB markets its beer under the following brands: *San Miguel Pale Pilsen*, which is SMB's flagship brand, *San Miguel Super Dry*, *San Mig Light*, *San Miguel Premium All-Malt, San Miguel Flavored Beer, Cerveza Negra, Red Horse, San Mig Zero, Oktoberfest Brew,* and *Gold Eagle. San Mig Zero*, described as the lowest calorie, lowest carb and zero sugar beer, is the most recent addition to SMB's beer portfolio. SMB also exclusively distributes *Kirin Ichiban* in the Philippines.

In the non-alcoholic beverage market, SMB's sells *Magnolia Healthtea* (ready-to-drink tea), *Magnolia Fruit drink* (ready-to-drink juice), and *Magnolia Purewater* (bottled water), as well as, *Cali*, the country's only malt-based non-alcoholic drink. SMB also distributes imported *Berri* (pure juice) in the Philippines.

Over the years, 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 2016 gave SMB a total of more than 80 gold, silver and bronze medals, as well as more than ten trophies and awards since 2000.

SMB beer products compete in the premium, popular/mainstream and economy market segments in the Philippines. The popular/mainstream segment continues to be the key driver but the share of premium or upscale brands of SMB to total SMB sales has been increasing since 2000. 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 50 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 six (6) production facilities 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 2015, the six (6) production facilities of SMB had a total production capacity of approximately 18 million hectolitres, with overall utilization rate of close to 80%.

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. The Sta. Rosa Plant was established in 2011. While production at each facility is typically targeted to serve the geographical area around it, the distribution system can shift production from one (1) facility to another if operational issues or demand changes require.

SMB's non-alcoholic beverage products are manufactured by SMB and third party operators via tolling arrangements.

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 modern beer fermentation and maturation tanks, filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the facilities 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.

All of the facilities 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 facilities 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).

The main raw materials for brewing beer include malted barley, hops, water and yeast. Adjuncts, such as sugar and non-malted grains, can also be used in conjunction with malted barley. For non-alcoholic beverages, the main ingredients include water, sugar, sweeteners, fruit concentrates, tea extract, flavors, colorants and acidulants.

SMB depends on raw materials sourced from third parties to produce its products. SMB procures key raw materials through a procurement group that uses standard procurement procedures. Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe and China; and adjuncts, which are generally sourced domestically. For non-alcoholic beverages, SMB primarily sources its ingredients from Singapore and Europe.

SMB enters into supply contracts with key raw material suppliers with terms ranging from approximately one year to five years. 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 from accredited suppliers. 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 Yamamura Packaging Group.

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, 2015, 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 2015. These returnable glass bottles are used for over 50 cycles typically over a span of approximately ten 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.

SMB's third party production operators for its water products handle the sourcing of raw materials and packaging materials used in their production.

SMB's international operations include six (6) production facilities located in China, Hong Kong, Vietnam, Indonesia and Thailand.

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. Technology and processes are constantly updated and new product development is ensured through continuing research and development of beer and non-alcoholic beverages. Research and development activities are conducted in a technical center and pilot plant located in one of SMB's production facilities. SMB also has a central analytical laboratory which is equipped with modern equipment necessary for strategic raw materials analysis and validation, beer and non-alcoholic beverage 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 laboratories of SMB. The central analytical laboratory runs proficiency tests for brewery laboratories and suppliers to ascertain continuous reliability and quality of analytical test results. It 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 years of on-the-job-training experience with SMB.

Sales and Distribution

SMB markets, sells and distributes its products principally in the Philippines. SMB believes it maintains an extensive distribution network of six (6) strategically located production facilities across the country and six (6) production facilities in Asian region with 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 products are 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, the products are then promptly delivered to the retailer or wholesaler, ensuring the quality and sufficient stocks wherever and whenever San Miguel products are needed. As of August 31, 2016, SMB's products are distributed and sold at more than 400,000 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 over 50 sales offices and partners with close to 500 dealers throughout the Philippines.

For distribution efficiency, SMB closely works with the dealers and provides support such as systems and promotional support and various trainings related to dealer operations. SMB enters into 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 as applicable, procedures to be followed and circumstances upon which distribution rights may be terminated. Distribution rights, performance standards and sales procedures are developed by SMB and implemented in tandem with dealers to ensure high quality of services.

SMB formed a key accounts group to handle accounts management and business building of the modern trade accounts such as hypermarkets and convenience stores, and high visibility in selected on-premise outlets.

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 Filipino 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 ₱2,820 million in 2015.

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, ABI is competing with the high-alcohol beer of SMB, *Red Horse*, with its *Colt 45* 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. This was followed by the release of *Beer na Beer* in 330 ml bottles, *Brew Kettle* in can and *Tanduay Rum Cola*, a rum and cola alcomix drink, in 2015.

In 2016, ABI and Heineken International B.V. entered into a joint venture agreement to form AB Heineken Philippines Inc.

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 the non-alcoholic beverage market, SMB faces competition from established players and brands in the segments where it is present (i.e., bottled water, ready-to-drink juice, ready-to-drink tea and pure juice segments). In particular, key brands *Viva!, Wilkins, Absolute* and *Nature's Spring* compete with *Magnolia Purewater, Zest-O* and *Tropicana Twister* with *Magnolia Fruit Drink* and *C2, Lipton* and *Nature's Spring Iced Tea* with *Magnolia Healthtea.*

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 2015, the liquor operations of SMC had sales of ₱16,628 million, accounting for 16.8% and 2.4% of the beverages sales and total consolidated sales of SMC, respectively. The liquor operations of SMC are conducted through its 77.36%-owned subsidiary, Ginebra.

Ginebra is the world's largest gin producer by volume, as well as one of the market leaders in the domestic hard liquor market, with core products such as Ginebra San Miguel and Vino Kulafu. It grew out of a family-owned Spanish era distillery which, in 1824, introduced what was to become its flagship brand, the first ever Philippine gin and the largest selling in the world – *Ginebra San Miguel*. In 1924, the distillery was acquired by a Filipino-Chinese mestizo who owned La Tondeña Incorporada. It was acquired by SMC in 1987 to form La Tondeña Distillers, Inc. and listed in the PSE in 1995. In 2003, the name Ginebra San Miguel Inc was adopted after its core brand, shortly after its full acquisition by SMC.

Among its subsidiaries is Distileria Bago, Inc. (“DBI”), an entity with a distillery located in 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, 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.

The Philippine Liquor Industry is oligopolistic in nature. Among the major categories are Gin and Chinese Wine, which continue to be dominated by Ginebra brands’ Ginebra San Miguel and Vino Kulafu.

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 the market is highly price sensitive. The performance of the liquor industry is highly dependent on the economy, especially for imported brands.

Domestic brands, namely *Ginebra San Miguel*, *Tanduay 5*, and *Emperador* Light continue to dominate the market, accounting for about 80% share of the total Wines & Spirits industry volumes, based in part on data reported by Nielsen through its Retail Index Service for Wines & Spirits covering the aggregated and trended period for Moving Annual Total October 2016 and Full Year 2015 for the Total Philippines Total Retail market (copyright © 2016. The Nielsen Company). 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 is the market leader in the Gin segment and Chinese Wine of the liquor industry with market leading brands in *Ginebra San Miguel* and *Vino Kulafu*. The Ginebra San Miguel brand has shown strength through the years and remained no. 1 in the gin segment. Today, the company offers other gin variants such as the Ginebra San Miguel Premium Gin, GSM Blue, and GSM Blue Flavors. In January 2015, a new light brandy product was launched, *Primera Light,* to complement its gin portfolio and capture loyal brand drinkers by appealing to a younger consumer segment.

Streamlined distribution network

Ginebra has a streamlined distribution network consisting of 13 Sales Offices situated strategically across the country. Direct shipments are made to a diversified base of 86 large dealers assigned to specific geographic areas to serve approximately 130,000 retail outlets nationwide, which is estimated to be equivalent to 22% of the total hard liquor retailers, through our routing trucks, pre-sell van and service pickups. Ginebra has five (5) bottling plants which includes toll bottlers to ensure that all its products are available nationwide.

Strong Cost Leadership

Ginebra has established a diversified raw material base. It has a strong cost advantage as provided by its efficient production practices and cost management measures. It also continues to identify and evaluate improvements in processes to protect its cost advantage.

Business Strategies

The principal strategies of Ginebra include the following:

Organic growth of existing products

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

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 the company to capture new markets, particularly in Eastern Visayas. New product offerings also aim to serve the dynamic consumer market in key areas in Northern Philippines, such as the lower proof alcohol products through the re-launch of *GSM Blue*.

As the dominant gin player, Ginebra spearheads the commemoration of World Gin Day annually. Held every June, the local version has been extended into a month-long festivity with pocket activations in popular hangouts nationwide.

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, and better distillery and bottling efficiencies, have yielded reduced production spending for Ginebra. It also continues to evaluate the use of cheaper alternative raw materials. Fixed costs are being kept in check with more prudent spending, particularly with advertising and promotion.

Selected operating data for the liquor business 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 nine months ended September 30,	
	2013	2014	2015	2015	2016
	(₱ in millions, except percentages)				
Sales	13,677	14,921	16,555	11,414	13,202
Gross profit	2,942	3,973	4,373	3,138	3,346
Gross profit margin[(1)]	21.5%	26.6%	26.4%	27.5%	25.3%
EBITDA[(2)]	(124)	1,009	1,319	910	1,130
EBITDA margin[(3)]	(0.9%)	6.8%	8.0%	8.0%	8.6%
Net income before tax	(1,334)	(54)	146	79	357
Net income before tax margin[(4)]	(9.75)%	(0.4%)	0.9%	0.7%	2.7%

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*, GSM Blue Flavors, Ginebra San Miguel Premium Gin, Vino Kulafu, Primera Light Brandy, *Antonov Vodka, and Don Enrique Mixkila.*

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

The quality of the products has been recognized by a number of organizations, including the Monde Selection of Belgium which has awarded gold medals to various brands in past years. Don Papa Rum, which has been recognized by rum connoisseurs worldwide, is produced by Ginebra under a toll-manufacturing agreement.

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 and Chinese wine. In recent years, brandy has become popular in both Northern and Southern Philippines.

With the strength of the Ginebra San Miguel branding 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 in areas with high concentration of Filipino communities such as the UAE, Korea, Taiwan, Vietnam, USA, Singapore, Hong Kong, Bahrain, UK, Saipan, Netherlands and Canada, Competition in the export markets is intense. The competitors include a number of international liquor producers, some of which may have greater production, marketing, financial and other resources.

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, it has been considering alternative raw materials such as cassava starch milk. It 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 two (2) toll bottlers 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. 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. It 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 has 86 dealers for its liquor products. It 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

Setting the company apart, Ginebra capitalizes on the popularity of its *Barangay Ginebra San Miguel* basketball squad through the use of its players in advertising campaigns. Product advertisements are commonly streamed primarily through television, radio, print and billboards. To keep abreast with the times, the company has ventured into the digital realm, whilst constantly engaging consumers through special event sponsorships, and consumer 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.

As Ginebra endeavours to create a niche in the Premium market segment with the introduction of premium brand names, it 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. 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 85.39% of the common shares of San Miguel Pure Foods. San Miguel Pure Foods has been listed on the PSE since 1971.

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, *La Pacita* for biscuits *and B-Meg* for animal feeds.

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

In 2015 and for the period ended September 30, 2016, the contribution of each business segment to the revenues of San Miguel Pure Foods was as follows:

	Year Ended December 31, 2015[(2)]		**Period Ended September 30, 2016**	
	Revenues	**% of Revenues**	**Revenues**	**% of Revenues**
	(₱ in millions, except percentages)			
Agro-industrial...	70,847	66.3	54,843	68.1
Branded Value-added...................................	25,446	23.8	18,486	22.9
Milling	8,905	8.3	6,130	7.6
Others...	1,662	1.6	1,123	1.4
Total	**106,860**	**100.0**	**80,582**	**100.0**

Notes:

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

(2) Segment reporting for the year ended December 31, 2015 was re-aligned to the manner of reporting which took effect starting 1st quarter 2016 and reflects revenues based on San Miguel Pure Foods' major business segments.

The contribution of the international operations of San Miguel Pure Foods to its total revenues was 0.8% in 2015 and for the period ended September 30, 2016.

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, 2015[(2)]		Period Ended September 30, 2016	
	Operating Results	**% of Total Operating Results**	**Operating Results**	**% of Total Operating Results**
	(₱ in millions, except percentages)			
Agro-industrial	2,791	36.5	2,685	47.8
Branded Value-added	2,305	30.2	1,336	23.8
Milling	2,103	27.5	1,433	25.5
Others	449	5.9	159	2.9
Eliminations[(3)]	(4)	(0.1)	0	0.0
Total	**7,644**	**100.0**	**5,613**	**100.0**

Notes:

(1) *Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenue for each segment, see Note 3 to the September 30, 2016 unaudited condensed consolidated interim financial statements and Note 6 to the 2015 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 branded value-added segment, and (iii) service revenue of the grain terminal operations of the milling segment from the agro-industrial segment.*

(2) *Segment reporting for the year ended December 31, 2015 was re-aligned to the manner of reporting which took effect starting 1st quarter 2016 and reflects IFO based on San Miguel Pure Foods' major business segments.*

(3) *Represents adjustment 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 as of March 31, 2016, brought about by the uptick in the indices of corn, fish meat, sugar and chocolate confectionery as well as milk, cheese and egg. In National Capital Region ("NCR"), food index climbed by 2.2% during same period while the index increased by 1.6% in Areas Outside National Capital Region (AONCR).

Chicken inventory as of January 1, 2016 is 179 million birds (source: Philippine Performance of Agriculture Report) or 1.3% higher than previous year. Layer and native chicken grew by 3% and 2.9% respectively while broiler chicken decreased by 1.4% than previous year. Chicken egg production for 2015 increased by 7.0% and value at current prices is pegged at ₱42.65 billion.

Competitive 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, *La Pacita* for biscuits *and B-Meg* for animal feeds. 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. According to Nielsen, San Miguel Pure Foods has a 28% share of market in the Trade animal feeds industry as of June 2016. Based on data from certain Philippine government agencies and internal assumptions and calculations, San Miguel Pure Foods believes it had market shares of 38% for poultry and 35% for fresh meats (based on sow population of large commercial farms) as of December 2015 and 17% for flour as of June 2016. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 58% for hotdogs sold in Philippine supermarkets, 86% in the chicken nugget product category, and market shares of 40% for butter, 99% for refrigerated margarine, 16% for cheese in each case based on value as of June 2016. According to Nielsen, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine as of June 2016. 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 advertising 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 reach 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 2015. 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, biscuits and condiments. 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 product particular segment. 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 about 39% of the total packaged food industry (measured by number of categories currently present in versus total number of packaged food categories as defined by Nielsen and Kantar), thus presenting tremendous opportunities for San Miguel Pure Foods to expand into other packaged food categories that are adjacent or 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 2014, San Miguel Pure Foods introduced 70 new products through its branded value-added segment. More convenient options were offered to the market such as *Purefoods Crispy Fried Chicken, Purefoods Canned Chicken, and Purefoods Chicken Popcorn* which are all fully cooked and ready-to-eat products that only take a few minutes to heat and serve. San Miguel Pure Foods continue to penetrate the huge semi-processed meats category with new variants of the native line segment such as the *Purefoods Honey Glazed Tocino* and *Purefoods Chicken Longanisa.* Exciting new flavors under the ice cream line are *Avocado Macchiato, Mango Salted Caramel, Banoffee Pie, Strawberry Crumble Pie, dual-flavored Popsies* and *Twin Popsies*. The other new product introductions include *San Mig Barako 3-in-1 coffee* and powdered condiments under the *Wandah!* Brand. San Miguel Pure Foods also launched *Star Chunky Cheese* and *Star Meat Loaf* to strengthen its mid-priced portfolio. San Miguel Pure Foods' innovation platform and thrust to enter into new categories will continue to drive the growth of its value-added segment.

In the last 3 years, San Miguel Pure Foods through its agro-industrial group have launched *Magnolia Free Range Chicken* (raised free from cages and antibiotics) and *Magnolia Brown Eggs* to provide options to discerning customers. Products introduced to provide consumer convenience are *Magnolia Chicken and*

Monterey Smart packs – chicken and pork choice cuts, good for 1-2 persons, sealed in sanitary packaging. Within the same period, San Miguel Pure Foods launched several feed variants for both hogs and poultry such as *B-MEG Premium Grower 2, B-MEG Expert Premium, B-MEG Alertone, B-MEG Integra 4000 & 5000* and *B-MEG Integra Powermaxx*. In addition, *B-MEG Integra Veterinary Medicine Line* was launched as support in the prevention and treatment of infectious diseases for game fowls.

San Miguel Pure Foods continues to pioneer value added customized flours and premixes for bakeries, food manufacturers, food service outlets and retail markets. One of its new products is a versatile bread mix which can be made into several types of bread and pastry varieties.

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 branded value-added 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 modern trade, such as major supermarket chains, hypermarkets, groceries, convenience stores; general trade, such as market traders and "*sari-sari*" stores (small neighborhood stores) and export markets. 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 manages a fully integrated meats operation. 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 half 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 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 June 30, 2016, there are over 640 *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 September 30, 2016, has around 600 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: value-added products, stable-priced products, and basic food products. Value-added products include processed meats, dairy, bread spreads, oils, ice cream, coffee, biscuits, powdered condiments and meal mixes. 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 minimally processed branded products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, 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 products sold to foodservice clients. Basic food products include animal feeds, live chickens and hogs, fresh-chilled and frozen whole chicken, and chicken, pork and beef cuts sold through wet markets and supermarkets, and 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 strong brand equity with customers, processing or customization to cater to specific needs or tastes, and/or 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. Some of these initiatives include the introduction of new and more innovative products, such as chicken nuggets, fully-cooked fried chicken, canned chicken and other ready-to-cook and ready-to-eat offerings to take advantage of growing need of consumers for convenience, concentration on selling its fresh meats and poultry products through its branded distribution outlets, marketing of customized flour to institutional clients, and 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 years. As of September 30, 2016 the contribution of value-added and stable-priced products accounted for 51% 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 television commercials which featured its key brands: *Tender Juicy, Purefoods Nuggets, Star Margarine, Dari Crème, San Mig Original and Magnolia Cheezee*. San Miguel Pure Foods also supported the launch of its new products such as Star Chunky Cheese, Best of the Philippines Mango Salted Caramel and Avocado Macchiato, Wandah! powdered mixes and San Mig Barako 3-in-1 coffee with television commercials. San Miguel Pure Foods also has strategic alliances with institutions, such as theme parks, event venues, cinemas and schools. San Miguel Pure Foods 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 and its other brands* with the objective of 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 improve 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. 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. San Miguel Pure Foods encouraged local farmers to develop approximately 77,000 hectares of cassava plantations, which will satisfy 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 ₱240 million for the eight months ending August 31, 2016, computed based on the cost differential between actual cassava costs and estimated 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 explore new opportunities through acquisitions or greenfield and capacity expansion in food or food-related businesses, 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 Felicisimo Martinez & 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*, *La Pacita and B-Meg* . Its business is organized into the following segments: agro-industrial, branded value-added, 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 *B-Meg, B-Meg Premium, Integra, Expert, Dynamix, Essential, Pureblend, Bonanza*, and *Jumbo* brands. Veterinary medicines are sold under the San Miguel Animal Health Care brand.
Poultry...	Branded products are sold under the *Magnolia Fresh Chicken* label and include fresh-chilled, frozen whole, cut-up chicken, ready-to-cook (timplados) chicken products, customized products for foodservice and export customers, supermarket house-brands, live chicken and brown eggs
Fresh Meats......................................	Branded fresh meats are sold under the *Monterey* brand and include pork and beef carcasses and cuts, lamb products, marinated meats and live hogs
Branded value-added	
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, luncheon meats, sausages, canned chicken, spreads, sauces and viands are primarily sold under the Purefoods, Purefoods Tender Juicy, and Purefoods Star brands
Dairy, Spreads and Oils	Bread spreads, cheese, milk, ice cream, all purpose cream, jelly-based snacks and cooking oils are primarily sold under the Magnolia, Star and Dari Creme brands
Coffee	Coffee sold under the San Mig Super Coffee brand
Biscuits..	Biscuits sold under the La Pacita brand
Condiments and Meal Mixes.............	Powdered condiments sold under the Wandah! brand
Milling	A full range of basic, specialty and customized flour is primarily sold under the Emperor, King and Queen, Baron, Prince and Princess brands. The grain terminal operation is also under the Milling business segment and provides grain handling (e.g. unloading, storage, bagging, and outloading) services to clients.
International Operations.....................	Processed meats in Indonesia are sold under the Farmhouse and Vida brands, while processed meats in Vietnam are sold under the Le Gourmet 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 September 30, 2016, San Miguel Pure Foods owns 29 production facilities and has contracts with close to 1,500 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 nine months ended September 30,	
	2013	2014	2015	2015	2016
	(₱ in millions, except percentages)				
Sales	99,773	102,999	106,860	76,601	80,582
Gross profit	20,225	20,485	22,751	15,562	18,050
Gross profit margin(1)	20.3%	19.9%	21.3%	20.3%	22.4%
EBITDA(2)	8,581	8,801	10,266	6,582	7,815
EBITDA margin(3)	8.6%	8.5%	9.6%	8.6%	9.7%
Net income before tax	5,596	5,676	6,969	4,149	5,392
Net income before tax margin(4)	5.6%	5.5%	6.5%	5.4%	6.7%

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, cash dividends (including property dividends already sold and converted to cash) from an associate, and 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 Nielsen and certain internal assumptions and calculations, San Miguel Pure Foods believes the Philippine feeds market is approximately ₱194 billion in 2016, of which the commercial feeds segment accounted for approximately ₱111 billion.

Production and Raw Materials

Compound feeds are manufactured at eight (8) San Miguel Pure Foods-owned facilities that are operated by third parties and 34 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 2016, San Miguel Pure Foods bought over 61% 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, malt dust and yeast, which are by-products of SMB, pollard from San Miguel Mills, Inc. ("SMMI") 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 51.0% and 49.0%, respectively, of the feeds production volumes as of September 30, 2016. 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 retail trade audit data from Nielsen 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 28.1% of the commercial trade feeds market by volume as of June 2016.

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 Pilmico Foods Corporation, 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 marinated products as well as brown eggs. San Miguel Pure Foods also sells customized products to foodservice and export clients, supplies supermarket house brands, serves chicken products to wet markets through distributors, 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 ₱194 billion as of December 31, 2015.

Production and Raw Materials

San Miguel Pure Foods primarily utilizes third party-owned facilities operated under tolling arrangements for its poultry production. Approximately 100% 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 89% 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 September 30, 2016, San Miguel Pure Foods contracted with tolled growing farms with an aggregate estimated annual capacity of more than 330 million birds. The vertically controlled poultry operations of San Miguel Pure Foods also includes two (2) owned and 31 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.

As of September 30, 2016, feeds accounted for the majority of production costs for the poultry business, representing approximately 58.0% 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% of the poultry business for the period ended September 30, 2016; and

- stable-priced segment (including *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients) accounted for 50% of the total revenues of the poultry business for the period ended September 30, 2016.

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 September 30, 2016, approximately 34.0% 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 2015 based on volume sold, ahead of the second and third major players, which had market shares of approximately 24.0% 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 97.0% of its hog production capacities are third party-owned and operated under tolling arrangements. As of September 30, 2016, approximately 62.0% 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 2015, San Miguel Pure Foods sourced about 99% of its live hogs from its contract growing farms. With respect to sourcing beef supply in 2015, San Miguel Pure Foods imported all of its feeder cattle from Australia and its boxed beef from Australia, New Zealand, Canada, Netherlands, Ireland, US 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 September 30, 2016, more than 640 *Monterey Meatshops* selling San Miguel Pure Foods fresh meat products were in operation across the Philippines. As of the same date, approximately 72.0% 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 Nuggets,* and *Monterey* brands. Canned meats, such as corned beef, luncheon meats, canned chicken, 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. As of September 2016, the value-added meats business sourced approximately 24.0% of its raw materials from the other businesses of San Miguel Pure Foods and 37.0% 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. SMIS also 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 58% for hotdogs sold in Philippine supermarkets. San Miguel Pure Foods also dominates the nuggets category with a market share of 86%. San Miguel Pure Foods also has an 84% market share in the premium segment of corned meats. All market shares are based on value as of June 2016 and as reported by Kantar Worldpanel.

For the entire corned beef and luncheon meats categories, San Miguel Pure Foods has market shares of approximately 17% and 7%, respectively, both based on value as of June 2016 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*), Mekeni Food Corporation (*Mekeni*), 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, event venues, cinemas and schools.

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 September 30, 2016, accounted for approximately 73% 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 *Cheezee* 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 64% 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 June 2016, San Miguel Pure Foods has a market share of 40.0% for butter, followed by Fonterra Brands Philippines Inc. and New Zealand Creamery, Inc. San Miguel Pure Foods dominates the refrigerated margarine segment with a 99% share of the market. New Zealand Creamery, Inc. and RFM Corporation also compete in this category. In the cheese category, Mondelez Philippines, Inc. is the leading player followed by Magnolia Inc. ("Magnolia") with a 16% market share.

According to Nielsen, as of June 2016, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine with San Pablo Manufacturing and AD Gothong Manufacturing as its competitors. In the ice cream market, Unilever-RFM is the dominant player while Magnolia has an 8% market share.

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 2015, according to Nielsen, San Miguel Pure Foods has a 2% market share for coffee based on value sold. Competitors in the coffee-mix segment include Nestlé (*Nescafe*), URC (*Great Taste*), and Tridharma Marketing Corp. (*Kopiko*). 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.

Biscuits

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 Felicisimo Martinez & Co. Inc. ("FMC"), which initiated the entry of San Miguel Pure Foods into the biscuit segment. Its product offerings include crackers, biscuits and cookies, distributed here in the Philippines as well as in other countries.

Condiments and Meal Mixes

San Miguel Pure Foods entered into the powdered condiments and meal mixes category under the *Wandah! All-Around Mix* brand. Sweet tomato catsup, gravy, cheese, mayonnaise and cream variants were initially launched in the last quarter of 2015.

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 and biscuit manufacturers.

In 2012, San Miguel Pure Foods launched *Kambal Pandesal* bakery outlets, which is an innovative concept in the local baking industry. 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 September 30, 2016, there are around 600 *Kambal Pandesal* bakery outlets which are all third party-owned and operated.

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 one of 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 sized 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 as well as generate 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 80.0% of the wheat requirements of the flour business are sourced from the United States with the remaining balance 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 flour application specialists, determines the specific flour product requirements of its various customers. In addition, the flour application specialists conduct field baking tests of the products and demonstrate their applications. 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 17.0% market share based on volume sold as of June 2016.

The flour business competes on price, quality, customer service and distribution. Its main competitors are Philippine Foremost Milling Corporation, Pilmico Foods Corporation and Universal Robina Corporation. 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.

The industry also experiences stiff competition from regional players such as Interflour Group as they take advantage of various free trade agreements in penetrating the Philippine market. Imported flour has increased its presence through low cost flour offerings. In order to aggressively compete head-on, San Miguel Pure Foods launched “fighting brands” such as Red Dragon Nova and Red Dragon Vega that matches quality and price of imported flour but still manages to maintain a healthy margin.

Others Business Segment

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

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 foodservice formats for 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.

International Operations

Vietnam

The Vietnam food business primarily engages the sale of processed meats, which are under the *Le Gourmet* brand. It is also 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%. San Miguel Pure Foods International is the sole investor in San Miguel Pure Foods (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 Pte. Ltd. (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.

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 and food safety 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 conduct 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. Its Quality Assurance and Food Safety Management System Guidelines is anchored on Hazard Analysis and Critical Control Points, Good Manufacturing Practice, ISO 22000, ISO 9001 and FSSC 22000 with the objective of complying 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 ₱30.7 million in expenses for environmental compliance for the year 2015. On an annual basis, operating expenses incurred by San Miguel Pure Foods and subsidiaries 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, two (2) research facilities for tilapia, four (4) hog research farms, four (4) broiler research farms, two (2) layer 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 Philippines, Inc., Nestle Philippines and Pepsi Cola Products Philippines, Inc. In 2015, the Packaging Business had sales of ₱25,050 million, of which approximately 75.8% 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 steadily growing. 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. Glass packaging also recorded positive growth in other categories such as food packaging, home care, beauty and personal care because of its ability to portray a premium image while maintaining product quality. 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 further expand their business in the ASEAN economies.

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.

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 tobacco, confectionery, dried processed food and sweet and savoury snacks and has captured brand manufacturers of canned/preserved food, baby food and agri-chemical products.

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 competitive 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, flexibles and paper as well as beverage filling for PET bottles and aluminum cans.

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 innovate to enter new markets and market segments with new products such as slim cans and ends, down gauged crowns, lug caps, high-impact resistance pallets for cements, agricultural flooring, 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 is continuously developing eco-friendly, processes such as the use of cullets in glass production, 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 ₱100 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 nine months ended September 30,	
	2013	2014	2015	2015	2016
	(₱ in millions, except percentages)				
Sales	25,187	24,226	25,050	18,186	19,749
Gross profit	6,687	6,673	7,118	5,036	5,693
Gross profit margin(1)	26.5%	27.5%	28.4%	27.7%	28.8%
EBITDA(2)	3,435	3,700	4,128	3,064	3,450
EBITDA margin(3)	13.6%	15.3%	16.5%	16.8%	17.5%
Net income before tax	1,233	1,614	2,114	1,569	1,834
Net income before tax margin(4)	4.9%	6.7%	8.4%	8.6%	9.3%

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.

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 the newly modernized two-piece aluminum beverage cans for a wide spectrum of industries that include beer, soft drinks, non-alcoholic beverages and food.

Composites/Flexible Packaging

The composites/flexible packaging business manufactures flexible packaging, 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, serving the beer, liquor, non-alcoholic beverages, food, pharmaceutical, personal care and industrial applications industries. Adding to the existing capacity to fill beverages in PET bottles, the beverage filling facility grew its capability to fill aluminum cans for beer and non-alcoholic beverages.

Paper

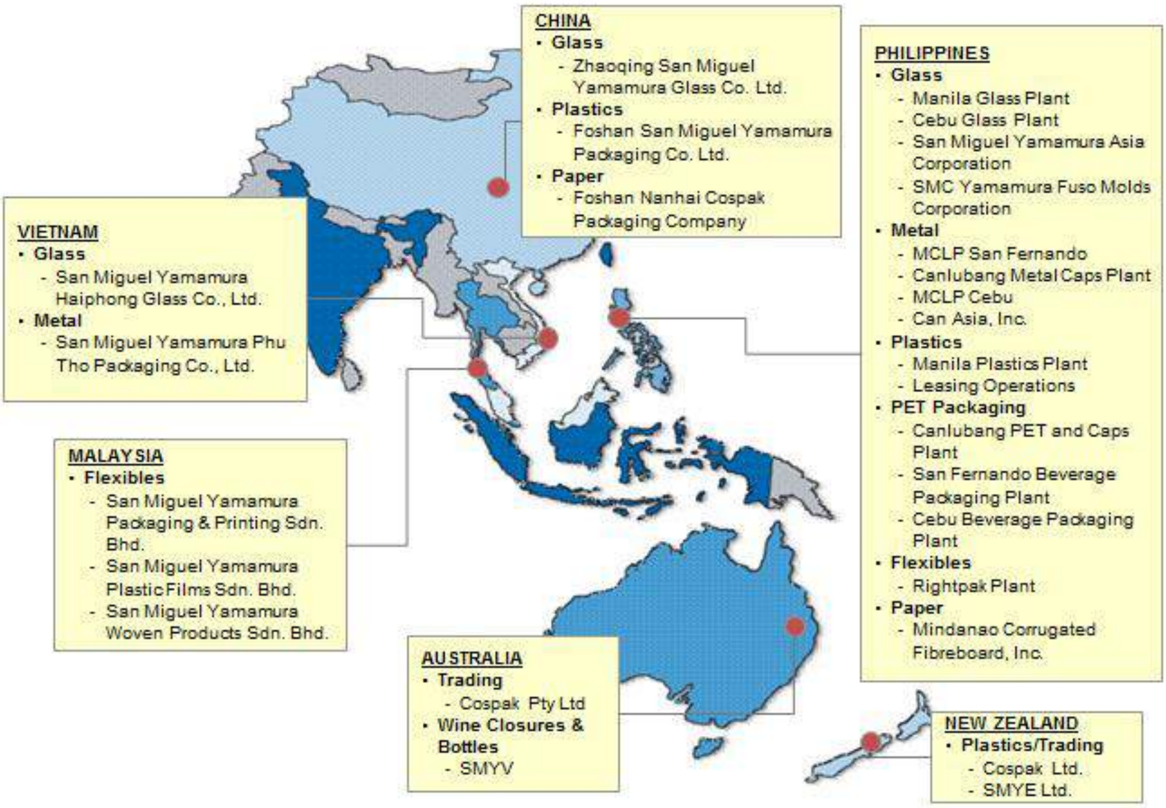
The paper business produces corrugated cartons and partition boxes. In addition, SMC also manufactures corrugated cartons and other paper-based packaging products through its wholly owned subsidiary, Mincorr. The paper business serves a broad range of beverage, food and agricultural industries.

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).



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 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.

Petron was incorporated under the Corporation Code of the Philippines (the "Corporation Code") and registered with the SEC on December 22, 1966. On September 13, 2013, the SEC approved the extension of the 50-year corporate term of the Company to 2066. Petron refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia.

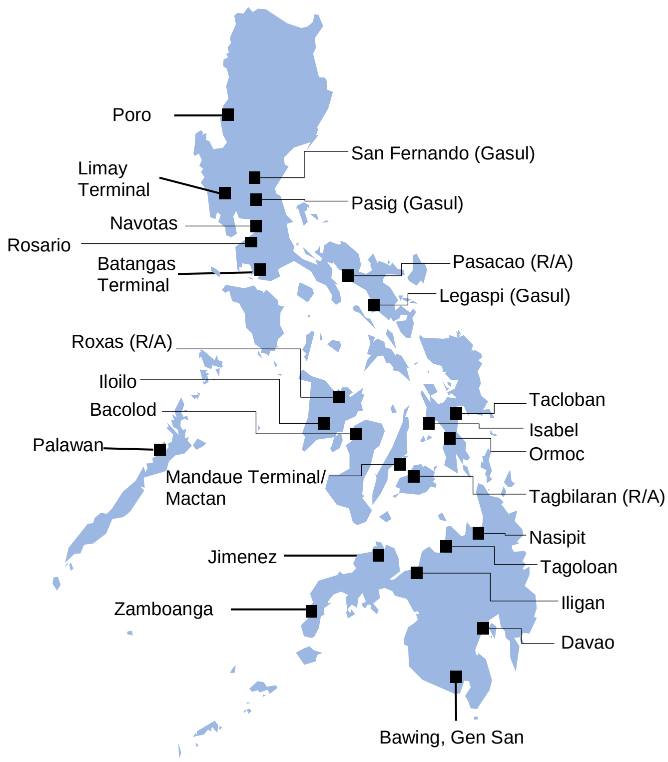
In the Philippines, Petron is the largest integrated oil refining and marketing company. It had an overall market share of 32.8%[2] of the Philippine oil market for the year ended December 31, 2015 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE. Petron's IMS-certified Limay Refinery in Limay, Bataan in the Philippines, which 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, naphtha, and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. The completion of RMP-2, a US$2,000 million project for the Limay Refinery, enables Petron to produce more valuable White Products and increase production of petrochemicals. The completion of the RMP-2 made Petron the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air 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 10 depots and terminals in Luzon, nine in the Visayas and seven in Mindanao, as well as two airport installations in Luzon and two in Mindanao. Through this nationwide network, Petron supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

The map below shows the geographic coverage of the Company's terminals and depots in the Philippines as of June 30, 2016.

[2] *Market share is derived from Company estimates based on Company information and data from the DOE for FY2015. Company estimates exclude direct imports of jet fuel by airlines, direct imports of naphtha as feedstock for petrochemical plants, direct imports of condensate as fuel for natural gas power plants, and lubes and greases.*

Geographic coverage of the Petron's terminals and depots in the Philippines



Note:
R/A indicates that a rationalization agreement is in place in relation to the relevant depot, which is a contract between the owner-operator of the depot and another oil company regarding product supply and the use of the facilities to rationalize operations and reduce costs.

Through its network of approximately 2,241 retail service stations in the Philippines as of September 30, 2016, 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, and these products are sold through its service stations and sales centers. Petron has a tolling agreement with Innospec, Limited ("Innospec"), a global fuel additives supplier. Regional customers of Innospec and Petron's own requirements 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 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% stake in PAHL, which owns PPI through a wholly owned subsidiary, RIHL. As of July 25, 2016, Petron had increased its stake in PAHL to 100%. 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. The polypropylene plant is co-owned with RIHL. On July 1, 2014, Petron acquired PPI's ownership in the polypropylene plant and took over the operations of the polypropylene business in order to enhance the overall efficiency of its petrochemical operations.

Petron entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream oil business in Malaysia for a purchase price of US$577.3 million. With this acquisition, Petron 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 September 30, 2016, Petron had 9 product terminals, one depot, and a network of approximately 575 retail service stations in Malaysia. In the first quarter of 2016, Petron ranked third in the Malaysian retail market with a 17.4% share of the Malaysian retail market based on company estimates using its internal assumptions and calculations and industry data from Fahrenheit Research, a market research consultant appointed by Malaysian retail market participants to compile industry data.

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 ₱19.1 billion, or 8.0% of total sales, as of September 30, 2016.

Competitive Strengths

Petron believes that its principal competitive strengths include the following:

Market leadership in the Philippine downstream oil sector.

With an overall market share of approximately 32.8% of the Philippine oil market for the year ended December 31, 2015 in terms of sales volume pursuant to company estimates based on its internal assumptions and calculations and industry data from the DOE, Petron believes it is the leader in the Philippine oil industry, ahead of the other two major oil companies and other smaller players operating in the Philippines. In particular, Petron believes that it is the market leader based on domestic sales volume in the retail trade as well as in the industrial and LPG market segments and that it enjoys a strong second position in terms of market share based on sales volumes of the two 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 for petroleum products in the Philippines, which allows it to operate and serve its customers across the Philippines. This distribution network includes 30 depots, terminals, and airport installations and reaches most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing Petron's leading position 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. Petron's strong participation 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 September 30, 2016, Petron had approximately 2,241 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 approximately 1,044 branch stores as of September 30, 2016. Petron's industrial sales cover approximately 1,000 direct industrial accounts as of September 30, 2016.

Established position in the Malaysian downstream oil sector.

Petron has acquired an established position in the Malaysian downstream oil sector through its acquisition of ExxonMobil's downstream oil business 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 ("JBC"), a research and consultancy service provider for the oil and energy sector, estimates that the Malaysian market will continue to grow annually by approximately 2.4%. At its current market size of approximately 800,000 barrels per day, as estimated by JBC, it is more than double the size of the Philippine market. Based on company estimates using its internal assumptions and calculations and industry data from Fahrenheit Research, Petron ranked third in the Malaysian retail market with a 17.4% share in the first quarter of 2016.

Petron's network of service stations and distribution infrastructure in Malaysia also facilitate the capture of a growing share of the market. Petron's network in Malaysia includes approximately 575 service stations, about 260 convenience stores, nine (9) product terminals and one depot. Following the acquisition of ExxonMobil's downstream oil business 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. By 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% ownership of a multi-product pipeline ("MPP") to Kuala Lumpur International Airport ("KLIA"). The joint venture through which Petron owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal (“KVDT”). In the second quarter of 2015, Petron completed a project linking the Port Dickson Refinery to the KVDT through the MPP to supply the central region more efficiently.

Pursuant Petron’s estimates based on its internal assumptions and calculation and industry data from Fahrenheit Research, for the first quarter of 2016, Petron had a 12.1% 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 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 Petron’s Malaysian operations in such sectors.

Capability to produce 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.

RMP-2, a US$2,000 million project completed in the fourth quarter of 2014, enables the Limay Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase Petron’s production of petrochemical feedstock like propylene, benzene, toluene and xylene. The completion of RMP-2 has made Petron the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels. The upgraded production capability has improved the refinery utilization rate to more than 90% and increased White Products to Black Products ratio to approximately 100%, compared to previous operating levels of approximately 65% utilization rate and White Products to Black Products ratio of approximately 80%.

Differentiated service experience driving retail volumes.

Petron’s network of service stations in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond just a petroleum station, Petron’s service station 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. In Malaysia, Petron rebranded all ExxonMobil Esso-branded service stations to the *Petron* brand and refurbished the stations. Approximately 260 of Petron’s network of approximately 575 service stations in Malaysia have convenience stores. Petron has also partnered with the Royal Malaysia Police to set up “*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 customers’ unique needs. 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 September 30, 2016, approximately 4.2 million Petron Value Cards had been issued in the Philippines and approximately 3.8 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 company in the Philippines and Malaysia, both of which, Petron believes, have favorable oil industry dynamics. According to the ASEAN briefing, the Philippines announced a gross domestic product growth of 5.8% in 2015 and according to the IMF, the Philippines is expected to experience a strong gross domestic product growth at the rate of 6.4% for 2016. Given the high correlation between GDP 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.

Experienced management team and employees

Petron has an experienced team of managers with substantial relevant experience in refining operations and development of service stations.

In addition, Petron has a team of employees skilled in managing the various aspects of its business, including a highly experienced management team at the Limay Refinery, a focused sales and marketing team, which includes a group that has years of experience in service station engineering and construction, and a research and development team that has overseen years of product development and production process improvement. Petron is also committed to the development of its employees by adopting on-going training and development programs to ensure that operations will be run by well-equipped and capable employees. The average tenure of employees is approximately 8 years for the Philippines and 13 years for Malaysia.

Strategies

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 and margin potential.

Petron believes that the downstream oil market in the Philippines is still underserved and has a strong potential for growth. To capture this growth and further strengthen its market position, it will embark on: (i) increasing its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (ii) introducing new products with differentiated and superior qualities; (iii) expanding lubes distribution network by putting up more sales channels such as new lube outlets, sales centers and car care centers, and penetrating non-traditional outlets such as auto parts and repair shops; (iv) 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 (v) intensifying its dealer and sales personnel training to further improve customer service experience. These initiatives will support its growing retail business and continuing service station network expansion.

In Malaysia, Petron intends to increase its market share by expanding its existing Malaysian retail network of approximately 575 retail service stations. It 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 program, which exemplifies this strategic focus, aims to increase revenues and reduce costs and place the Limay Refinery's utilization, processing and energy efficiency at par with more advanced refineries in the region and improve its competitiveness. Going forward, Petron expects to continue investing in upgrading its production capability.

In the medium term, Petron will assess the viability of further expanding the Limay Refinery's value generation through upgrading its petrochemicals facilities to increase production of petrochemicals benzene, toluene and mixed xylene, and enable production of higher value para-xylenes.

Continue investments to improve operational efficiency and profitability and to increase market reach.

Petron has undertaken a number of strategic projects such as the RMP-2 aimed at improving operational efficiency and profitability, and increasing market reach through the expansion of its 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) enhancing its crude optimization program (a program which determines the crude mix that will yield the best product value at the lowest cost) 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) investing in new receiving and storage facilities and improving the existing 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 SMC's network, products and services.

Pursue selective synergistic acquisitions.

In addition to organic growth, Petron will continue to consider and evaluate selective opportunities to expand within and outside the Philippines through strategic acquisitions that will create operational synergies and add value to the existing business. For example, in March 2010, Petron acquired a 40% stake in PAHL, which owned PPI through a wholly owned subsidiary RIHL. As of July 25, 2016, Petron increased its stake in PAHL to 100%. 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 PPI's polypropylene business 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, it completed its acquisition of ExxonMobil's downstream business 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 nine months ended September 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(₱ in millions, except percentages)				
Sales	463,638	482,535	360,178	278,295	247,770
Gross profit	23,159	19,435	31,740	23,044	26,606
Gross profit margin(1)	5.0%	4.0%	8.8%	8.3%	10.7%
EBITDA(2)	17,217	15,260	22,325	16,281	23,701
EBITDA margin(3)	3.7%	3.2%	6.2%	5.9%	10.0%
Net income before tax	6,942	3,813	9,925	6,999	10,557
Net income before tax margin(4)	1.5%	0.8%	2.8%	2.5%	4.3%

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

The Philippines

In the Philippines, Petron owns a petroleum refinery complex located in Limay, Bataan. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day. Its facilities include three crude oil distillation units, two vacuum pipestill units, a delayed coker unit, two catalytic cracking units, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, three naphtha hydro-treaters, two kerosene merox treaters, three gas oil hydro-treater units, a coker gas oil hydro-treater, a polynaphtha oligomerization unit, four LPG treaters, two selective hydro-processing units, an isomerization unit, benzene, toluene, and mixed xylene recovery units, two propylene recovery units, four sulfur recovery units, a hydrogen production unit, a hydrogen recovery facility, a nitrogen plant, two waste water treatment facilities, four sour water facilities, a desalination facility, eight steam generators, five turbo generators, four cooling towers, a reverse osmosis unit, flare facilities, bulk asphalt receiving facilities, several 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 of which can accommodate very large crude oil carriers, or VLCCs.

The Limay Refinery is capable of producing a range of petroleum products such as LPG, naphtha, gasoline, kerosene, jet fuel, and diesel. In 2000, the Limay Refinery commenced petrochemical production with the commercial operation of its mixed-xylene plant, designed to produce 232,000 tons per year of mixed xylene.

The Limay Refinery started producing propylene in 2008 with the commissioning of its first propylene recovery unit, which has a demonstrated capacity of 148,000 tons per year of polymer-grade propylene. Also in 2008, the Limay Refinery started the construction of the benzene-toluene extraction unit to further expand its capability to produce petrochemical feedstock. The benzene-toluene extraction unit, which became operational in May 2009, is designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year. In early 2011, PPI commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the Limay Refinery's propylene production into polypropylene. 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 Limay Refinery's propylene production operation which expanded in 2015 with the commissioning of the second propylene recovery unit, increasing propylene production capacity to 415,000 tons per year.

Petron completed a fuel additives blending plant in the Subic Bay Freeport Zone in July 2008 with a capacity of 12,000 MT per year, which serves the fuel additive requirements of Innospec's customers in the Asia-Pacific region. Petron is Innospec's exclusive blender in the Asia-Pacific region.

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 hydro-treating unit with a processing capacity of 26,000 barrels per day, two semi-regeneration reformer units with a combined processing capacity of 19,000 barrels per day and a kerosene hydro-treating 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, six crude oil storage tanks with a total capacity of approximately 1.1 million barrels, 20 refined petroleum products storage tanks and five spheres for LPG storage with a total capacity of approximately 1.1 million barrels.

The Port Dickson Refinery produces a range of petroleum 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 is received by means of a single buoy mooring ("SBM") and crude pipeline facilities that are jointly owned with Shell Refining Company (Federation of Malaya) Berhad ("SRC (FOM)") through an unincorporated joint venture. The SBM is operated by SRC (FOM), and the Company shares the operating costs equally with SRC (FOM). Petron also pays a levy of one-third of the overhead and administrative charges incurred by SRC (FOM) in connection with the operation of the SBM.

Raw Materials

Philippine Operations

The main raw material used in the Limay Refinery's production process is crude oil. Petron acquires crude oil for the Limay Refinery from foreign sources, through a combination of term purchase contracts and spot market purchases. Petron has a term contract with Saudi Aramco, entered into in 2008, to purchase various Saudi Arabian crude. The pricing and payment mechanisms under this contract are consistent with Saudi Aramco's standard practice 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 September 30, 2016, neither Petron nor Saudi Aramco had terminated the contract.

Petron also has a term contract with Kuwait Petroleum Corporation to purchase Kuwait crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. As of September 30, 2016, neither Petron nor Kuwait Petroleum Corporation had terminated the contract. Several other crude oils are purchased on a spot basis from various suppliers.

The Limay Refinery is capable of processing various types of crude oil. Petron's crude oil optimization strategy 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. The completion of the RMP-2 has given the Limay Refinery greater flexibility to use heavier, more sour alternative crude.

Petron entered into a contract for the 2016 term supply of group I base oils (SN500, SN150 and BS150) with Shell International Eastern Trading Co. in December 2015. This contract is renewable annually and pricing is calculated using a formula based on an international standard price benchmark for base oils. Group I base oils are its main feedstock for the production of automotive, industrial and marine lubricants.

Petron is the sole buyer of all the ethanol produced by the Philippine-based San Carlos Bioenergy, Inc. pursuant to a 2008 ten-year supply contract based on a formula price. The balance of its ethanol requirements 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 aviation gas, asphalt and some gasoline blending components. These imports are necessary as it does not produce 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.

Malaysian Operations

The main raw materials used in the Port Dickson Refinery's production process are crude oil and condensate. Petron acquires crude oil and condensate for the Port Dickson Refinery from various sources, through a combination of term purchase contracts and spot market purchases. It has a long-term supply contract for Tapis crude oil and Terangganu condensate with EMEPMI, supplemented by other spot crude 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. Petron's crude oil optimization strategy includes diversification in processing different types of sweet crude oil.

Petron buys 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. It produces a biodiesel mix initially comprising 5% POME and 95% diesel. Subsequently, the Malaysian Biofuel Industry Act of 2007 changed the mix to 7% POME and 93% diesel. In October 2014, the Malaysian government announced the implementation of the B7 programme (blending of 7% POME and 93% diesel) for the subsidized sector. Implementation was completed in the second quarter of 2015.

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 it 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.

Utilities

The principal utilities required for Petron's production process are water, electricity and steam.

Water

Deep wells provide the Limay Refinery's water requirements.

The Port Dickson Refinery's clean water requirements 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.

Electricity and Steam

The Limay Refinery's electricity and steam requirements are sourced from the Limay Refinery's existing turbo and steam generators as well as from the SMC Powergen Power Plant, the new cogeneration 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 2015, approximately 88% of the Limay Refinery's electricity requirements were purchased from SMC Powergen Power Plant, which was commissioned in the second quarter of 2014.

The Port Dickson Refinery's electricity requirements are purchased from Tenaga Nasional Berhad, the Malaysian national electricity provider, while the Port Dickson Refinery's fired and waste heat boilers supply the steam requirements of the refinery's process units.

Sales and Marketing

Philippines

In the retail market, Petron has approximately 2,241 retail service stations throughout the Philippines as of September 30, 2016, representing about 29.0% of the total gasoline station count in the country of around 7,789 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 Petron's specifications, lease the service station equipment from Petron, and operate the DODOs. As of September 30, 2016, approximately 28.0% of retail service stations of Petron in the Philippines were CODOs, and approximately 72.0% 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 1,000 direct industrial account customers as of September 30, 2016. Petron is the leading market participant in the Philippine LPG market in terms of market share. It had set up more than 1,044 branch stores through its *Gasul* and *Fiesta Gas* LPG dealers as of September 30, 2016. 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 16 service stations throughout the Philippines. In 2011, Petron started supplying the LPG requirements of SMC plants. Petron commissioned eleven mini-refilling plants in the Philippines as of September 30, 2016 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 24 Car Care Centers, 22 Lube Centers, and 17 Motorcycle Centers throughout the Philippines as of September 30, 2016. 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.

Petron also actively pursues initiatives to improve customer service and promote customer loyalty. Petron launched the Petron Fleet Card, Petron e-Fuel Card, Petron Value Card and Petron Super Driver Card.

Malaysia

The fuels marketing business of Petron in Malaysia is divided into retail business and commercial sales.

In Malaysia, Petron uses the CODO and DODO operating structures for its retail service stations. As of September 30, 2016, approximately 71.0% and 29.0% of a network of approximately 575 retail service stations of Petron Malaysia were CODOs and DODOs, respectively, 260 of the service station sites had convenience stores, which generate non-fuel revenues and improve traffic in the service stations.

To further enhance the customer service experience in Malaysia, Petron launched the Fuel Happy campaign in March 2015 with many marketing activities and events organized to reward and enchant the customers.

In January 2016, Petron pioneered the country's first premium fuel with the roll out of the new Blaze 100 Euro 4M to eight pilot sites in Klang Valley. As of September 30, 2016, Blaze 100 is available in about 67 stations and 14 sites selling Euro 5M Automotive Diesel Oil ("ADO").

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. Petron's sales to unbranded mini-stations represented approximately 60.7% of such sales in Malaysia by volume for the first quarter of 2016, based on the company's estimates and information and data from Fahrenheit Research. 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.

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 thru its Petron Miles Privilege Cards.

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 2013, 2014 and 2015, the capital expenditures of Petron were ₱51.6 billion, ₱11.9 billion and ₱13.5 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 consolidated capital expenditures of Petron in 2015 was 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

Philippines

In the Philippines, Petron operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Oil Deregulation Act") 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, 2015, together constitute 65.2% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 200 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 3,800 stations as of September 30, 2016. 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 27.9% as of the first half of, 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 32.8% of the Philippine oil market, as of December 31, 2015, 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 200 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 31, 2015.

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 Petroliam 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

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 June 30, 2016, 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 September 30, 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 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.

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 ₱60 million in 2013, ₱66 million in 2014, and ₱65 million in 2015.

As of September 30, 2016, 26 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 Cogeneration Plant from Petron. SMC Global Power entered a joint venture with K-Water for the acquisition of the AHEPP 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, through its subsidiaries, initiated two greenfield power projects - the 2 x 150 MW Davao coal-fired power plant (the "Davao Greenfield Power Plant") and the 4 x 150 MW Limay coal-fired power plant (the "Limay Greenfield Power Plant"), respectively. SMC Global Power, through its subsidiaries, will also construct additional Greenfield coal-fired power projects in Mariveles, Bataan, and Pagbilao, Quezon, with initial capacities of 4 x 150 MW each. SMC Global Power is considering the further expansion of its power portfolio of additional capacity nationwide through greenfield power projects over the next few years, depending on market demand.

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 including the entire capacity of AHEPP. SMC Global Power also has two (2) greenfield power plants in the commissioning stages.

As of December 31, 2015, SMC Global Power had total assets of ₱331,210 million and revenues in 2015 of ₱77,507 million. As of September 30, 2016, SMC Global Power had total assets of ₱342,619 million and revenues of ₱60,700 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 mandated:

- 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;
- Removal of the monopoly distribution utilities held on retailing electricity within their franchise areas to allow retail competition; and
- RCOA 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. By June 26, 2016, the threshold for these end-users with the right to choose their electricity suppliers will be reduced to 750 KW.

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.

According to the DOE, peak demand is expected to grow significantly within the next five (5) years in line with the growth of the Philippine economy. 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% 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, through SMEC, Strategic Power Dev. Corp. ("SPDC") and SPPC.

Under 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 and will, in general, manage procurement of the fuel supply to the associated IPP. The IPPA has to 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, through SMEC, SPDC and SPPC, 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 at the end of the terms of the ECAs or PPAs. Under the IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have 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 at an 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.

IPPAs 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.

Competitive Strengths

Leading power company in the Philippines with a strong platform for future growth

SMC Global Power and its subsidiaries form one of the largest power companies in the Philippines based on its combined capacity of 2,903 MW. The subsidiaries of SMC Global Power, namely SMEC, SPDC and SPPC, are the IPPAs for the Sual, San Roque and Ilijan Power Plants, respectively, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. SMC Global Power also owns the 140 MW Limay Cogeneration Plant in Limay, Bataan and a 60% stake in Angat Hydropower Corporation ("AHC"), the owner and operator of the 218 MW AHEPP. Based on the total installed capacity of the market, SMC Global Power, through its subsidiaries, on a contracted capacity basis for the Sual, San Roque and Ilijan Power Plants and with the full capacity of the Limay Cogeneration Plant and the AHEPP, 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 September 30, 2016, based on the latest available resolution provided by the ERC - ERC Resolution No. 03, Series of 2015.

The IPPA business model provides SMC Global Power, through the IPPA subsidiaries, 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 or ongoing maintenance capital expenditures. The IPPA subsidiaries of SMC Global Power manage the amount of power to be produced by the IPP for supply to the customers of the IPPA and sell 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, through its subsidiaries, in acting as IPPA and its history of power plant ownership and operation, has enabled SMC Global Power to gain significant 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.

In addition, capitalizing on changes in the Philippine regulatory structure, SMC Global Power, through San Miguel Electric Corp. ("SMELC"), holds an RES license from the ERC allowing it to enter into offtake agreements with Contestable Customers. SMC Global Power, through SMEC and its subsidiaries, also maintains its coal concession assets which may serve as a back-up fuel source for its greenfield coal plants.

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. In terms of installed capacity in the Philippines, the Sual Power Plant is the largest coal-fired power plant, the San Roque Power Plant is one of the largest and newest hydro-electric power plants, and the Ilijan Power Plant is the largest natural gas-fired power plant.

The existing power portfolio of SMC Global Power consists of (i) IPPAs, covering coal-fired (Sual Power Plant through SMEC), which represents 34% of the capacity of SMC Global Power, hydro-powered (San Roque Power Plant through SPDC), which represents 12% of the capacity of SMC Global Power, and natural gas-fired (Ilijan Power Plant through SPI), which represents 41% of the capacity of SMC Global Power, (ii) the Limay Cogeneration Plant through SPI, which represents 5% of the capacity of SMC Global Power, and (iii) the AHEPP through AHC which represents 8% of the capacity of SMC Global Power, as of September 30, 2016. Power generated by the Sual and Ilijan Power Plants is primarily used as baseload supply, and sold to customers pursuant to offtake agreements. Power generated by the San Roque Power Plant and the AHEPP is used as peaking supply, and sold primarily through the WESM or as replacement power to affiliates. Power generated by the Limay Cogeneration Plant is 100% sold to Petron.

SMC Global Power believes that the size and diversity of the fuel supply of its power portfolio reduces the exposure of SMC Global Power and its customers to fuel-type specific risks such as variations in fuel costs, and regulatory concerns that are linked to any one type of power plant or commodity price. SMC Global Power believes that its management of the capacity of this 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 and its subsidiaries can enter into bilateral contracts and 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 ("**KEPCO**") and Mitsubishi Corporation. Since entering the power business, SMC Global Power has established relationships with internationally recognized fuel suppliers in Indonesia and Australia, as well as with its customers, including Manila Electric Company ("Meralco"), its largest customer. SMC Global Power believes that these well-established relationships provide a strong foundation for its existing business and a platform of potential partners for future expansion.

Well-positioned to capitalize on the anticipated growth of the Philippine electricity market

Over the period from 2015 to 2020, growth in demand for electricity in the Philippines is expected to grow robustly in pace with the Philippines' gross domestic product ("GDP"), according to the DOE. Construction of new power plants on average takes a minimum of three 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 capacity is built to meet the growing consumption.

SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the existing power supply shortage. The latter is exacerbated by an existing base of old Government-owned power plants, which are nearing the end of their useful life, as well as a large base of seasonal power supply such as the hydropower plants particularly in Mindanao. To meet this need, 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, through San Miguel Consolidated Power Corporation, SMC Consolidated Power Corporation and Limay Premiere Power Corp., is constructing two greenfield power projects with 600 MW of generation capacity which is expected to be commissioned by end 2016 and early 2017. 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 demand.

Strong parent company support

The principal shareholder of SMC Global Power, San Miguel Corporation, is a highly-diversified conglomerate with over 125 years of operations in the Philippines. San Miguel Corporation today has become one of the largest companies listed on the PSE in terms of revenues and assets. In addition to its power business, San Miguel Corporation has investments in vital industries that support the economic development of the country, including the food and beverage, packaging, fuel and oil, infrastructure, banking and property businesses.

Under the stewardship of San Miguel Corporation, SMC Global Power has become one of the market leaders in the Philippine power industry in a relatively short period. 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 San Miguel Corporation, 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 San Miguel Corporation, SMC Global Power believes that it can benefit from potential revenue and operational synergies with the SMC Group, and that it 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 and its subsidiaries intends to actively manage its sales and optimize the operations of its power plant portfolio to achieve a balanced mix of power sales through (1) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, and the contestable market, (2) sales through the WESM. This approach provides SMC Global Power with the certainty and predictability of sales from contracted sales while being able to capture sales 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.

Specifically, in case of high prices in the WESM, SMC Global Power can optimize its portfolio and take advantage of such pricing and 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 of 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 also leverages on the diversity of its portfolio to create operational synergies and improve its supply offers to offtakers. Having a portfolio of baseload, mid-merit, and peaking power plants utilizing different fuel sources allows SMC Global Power to actively respond to the needs of its offtakers and the market, particularly with regard to replacement power and pricing competitiveness.

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 planned improvements in the interconnectivity of the Luzon and Visayas grids, as well as, the eventual interconnectivity and implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by strategically locating them in high-demand areas and in proximity to the grid. SMC Global Power is considering the further expansion of its power portfolio of new capacity nationwide through greenfield power projects over the next few 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 for its planned and contemplated greenfield power projects.

Vertically Integrate Complementary Businesses

SMC Global Power intends to continue to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained an RES license through SMELC to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the retail electricity supplier license allows SMC Global Power through SMELC to enter into retail electricity supply agreements with Contestable Customers. In addition, SMC Global Power has invested in distribution assets, namely OEDC and APEC, which create a competitive advantage through integrated generation and distribution operations. On the other hand, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy Resources, Inc. (“Bonanza Energy”), Daguma Agro Minerals, Inc. (“Daguma Agro”) and Sultan Energy Philippines Corp. (“Sultan Energy”), has acquired coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao. If SMC Global Power is able to develop these assets and commence mining operations successfully, SMC Global Power, through SMEC and its subsidiaries, expects that these assets could potentially provide a source of coal fuel supply for its greenfield power projects. SMC Global Power believes that such vertical integration will provide it with a competitive advantage in the Philippine power market.

The table below summarizes certain operating metrics in respect of the three (3) power generation facilities owned or administered by SMC Global Power:

Project	Placed in service	Date SMC Global Power assumed operations	Operator	Installed capacity (MW)	Fuel	Energy Generation (GWh) [1] Jan-Sep 2015	Energy Generation (GWh) [1] Jan-Sep 2016	Capacity Utilization (%) Jan-Sep 2015	Capacity Utilization (%) Jan-Sep 2016	Availability Factor (%) Jan-Sep 2015	Availability Factor (%) Jan-Sep 2016
Sual	10/25/1999	11/6/2009	TeaMSual Corp	2 x 500[1]	Coal	5,071	5,362	77.25	81.24	92.75	93.13
Ilijan	6/5/ 2002	6/26/ 2010	KEILCO	2 x 600	Gas	5,315	6,229	67.29	78.65	80.92	93.69
San Roque	5/1/ 2003	1/26/2010	SRPC	345	Hydro-electric	736	467	32.25	20.52	97.86	98.42
Limay Cogen	5/6/2013	9/23/2013	Petron Corporation	4x35 MW	Coal/ Petcoke	408	408	63	62	92	90
Angat	Main 1 & 2 and Aux 1 & 2 – 1967 Main 3 & 4 – 1968 Aux 3 – 1978	November 2014	Angat Hydropower Corporation	218 MW	Hydro-electric	79.08	84.09	13.63	18.75	79.08	84.09

Notes:
(1) Installed capacity is 2 x 647 MW but contracted capacity of the Sual Power Plant is 2 x 500 MW

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 nine months ended September 30,	
	2013	2014	2015	2015	2016
	(₱ in millions, except percentages)				
Sales	74,044	84,294	77,507	58,997	60,700
Gross profit	22,089	28,807	28.607	22,694	26,539
Gross profit margin[1]	29.8%	34.2%	36.9%	38.5%	43.7%
EBITDA[2]	8,052	10,150	5,458	4,808	7,255
EBITDA margin[3]	10.9%	12.0%	7.0%	8.1%	12.0%
Net income before tax	3,206	13,323	4,532	3,410	9,205
Net income before tax margin[4]	4.3%	15.8%	5.8%	5.8%	15.2%

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 Agro, Bonanza Energy, and Sultan Energy, owns various coal properties that it may develop as a hedge against international coal price fluctuations.

The following table sets forth offtake arrangement pursuant to PSCs for the major operating and contracted plants 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.

Plant	Customer	% of Total Bilateral Volume Sold as of September 30, 2016	Expiration of PSCs
Sual	MERALCO	34.79%	26-Dec-19 extendable to 24-Oct-24
	MPOWER	9.95%	26-Dec-19 extendable to 24-Oct-24
	CEDC	6.74%	26-Dec-19 extendable to 24-Oct-24
	PAMPANGA II ELECTRIC COOPERATIVE, INC.	5.55%	25-Dec-19
	SMELC	4.80%	25-May-28
	CENTRAL PANGASINAN ELECTRIC COOPERATIVE	4.50%	25-Dec-23
	ISABELA I ELECTRIC COOPERATIVE	3.81%	25-Dec-18
	ILOCOS NORTE ELECTRIC COOPERATIVE	3.20%	25-Dec-16
	OLONGAPO ELECTRICITY DISTRIBUTION COMPANY INC.	2.37%	25-Dec-23
	ISABELA II ELECTRIC COOPERATIVE INC.	2.16%	COD - Limay
	HANJIN - SUBIC ENERZONE	2.10%	25-Feb-18
	NORTHERN CEMENT CORPORATION	2.05%	COD - Limay
	QUEZON 1 ELECTRIC COOPERATIVE	1.70%	25-Dec-16
	PAMPANGA III ELECTRIC COOPERATIVE, INC.	1.68%	25-Dec-18
	NUEVA VIZCAYA ELECTRIC COOPERATIVE	1.59%	25-Dec-26
	TARLAC 2 ELECTRIC COOPERATIVE	1.48%	COD - Limay
	CAMARINES SUR III ELECTRIC COOPERATIVE	1.24%	25-Dec-16
	OCEANAGOLD PHILIPPINES INC	1.10%	25-Dec-30
	PENINSULA ELECTRIC COOPERATIVE	1.02%	COD - Limay
	PANGASINAN III ELECTRIC COOPERATIVE	1.01%	COD - Limay
	CAMARINES SUR I ELECTRIC COOPERATIVE	0.72%	COD - Limay
	REAL STEEL CORPORATION	0.61%	COD - Limay
	SUBIC ENERZONE CORPORATION	0.59%	25-Dec-22
	PHILIPPINE POLYPROPYLENE INC.	0.59%	25-Dec-18
	CAMARINES SUR II ELECTRIC COOPERATIVE	0.55%	COD - Limay
	SKK STEEL CORPORATION	0.54%	25-Dec-16
	ILOCOS SUR ELECTRIC COOPERATIVE INC	0.51%	COD - Limay
	TARLAC 1 ELECTRIC COOPERATIVE	0.51%	COD - Limay
	LEPANTO CONSOLIDATED MINING CORPORATION	0.50%	25-Dec-16
	QUANTA PAPER CORPORATION	0.22%	25-Dec-17
	ALBAY POWER AND ENERGY CORP	0.21%	Month-to-Month Extension
	GRAND PLANTERS INTERNATIONAL, INC.	0.18%	26-Dec-17
	CONSORT LAND INC.	0.16%	25-Dec-16
	SAN MIGUEL MILLS INC.	0.15%	COD - Limay

	NPC ALLIANCE CORPORATION	0.15%	25-Dec-17
	FORMOSA Ceramic Tiles Mfg. Corp.	0.12%	25-Dec-18
	OLIVER ENTERPRISES	0.11%	25-Dec-18
	CENTRAL AZUCARERA DE TARLAC	0.11%	25-Dec-17
	CENTERRA CORPORATION	0.10%	25-Dec-17
	PARTIDO RICE MILL CORPORATION	0.10%	25-Dec-18
	ALINDECO	0.06%	25-Dec-17
	BASA AIR BASE	0.06%	25-Dec-18
	CONSERBEST ICE PLANT	0.06%	25-Dec-18
	NORTH LUZON TRITON MALL, INC.	0.06%	25-Dec-19
	RGS ICE PLANT	0.04%	25-Dec-18
	INGASCO INCORPORATED	0.03%	25-Dec-16
	PUYAT FLOORING PRODUCTS, INC.	0.03%	25-Dec-16
	ITOGON-SUYOC RESOURCES, INC.	0.02%	25-Dec-17
	PHIL. RADIO EDUCATION & INFORMATION CENTER, INC.	0.02%	25-Dec-17
	GALLINTINA INDUSTRIA CORPORACION	0.02%	25-Dec-18
	RJS COMMODITIES	0.02%	25-Dec-17
	KABAYAN ICE PLANT	0.01%	25-Dec-18
	COASTAL BAY	0.01%	25-Dec-18
	DISTILERIA BAGO, INC	0.00%	25-Dec-18
	SAN MIGUEL BREWERY, INC. (BACOLOD)	0.00%	25-Dec-18
	GREEN INNOVATIONS FOR TOMORROW CORP.	0.00%	25-Feb-16
Ilijan	MERALCO	88.62%	25-Dec-19 extendable to June 2022
	MANILA ELECTRIC COMPANY (SUNPOWER LAGUNA)	0.30%	25-Dec-19
	MANILA ELECTRIC COMPANY (SUNPOWER BATANGAS)	2.57%	25-Dec-19
	MPOWER	8.51%	25-Dec-19 extendable to June 2022
Limay Cogen	PETRON CORPORATION	100.00%	22-Sep-38

Extent of Power Generation Facilities

Sual Power Plant

Background

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 Energy, which is a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

On September 1, 2009, SMEC, a wholly owned subsidiary of SMC Global Power, was declared the winning bidder and received the notice of award for the IPPA for the Sual Power Plant. On November 6, 2009, SMEC assumed the administration of the Sual Power Plant in accordance with the provisions of the IPPA Agreement.

Sual IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SMEC, has the contractual right to manage, control, trade, sell or otherwise deal in up to 1,000 MW of the generation capacity of the Sual Power Plant pursuant to Sual IPPA Agreement. TeaM (Philippines) Energy Corporation ("TPEC"), an affiliate of TeaM Energy, can sell the remaining balance. TeaM Energy, as the IPP, has the right to generate power in excess of the dispatch instructions of SMEC and to sell such excess generation. For purposes of this Prospectus, the contracted capacity of the Sual Power Plant is 1,000 MW.

SMEC must supply and deliver, at its own cost, the fuel that is necessary for the power plant to generate the power that SMEC requires TeaM Energy to produce. TeaM Energy is responsible for supplying fuel at its own cost to the Sual Power Plant to produce power in excess of the dispatch instructions of SMEC.

IPPA Fees

SMEC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month set out in the Sual IPPA Agreement. The specific amount of the fixed monthly payments under the Sual IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month in which a unit of the Sual Power Plant is unable to produce power for at least three non-delivering days, these agreed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which a unit is unable to produce power for reasons specified in the Sual IPPA Agreement, including planned and unplanned outages arising from causes not attributable to SMEC.

In addition, SMEC 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.

Other Provisions

Offtake agreements with certain customers were also assigned to SMEC by NPC/PSALM. SMEC is required to perform the obligations of NPC under the NPC-assigned offtake agreements, including the obligation to procure power at its own cost to meet deficiencies, in cases where the Sual Power Plant is unable to supply the contracted power. To date, all assigned offtake agreements have expired. SMEC is also required to maintain a U.S.$58 million performance bond in favor of PSALM. PSALM remains responsible to TeaM Energy for the payment obligations of NPC under the Sual ECA.

While SMEC is granted the right to coordinate with TeaM Energy, on behalf of NPC, on matters relating to management of the generation capacity of the Sual Power Plant, SMEC cannot directly enforce the Sual ECA against TeaM Energy or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the Sual IPPA Agreement arising from the breach by TeaM Energy of its Sual ECA obligations must be claimed by SMEC against PSALM through an equivalent relief claim ("ER Claim"). PSALM will then include the ER Claim in its claims against TeaM Energy (the "PSALM ER Claim"). The Sual IPPA Agreement does not permit set-off of claims, and SMEC is only entitled to payment of its ER Claim after PSALM has received payment from TeaM Energy of its corresponding PSALM ER Claim.

Under the Sual IPPA Agreement, SMEC has the option to acquire the Sual Power Plant in October 2024 without any additional payment by SMEC. SMEC may exercise the option to acquire the Sual Power Plant prior to October 2024 under certain circumstances, such as changes in law or non-performance by TeaM Energy of its obligations under the Sual ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Sual IPPA Agreement.

The Sual IPPA Agreement may be terminated by either SMEC or PSALM due to certain force majeure events. In case of such termination, SMEC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SMEC up to the date of termination less the aggregate capital recovery fees, fixed operating and maintenance fees, infrastructure fees and service fees paid or payable by PSALM up to the termination date of the Sual IPPA Agreement.

Power Offtakers

Unit 1 of the Sual Power Plant is fully contracted to Meralco under a long-term offtake agreement expiring 2019 subject to extension up to 2024, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives and industrial customers under existing PSCs.

For PSCs assigned by PSALM to SMEC, the rate is based on the prevailing rate structure of NPC as approved by the ERC. While the aforementioned PSCs have expired, SMEC has entered into new contracts with many of the same customers, and sold the remaining capacity to new customers.

For energy based contracts entered into by SMEC directly with new offtakers on a bilateral basis (or with those offtakers under previously assigned offtake agreements which have expired), pricing is based on a reasonable return over the cost structure of SMEC and benchmarked to the basic rates of NPC. 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 similar to the Automatic Cost Adjustment Mechanism ("ACA") charge of NPC.

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.

For capacity-based contracts, pricing is based on a fixed and variable payment. The fixed payment represents the monthly fixed payments to PSALM and fixed operating and maintenance expenses. The variable payment represents the energy fee, fuel and variable operating and maintenance expense.

Fuel Supply

SMEC has an existing coal supply agreement with Banpu and KPC which will ensure a steady supply of coal for SMEC. It also has coal supply agreements with other suppliers.

Operations and Maintenance

The Sual Power Plant is operated by TeaM Energy. Under the Sual ECA, TeaM Energy is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant. TeaM Energy is required to use its best endeavors to ensure that the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMEC under the Sual IPPA Agreement, into electricity in a safe and reliable manner.

The maintenance plan for the Sual Power Plant is agreed upon annually between SMEC, NPC, PSALM, National Grid Corporation of the Philippines ("NGCP") and TeaM Energy. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage. Planned outages for maintenance are scheduled in such a way that only one unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SMEC and recommendations of the plant manufacturer. TeaM Energy is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. TeaM Energy performs periodic maintenance activities on the generating units of the Sual Power Plant during the course of the operations of the plant. The Sual ECA requires TeaM Energy to conduct an annual test to check the capacity and heat rate of the generating units of the Sual Power Plant, if requested by SMEC.

Each of the generating units of the Sual Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 30 days per calendar year. SMEC also expects that TeaM Energy will shut down these units for more significant maintenance and repair work for a total of approximately 60 days in every fifth calendar year.

Power Transmission

Power from the Sual Power Plant is transmitted through a 25-kilometer 230 kV transmission line from the Sual Power Plant switchyard to the Kadampat Substation located at Labrador, Pangasinan. The transmission line is owned by the National Transmission Corporation ("TransCo") and operated and maintained by its concessionaire, NGCP

San Roque Power Plant

Background

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 power purchase agreement with NPC under a BOT scheme (the "San Roque PPA").

The San Roque Power Plant utilizes the Agno River for peaking power, irrigation, flood control and water quality improvement for the surrounding region, and comprises three power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 gigawatt hours ("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, 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 the San Roque PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

Power Plant Capacity

PSALM and SMC Global Power (through SPDC) executed the San Roque IPPA Agreement pursuant to which SPDC 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, obtained and maintains water rights necessary for the testing and operation of the power plant. SPDC 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 San Roque PPA of NPC with San Roque Power Corporation ("SRPC"). In addition, SPDC must pay fixed monthly payments comprising both a U.S. dollar and Peso component. These fixed monthly payments are reduced when there is a plant outage for reasons not attributable to SPDC. In addition, SPDC pays a fixed generation fee of ₱1.30 per KWh. While the contracted capacity of SPDC is 345 MW, it may generate up to 411 MW depending on the water level and inflow to the San Roque reservoir. Accordingly, for purposes of this Prospectus, the contracted capacity of the San Roque Power Plant is referred to as 345 MW.

Minimum Run Rate

The San Roque PPA requires NPC to Take-or-pay for a minimum amount of power from the San Roque Power Plant. The minimum amount required increases from 85 MW through April 2007, 95 MW from May 2007 through April 2013, 110 MW from May 2013 through April 2017 and 115 MW from May 2018 through April 2028. Under the San Roque IPPA Agreement, SPDC is contractually obligated to purchase the minimum amount of power that NPC is obligated to Take-or-pay for under the San Roque PPA.

IPPA Fees

SPDC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month as set out in the San Roque IPPA Agreement. The specific amount of the fixed monthly payments under the San Roque IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month that the San Roque Power Plant is unable to produce power for at least three non-delivering days, these fixed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which the San Roque Power Plant is unable to produce power for reasons specified in the San

Roque IPPA Agreement, including unplanned outages arising from causes not attributable to SPDC. No reduction in the fixed payment is made if the San Roque Power Plant is unable to produce power due to planned outages.

The energy fee is computed based on the actual energy delivered by the San Roque Power Plant at a fixed price of ₱1.30 per kWh. The actual energy delivered and dispatched by the San Roque Power Plant at any given time is dependent on the water levels in the reservoir and downstream irrigation requirements at that time.

Other Provisions

The San Roque IPPA Agreement requires SPDC to maintain a performance bond in favor of PSALM equivalent to U.S.$20 million. Under the San Roque IPPA Agreement, SPDC 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.

While SPDC is granted the right to coordinate with SRPC, on behalf of NPC, on matters relating to management of the generation capacity of the San Roque Power Plant, SPDC cannot directly enforce the San Roque PPA against SRPC or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the San Roque IPPA Agreement arising from the breach of SRPC of its San Roque PPA obligations must be claimed by SPDC against PSALM through the ER Claim and the PSALM ER Claim mechanism. Under the San Roque IPPA Agreement, SPDC has the option to acquire the San Roque Power Plant in May 2028 without any additional payment by SPDC. SPDC may exercise the option to acquire the San Roque Power Plant prior to May 2028 under certain circumstances, such as changes in law or non-performance by SRPC of its obligations under the San Roque PPA. In the case of non-performance by SRPC, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the San Roque IPPA Agreement. Upon the occurrence of a change in law, SPDC is required to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPDC up to the date of termination less the aggregate capacity fees and operating fees paid or payable by PSALM to the IPP under the IPPA Agreement up to the termination date of the San Roque IPPA Agreement.

The San Roque IPPA Agreement may be terminated by either SPDC or PSALM due to certain force majeure events. In case of such termination, SPDC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPDC up to the date of termination less the aggregate capital recovery, operating and watershed management fees paid or payable by NPC/PSALM to SRPC from the effective date of the San Roque IPPA Agreement up to the termination date of the San Roque IPPA Agreement.

The San Roque Power Plant is a peaking plant. Under the terms of the San Roque PPA, power and energy are delivered to SPDC 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. SPDC is responsible for contracting with the NGCP to wheel power from the delivery point.

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 of the Philippines. 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 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. If necessary, no further water release for power generation is allowed.

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 SPDC, 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 Corporation and Kansai Electric Power Company Ltd. 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 SPDC, 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 San Roque PPA.

The maintenance plan for the San Roque Power Plant is agreed upon annually between SPDC, NPC, PSALM, NGCP and SRPC. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for maintenance of the generating units are scheduled in such a way that only one unit is shut down at any given time. The power tunnel that delivers water from the reservoir to the generating units also undergoes routine annual maintenance inspections, during which all units are shut down. The maintenance plan is established with consideration given to the dispatch requirements of SPDC and recommendations of the plant manufacturer. SRPC is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. SRPC performs periodic maintenance activities on the generating units of the San Roque Power Plant during the course of the operation of the plant. The San Roque PPA requires SRPC to conduct an annual test to check the capacity of the generating units of the San Roque Power Plant. As of the date of this Prospectus, the generating units of the San Roque Power Plant have attained and maintained the required contracted capacity specified in the San Roque PPA.

Each of the generating units of the San Roque Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 15 days per calendar year sometime between April to June of each year, when water levels at the reservoir are low. Since 2010, during periods when a generating unit is shut down for routine maintenance, the San Roque Power Plant has historically been, and is expected to continue to be, able to generate power at the applicable minimum run rate from the other generating units. The San Roque Power Plant does not have a regular schedule for significant maintenance and repair work.

The power tunnel that delivers water from the reservoir to the generating units also undergoes routine maintenance inspections for approximately 15 days per calendar year. Power tunnel inspections historically have been, and are expected to continue to be, conducted between April to June of each year, after the end of the irrigation period and when water levels at the reservoir are low.

Power Transmission

Power from the San Roque Power Plant is transmitted through a nine-kilometer 230 kV transmission line from the San Roque Power Plant switchyard to the San Manuel substation located in Pangasinan. The transmission line is owned by TransCo, and operated and maintained by NGCP.

Ilijan IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SPPC, has the contractual right to manage, control, trade, sell or otherwise deal in the generation capacity of the Ilijan Power Plant pursuant to the Ilijan IPPA Agreement. Although the installed capacity of the Ilijan Power Plant totals 1,271 MW, ERC records attribute to SPPC a capacity of 1,200 MW for the Ilijan Power Plant. Accordingly, for purposes of this Prospectus, the contracted capacity of the Ilijan Power Plant is referred to as 1,200 MW.

Under the Ilijan ECA, NPC/PSALM is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant. If natural gas is unavailable, SMC Global Power, through SPPC, may require KEILCO to run the Ilijan Power Plant using diesel fuel. NPC/PSALM remains responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant.

IPPA Fees

SPPC must pay fixed monthly payments comprising both a U.S. dollar and Peso component. In addition, SPPC 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.

As discussed in Note 28(b), Note 27(b) and Note 27(a) of the Issuer’s audited consolidated financial statements, as of and for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, respectively, the Issuer and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Plant to Meralco under its PSA with the latter.

Other Provisions

SPPC is required to maintain a U.S.$60 million performance bond in favor of PSALM. PSALM remains responsible to KEILCO for the payment obligations of NPC under the Ilijan ECA.

While SPPC is granted the right to coordinate with KEILCO, on behalf of NPC, on matters relating to management of the generation capacity of the Ilijan Power Plant, SPPC cannot directly enforce the Ilijan ECA against KEILCO or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the Ilijan IPPA Agreement arising from the breach of KEILCO of its obligations under the Ilijan ECA must be claimed by SPPC against PSALM through the ER Claim and the PSALM ER Claim mechanism.

Under the Ilijan IPPA Agreement, SPPC has the option to acquire the Ilijan Power Plant in June 2022 without any additional payment by SPPC. SPPC may exercise the option to acquire the Ilijan Power Plant prior to June 2022 under certain circumstances, such as changes in law or non-performance by KEILCO of its obligations under the Ilijan ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Ilijan IPPA Agreement.

The Ilijan IPPA Agreement may be terminated by either SPPC or PSALM due to certain force majeure events. In case of such termination, SPPC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPPC up to the date of termination less the aggregate capital recovery fees and fixed operating and maintenance fee paid or payable by NPC/PSALM to KEILCO from the effective date of the Ilijan IPPA Agreement up to the termination date of the Ilijan IPPA Agreement.

Power Offtakers

The entire capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreement up to 2019, which can be extended up to the end of the IPPA.

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 between 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

KEILCO is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years from June 2002. Under the Ilijan ECA, KEILCO is required to operate the Ilijan Power Plant pursuant to certain operating criteria and guidelines, including the output of 1,200 MW guaranteed contracted capacity, base load operation, and spinning reserve capability. Under the Ilijan ECA, KEILCO is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Ilijan Power Plant.

The maintenance plan for the Ilijan Power Plant is agreed upon annually between SPPC, NPC, PSALM, NGCP and KEILCO. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for maintenance are scheduled in such a way that only one unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SPPC and recommendations of the plant manufacturer. KEILCO is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. KEILCO performs periodic maintenance activities on the generating units of the Ilijan Power Plant during the course of the operations of the plant. The Ilijan ECA requires KEILCO to conduct an annual test to check the capacity of the generating units of the Ilijan Power Plant.

Each of the generating units of the Ilijan Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 26 days per calendar year. SPPC also expects that KEILCO will shut down these units for more significant maintenance and repair work for a total of 35 to 43 days in every fifth calendar year.

Power Transmission

Power from the Ilijan Power Plant is transmitted through a 500 kV transmission line that connects to the Luzon grid through the Ilijan-Dasmarinas line and Ilijan-Tayabas line. The transmission line is owned by TransCo, and operated and maintained by NGCP.

Limay Cogeneration Power Plant

The Limay Cogeneration Plant is a 4 x 35 MW fuel-fired cogeneration power plant located in Barangay Lamao, Limay Bataan. Phase 1 (70 MW) of the Limay Cogeneration Plant commenced commercial operations in May 6, 2013, while Phase 2 (70 MW) commenced commercial operations on May 19, 2014. The engineering, procurement, and construction contractors of the Limay Cogeneration Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation.

SMC Global Power, through its subsidiary SPI, acquired the Limay Cogeneration Plant from Petron in September 2013. SPI acts as the IPP of the Limay Cogeneration Plant while Petron remains responsible for the operation and maintenance of the Plant.

Petron has the right of first refusal in case of sale of the Limay Cogeneration 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 Cogeneration 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 Cogeneration Plant was designed to operate on coal and/or petcoke. Petron is expected to supply petcoke, a byproduct of RMP-2 operations. Currently, the Limay Cogeneration is intended to use a mix of coal and petcoke from RMP-2.

Operations and Maintenance

Petron also serves as the operations and maintenance contractor for the Limay Cogeneration Plant under a 25-year operations and maintenance contract. Under this contract, Petron has the responsibility to operate and maintain the Limay Cogeneration Plant at par with the industry standards.

AHEPP

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. K-Water assigned its rights in favor of AHC, a joint venture between K-Water and PVEI, a subsidiary of SMC Global Power.

The project has a total electricity generating capacity of 218 MW, comprising of four (4) main units and three (3) auxiliary units of 6-MW capacity each. The Main Units 1 and 2 were commissioned in 1967 and the Main Units 3 and 4 in 1968. The Auxiliary Units 1 and 2 were commissioned in 1967 and the Auxiliary Unit 3 in 1978. The 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. 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 the following two (2) purposes:

- Water resources from water discharged through Auxiliary Units and through the spillway flows to the Ipo reservoir are used to supply 97.0% of the residential drinking water of Metro Manila; and
- Water resources from water discharged through Main Units flows downstream to the Bustos reservoir 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 majority 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 during 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 2016.

Operations & Maintenance

AHC undertakes the operation and maintenance of AHEPP in-house. The operations and maintenance team consists of the incumbent local technical team who have been operating the AHEPP supported by technical experts seconded from K-Water.

AHC has entered 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 acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao, which may provide a source of coal fuel supply for its planned and contemplated greenfield power projects. Such assets are in the exploratory stage. The mines of SMC Global Power are envisioned to provide back-up fuel supply for the two (2) new greenfield projects under construction.

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 IPPA in the country, with a 16.5% share of the power supply of the national grid, and a 22.2% market share of the Luzon grid based on the latest available ERC data as of September 2016. 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. Multinationals 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 establishment of the WESM, implementation of mandatory Competititve Selection Process (CSP) for distribution utilities, and the creation of the regime of Open Access and Retail Competition, expands the market a generator or power supplier can tap while promoting competition. For Open Access and Retail 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. The one (1) MW threshold was reduced to 750 kW on June 26, 2016. SMC Global Power is a holder of an RES License through its subisidiary, 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.

Compliance with Environmental Law

Power operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the 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 the physical safety and health of the employees.

SMC Global Power complies, and it 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.

The Sual Power Plant received its Environmental and Management System Certificate (ISO 14001) in 2004, its Occupational Standard on Health Safety Certificate (ISO 18001) in 2007 and its Quality Management System Certificate (ISO 9001) in 2008.

For each of its greenfield power projects, SMC Global Power will comply with all applicable safety, health and environmental laws and regulations, including securing the necessary Environmental Compliance Certificate ("ECC") in accordance with Philippine law.

In addition, coal mining in the Philippines is subject to environmental, health and safety laws, forestry laws and other legal requirements. These laws govern the discharge of substances into the air and water, the management and disposal of hazardous substances and wastes, site clean-up, groundwater quality and availability, plant and wildlife protection, reclamation and rehabilitation of mining properties after mining is completed and the restriction of open-pit mining activities in conserved forest areas.

Notwithstanding the foregoing, the discharge of chemicals, other hazardous substances and pollutants into the air, soil or water by the power plants owned or managed by SMC Global Power or the coal mines of SMC Global Power may give rise to liabilities to the Government and to local Government units where such facilities are located, or to third parties. In addition, SMC Global Power may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

Further, 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 that SMC Global Power make additional capital expenditures or incur additional operating expenses in order to maintain the operations of its generating facilities at their current level, curtail power generation or take other actions that could have a material adverse effect on the financial condition, results of operations and cash flow of SMC Global Power.

Insurance

The IPPs of the IPPA Power Plants are responsible for maintaining insurance for all the facilities, equipment and infrastructure for those Power Plants, except for the dam and spillway of the San Roque Power Plant, for which NPC is obligated to maintain insurance coverage. SMC Global Power is not, however, a beneficiary of any of these insurance policies since ownership of these plants will only be transferred to SMC Global Power at the end of the term of the IPPA Agreements.

SMC Global Power has secured the necessary insurances for the power plants that it owns to cover significant insurable risks.

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, a bulk water supply 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 ……………………………………..	70.11%[(1)]	₱29,306	US$ 604[(11)]	35 years
Boracay Airport ……………………………………..	99.80%[(2)]	₱11,545	US$ 238[(11)]	25 years
MRT-7 ……………………………………………….	100.00%[(3)]	₱71,579	US$1,476[(12)]	25 years
SLEX Toll Road (TR) 1, 2, & 3.……………………	76.00%[(4)]	Completed	-	25 years
SLEX TR4…………..………………………………	76.00%[(4)]	₱16,690[(4)]	US$ 344[(11)]	25 years
Skyway Stage 1 & 2………………………………..	83.45%[(5)]	Completed	-	25 years
Skyway Stage 3……………………………………..	84.45%[(6)]	₱ 47,184	US$ 973[(11)]	30 years
Skyway Stage 4……………………………………..	86.58%[(7)]	₱ 52,704	US$1,087[(11)]	30 years
NAIAx………………………..........................	100.00%	₱ 26,543	US$ 547[(11)]	30 years
Star Tollway …………………………………………	100.00%[(8)]	Completed	-	30 years
Manila North Harbor………………………………..	67.22%[(9)]	₱ 22,000	US$ 454[(11)]	30 years
Bulacan Bulk Water Supply Stage 1 & 2…………	90.00%[(10)]	₱ 7,850	US$ 162[(11)]	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. 400,000 worth of shares are reserved for PNCC for future subscription.
(7) Ownership through SMHC equity interest: 95.0% SMHC to SMCI, 86.58% SMCI to CITI.
(8) Ownership through SMHC equity interest: 100% SMHC to Sleep Coop, 40.0% Sleep Coop to CTCII, 100.0% CTCII to SIDC and 100.0% SMHC to Wiselink, 60.0% Wiselink to CTCII and 100.0% CTCII to SIDC.
(9) Ownership through SMHC equity interest: 43.33% SMHC to MNHPI and through Petron equity interest: 68.26% SMC to Petron and 35% Petron to MNHPI
(10) Ownership through SMHC equity interest: 90% SMHC to LCWDC
(11) Conversion rate used – US$ 48.50 / ₱ as of September 30, 2016.
(12) 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:

- Regional Airports Bundle 1
- Regional Airports Bundle 2
- Davao Sasa Port Modernization Project
- LRT Line 2 Operations and Maintenance
- North-South Railway Project (South Line)
- LRT Line 4
- LRT Line 6
- New Centennial Water Source - Kaliwa Dam Project
- Regional Prison Facilities Project

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 with an increase in gross regional domestic product growth rate of about 5.1% to 5.9% from 2014 to 2015, 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 is also currently progressing the development of the following projects: Boracay Airport, Manila North Harbor, TPLEX and NAIAx. NAIAx is expected to be fully completed by end of December 2016 with partial operations starting last September 22, 2016.

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,			As of and for the nine months ended September 30, 2016	CAGR (2013 –2015)
	2013	2014	2015		
	Annual Average Daily Traffic ("AADT")				(%)
SLEX TR 1, 2 & 3	231,234	247,124	277,810	307,724	10%
Skyway Stages 1 & 2	218,553	228,079	241,906	249,560	5%
STAR	29,724	33,436	41,148	47,125	18%
TPLEX*………………………….......		8,488	12,750	14,812	50%

**partial operations – Sections 1 and 2*

SMHC also has ongoing projects such as SLEX TR4, Skyway Stage 3, Skyway Stage 4, Bulacan Bulk Water Supply and MRT-7 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 Matiére 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 Philipine 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 other 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 are provided below for the periods indicated:

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2013	2014	2015	2015	2016
	(₱ in millions, except percentages)				
Revenue	6,473	9,657	13,288	9,004	14,672
Gross profit	4,670	383	8,971	6,166	9,969
Gross profit margin(1)	72.1%	4.0%	67.5%	68.5%	67.9%
EBITDA(2)	3,111	1,672	9,082	6,958	9,832
EBITDA margin(3)	48.1%	17.3%	68.3%	77.3%	67.0%
Net income before tax	1,103	555	2,731	2,673	3,167
Net income before tax margin(4)	17.0%	5.7%	20.6%	29.7%	21.6%

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 eight (8) 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"), CAVITEX and MCX. Out of the eight (8) 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 55.64% of the total road length of awarded toll road projects in the country.

TOLL ROAD PROJECT	Length (km)	Status
San Miguel Corporation (SMC)		
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

NAIAx	5.40	Ongoing construction
Skyway Stage 3 (NLEX-SLEX Link SMC)	14.82	Ongoing construction
Skyway Stage 4 (C6 Project)	34.81	Detailed Design Stage
SLEX TR4	57.04	Detailed Design Stage
TOTAL SMC……………………………………	**308.48**	**55.64%**
Others		
Subic Clark Tarlac Expressway (SCTEX)	93.77	Operational
North Luzon Expressway (NLEX)	89.12	Operational
CAVITEX	13.75	Operational
Cavite Laguna Expressway (CALAX)	45.35	Awarded by DPWH to MPIC
Muntinlupa Cavite Expressway (MCX)	4.00	Operational
TOTAL OTHERS………………………………….	**245.99**	**44.36%**
GRAND TOTAL……………………………………	**554.47**	**100.0%**

TPLEX

In August 2009, SMC made its first infrastructure investment by acquiring a 35.0% (currently 70.11%) 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) for seamless toll system management and for the convenience of motorists.

Project cost for the development of TPLEX is estimated at ₱29,306 million, 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. Binalonan exit in Section 2 opened last July 2016. The remainder of the expressway from Urdaneta to Rosario is projected to be completed by Q2 2018. In 2015, the AADT of TPLEX is around 12,750 vehicles. By September 30, 2016, AADT increased by about 16.2% to 14,812 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 2015, SLEX had an AADT of around 277,810 vehicles. As of September 30, 2016, SLEX registered a strong 10.77% growth in vehicular traffic which is approximately 307,724 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 Q4 2016 which involves a 57.04 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 ₱16,690 million 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 2015, the AADT of Skyway Stages 1 and 2 is at 241,906 vehicles. As of September 30, 2016, the AADT for Skyway Stage 1 and 2 increased to about 249,560 vehicles, representing a 3.2% increase compared to the AADT last year.

As of December 31, 2015, 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) with an estimated to cost of ₱47,184 million. Target completion date is Q1 2019.

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.

As of December 31, 2015, S3HC, a 95.0% owned subsidiary of SMC, has an ownership interest of 88.89% in CCEC.

Skyway Stage 4

Skyway Stage 4 is a 34.81 km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 serves as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis. The project covers a concession period of 30 years (from start of operations), with an estimated cost of ₱52,704 million. Target completion date is 2022.

On February 17, 2014, CITI was incorporated as a stock corporation under the laws of the Republic of the Philippines to engage in the construction of toll roads, toll road facilities, including but not limited to the Metro

Manila Expressway (MME) or C6 and any of its stages, linkages and extensions pursuant to a build and transfer or other scheme duly approved by the appropriate Philippine authorities. Subsequently, the Supplemental Toll Operation Agreement ("STOA") covering the Skyway Stage 4 project was executed on July 4, 2014 among TRB, PNCC, and CITI.

As of December 31, 2015, SMCI, a 100.0% owned subsidiary of SMC, has an ownership interest of 86.58% in CITI.

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 41,148 vehicles in 2015. As of September 30, 2016, the AADT in STAR Tollway is 47,125, representing a 14.5% increase compared to 2015 AADT levels.

With the acquisition of Sleep Coop and Wiselink by SMHC, CTCII became a 100.0% owned subsidiary of SMC.

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 ₱26,543 million 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.

Partial operations of Phase 2A commenced last September 22, 2016 while Phase 2B is targeted to be completed and fully operational by December 2016.

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 99.80% 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 2015, approximately 439,701 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: (i) upgrade and extension of the runway, from original scale of 950 meters long and 30 meters wide, to 2,100 meters long and 45 meters wide to accommodate larger international and domestic aircraft; (ii) 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; (iii) 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 2016; (iv) improvement of road networks around Boracay Airport and its facilities; and (v) 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 BGTOM 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.

SMC fully acquired 100% stake in Universal LRT, effective July 1, 2016.

Bulk water supply concession

Bulacan Bulk Water Supply Project

The Bulacan Bulk Water Supply Project aims to provide clean and potable water to the province of Bulacan that is environmentally sustainable and with a price that is equitable. The project also aims to help various water districts in Bulacan to meet the increasing water demand of consumers, expand its current service area coverage and increase the number of households served by providing a reliable source of treated bulk water. The project proponent will serve as the concessionaire for a period of 30 years (inclusive of the 2 year construction period) and has an estimated cost of ₱7,850 million for Stage 1 and 2. The target completion of the project is Q3 2018.

On December 17, 2015, Luzon Clean Water Development Corporation (LCWDC) was incorporated as a stock corporation under the laws of the Republic of the Philippines with the primary purpose to finance, design, construct, maintain, and operate water treatment and conveyance facilities. Luzon Clean Water Development Corporation and Metropolitan Manila Waterworks and Sewerage System officially signed the Concession Agreement on January 15, 2016.

SMC ownership of LCWDC as of September 2016 is 90%.

Ports concession

Manila North Harbor

MNHPI is the terminal operator of Manila North Harbor, a 52-hectare port facility situated at Tondo, City of Manila. The port has a total quay length of 5,200 meters and forty-one (41) berths which can accommodate all types of vessels such as containerized and non-container type vessels. Under the Contract for the Development, Operation and Maintenance of the Manila North Harbor entered with the Philippine Ports Authority on November 19, 2009, the Philippine Ports Authority awarded MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years, renewable for another 25 years. MNHPI commenced operations on April 12, 2010.

To ensure fast, efficient and effective delivery of port services, MNHPI has increased its cargo handling capacity which now boasts of major equipment such as 6-ship-to-shore quay container cranes and 20 rubber-tyred gantry cranes, all part of the plans and programs of MNHPI to transform Manila North Harbor into a premier and modern port. Anticipating growth in the coming years, MNHPI expects delivery of 2 additional brand new ship-to-shore quay container cranes and 7 rubber-tyred gantry cranes, bringing its major equipment fleet to 8 and 27 units, respectively by Q2 2017.

On October 19, 2013, MNHPI formally inaugurated the North Passenger Terminal Complex, a passenger terminal facility which boasts of facilities designed to provide utmost safety, security and comfort to passengers and is the first of its kind in the Philippines, able to accommodate 2,000 passengers at any given time.

SMC ownership of MNHPI thru Petron and San Miguel Holdings, Corp. as of September 2016 is 67.22%.

Other Operations and Investments

Banking

SMC through SMPI made a series of acquisitions of Bank of Commerce (“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 each Offer 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 SRC.

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

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

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

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

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, 2015.

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 Foreign Investment Act of 1991 ("FIA") liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100.0% 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 60.0% 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 60.0% 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 100.0% 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 60.0% 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 60.0% of the total shares outstanding and voting, the corporation shall be considered as a 100.0% Filipino-owned corporation. A corporation with more than 40.0% 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.

DTI

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) to 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.

BSP

The 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 Food and Drug Administration ("FDA", under the DOH, formerly known as the Bureau of Food and Drugs) 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 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 FDA 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) 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 of the Philippines (the "DA") and the DOH, 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 DA and the DOH 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 DA and the DOH 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, the food business operators shall have effectively and accurately informed 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 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”) as amended by Republic Act No. 10623, 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, LPG, and kerosene. 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 or rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of 60 days, except for price control on basic necessities that are wholly imported and deregulated, such as, but not limited to, household LPG and kerosene, which shall be effective for a period of not more than 15 days, taking into consideration their current inventory or supply levels. 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 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 FDA issued FDA Circular No. 2014-017 which prescribed the procedure for the issuance of the FDA Certification for Animal Feeds and Products. The FDA issued the circular pursuant to Bureau of Internal Revenue of the Philippines (“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 Adminstrative 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 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 30.0% 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 20.0% 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 20.0% of the total area of the main subdivision project or allocate and invest an amount equal to 20.0% 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 instalment, 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 50.0% of the total payments made by the buyer, with an additional 5.0% per annum in cases where at least five years of installment have been paid (but with the total not to exceed 90.0% of the total payments). Buyers who have paid less than two (2) 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 60.0% 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 40.0% 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 2.0% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1.0% in all other areas. An additional special education fund tax of 1.0% of the assessed value of the property is also levied annually.

The Fuel and Oil Business

Oil Deregulation Act

The Oil Deregulation Act provides the regulatory framework for the downstream oil industry of the country.

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 on 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 leading 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.

Promotion of Retail Competition

Pursuant to the Oil Deregulation Law’s objective to promote a competitive petroleum product market at the retail level, the DOE is mandated to promote and encourage the active and direct participation of the private sector and cooperatives in the retailing of petroleum products through joint venture or supply agreements with new industry participants for the establishment and operation of gasoline stations. Under prevailing rules and regulations, new industry participants are given preference in the (i) formulation and implementation on management and skills training for the establishment, operation, management and maintenance of gasoline stations and (ii) grant of gasoline station training and loans to be used as capital for the establishment and operation of gasoline stations.

Rules Relating to Retailing of Liquid Petroleum Products

In November 2003, the DOE promulgated Department Circular No. DC 2003-11-010, or the Rules and Regulations Governing the Business of Retailing Liquid Petroleum Products, (the “Liquid Petroleum Products Retail Rules”). The Liquid Petroleum Product Retail Rules apply to all persons engaged or intending to engage in the business of retailing liquid petroleum products. Liquid petroleum products generally refer to petroleum products that are flammable liquids such as gasoline, kerosene and diesel and combustible liquid products formed in the course of refining crude petroleum through distillation, cracking, solvent refining and chemical treatment coming out as primary stocks from the refinery and sold through retail outlets.

A person intending to engage in the business of retailing liquid petroleum products must notify the Oil Industry Management Bureau (“OIMB”) of its intention to engage in such activity and, upon compliance with the requirements under the Liquid Petroleum Products Retail Rules, secure a certificate of compliance (“Certificate of Compliance”) from the OIMB. The owner or operator of a retail outlet shall be deemed to be engaged in illegal trading of liquid petroleum products if such owner or operator operates a retail outlet without a Certificate of Compliance.

The Liquid Petroleum Products Retail Rules likewise imposes: (i) minimum standards on the development and operation of retail outlets of liquid petroleum products; (ii) rules and procedures relating to the storage, handling, transfer and/or dispensing of liquid petroleum products; (iii) rules and procedures relating to pump calibration, testing, sealing and product sampling; and (iv) reportorial obligations on owners and/or operations of retail outlets of liquid petroleum products.

Liquid petroleum products dispensed at retail outlets must comply with the Philippine National Standards. The possession of liquid petroleum products that do not mean the said standards constitute prima facie evidence of adulteration while the sale, distribution, transportation, exchange or barter of adulterated products constitutes illegal trading.

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 property 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 cylinders of a company or firm without written authorization of such Company or Firm, 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 DOE 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 February 13, 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.

Republic Act No. 9483 provides for the establishment of a fund to be constituted from, among others, an impost amounting to ten centavos per liter levied on owners and operators and tankers and barges hauling oil and/or petroleum products in Philippine waterways and coast wise shipping routes. This new fund, named the Oil Pollution Management Fund, will be in addition to the requirement under the 1992 Civil Liability Convention and 1992 Fund Convention and will be administered by the Maritime Industry Authority ("MARINA").

In April 2016, the Department of Transportation and Communications promulgated the implementing rules and regulations of Republic Act No. 9483. Under the rules, oil companies are required to submit (a) reports on the amount of contributing oil received and (b) sales and delivery reports of persistent oil.

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 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 3.0% to 5.0%, but was later reduced to 3.0% 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 3.0% import duty on crude oil shall be adjusted to 2.0%, 1.0% 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 10.0% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was increased to 12.0% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70.0% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70.0% 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. In February 2012, the BIR issued Revenue Regulation No. 2-2012 stating that VAT and excise taxes due on all petroleum and petroleum products that are imported and/or brought from abroad to the Philippines, including from the freeport and economic zones shall be paid by the importer to the Bureau of Customs.

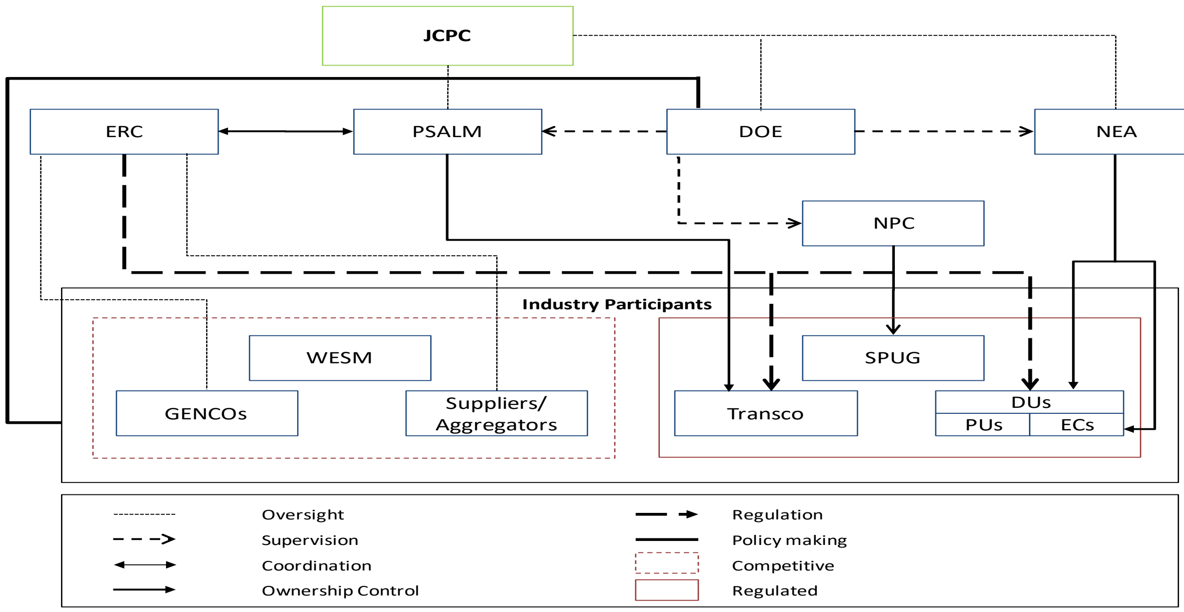
Republic Act No. 9136, or the Electric Power Industry Reform Act of 2001, provides for parity tax treatment among imported oil and indigenous fuels. Prior to the enactment of this law, indigenous fuels were imposed with higher taxes due to royalties to the Philippine government.

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 congressional 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. Furthermore, PPAs and PSAs between generation companies and distribution utilities are subject to the review and approval of the ERC.

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 bilateral contracts with various RESs, electric cooperatives suppliers and private distribution utilities, or through spot sale transactions in the WESM. With the implementation of the RCOA in Luzon and Visayas, generation companies are already able to sell to eligible end-users. "Open Access" is defined under the IRR as the system of allowing any qualified person the use of electric power transmission and distribution systems; while "Retail Competition" is defined as the provision of electricity to a Contestable

Market (i.e. electricity end-users with monthly average peak demand of at least 1 MW for the preceding 12 months to the initial implementation of Open Access,, which shall be reduced to 750 KW two years thereafter) by persons authorized by the ERC to engage in the business of supply to electricity end-user through Open Access. Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the grid and/or buyers.

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. With the implementation of RCOA on December 26, 2013, and as supplemented by DOE Circular No. DC2015-06-0010, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750 kW and certified by the ERC to be Contestable Customers.

No generation company or related group is allowed to own more than 30.0% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25.0% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50.0% 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 December 31, 2015, PSALM has privatized 22 operating/generating power facilities and decommissioned three (3) generating power facilities, with a total combined capacity of 4, 568.43 MW. Moreover, additional seven (7) power plants with total combined capacity of 3, 607.42 MW were privatized through IPPA contracts. Major generation assets sold include the 748 MW Tiwi-Makban geothermal power plant, the 600 MW Batangas (Calaca) coal-fired thermal power plant, the 600 MW Masinloc coal fired power plant, the 360 MW Magat hydroelectric power plant, and the 305 MW Palinpinon-Tongonan geothermal power plant. Among the capacities privatized through IPPA Agreements include the 95.52 Mindanao I and II (Mt. Apo 1 and 2) geothermal power plants, 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the 345 MW of the San Roque Power Plant, the 70 MW Bakun hydroelectric power plant, the 200 MW Unified Leyte Geothermal Power Plant, and the 1,200 MW Ilijan combined-cycle gas-fired power plant

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 contracts that have not been disposed of by PSALM.

Generation companies which are not publicly listed are required to offer and sell to the public a portion of not less than 15% of their common shares of stock.

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 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 and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. 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, pursuant to a leglislative franchise granted by the Philippine Congress under Republic Act No. 9511.

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 Philippine Electricity Market Corporation ("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 RCOA, the supply function has 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.

An RES may only sell up to 50% of its total capacity to all of its end-user affiliates, and in no case shall an RES and affiliate RES, acting singly or collectively as one or as an aggregate, be allowed to purchase more than 50% of their capacity requirements from their affiliate generation companies.

With the RCOA already implemented, the RES license will allow generation companies to enter into retail electricity supply agreements with Contestable Customers. This will encourage competition at the retail level and it is planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

The following table summarizes the power supply and demand outlook from 2012 to 2030 in Philippines based on the DOE Power Development Plan, 2012-2030:

Grid	Installed capacity (MW)	Dependable capacity (MW)	Available capacity peak (MW)	Peak (MW)	Actual peak (MW)	Required reserve margin (MW)
Luzon	11,739	10,824	8,944	7,889	1,055	1,610
Visayas	2,402	2,037	1,731	1,522	312	261
Mindanao	2,022	1,616	1,311	1,257(1	50	250
Philippines	16,162	14,477	11,986			

(1) Curtailed demand for Mindanao grid.

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 formulation of 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 RCOA, 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.

On 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.

On 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. The Visayas Grid was integrated into the WESM on December 26, 2010. 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 90.0% cap on power sourced from bilateral PSCs of distribution utilities' total monthly demand.

As of the date of this Prospectus, there were 755 entities registered with WESM.

Interim Mindanao Electricity Market

The Philippines does not have an integrated grid, and instead has two major regional grids (the integrated Luzon-Visayas grid, and the Mindanao grid) and small islands with isolated grids. Compared to Luzon and

Visayas, the Mindanao grid suffers from intermittent outages lasting from two to six hours. Recognizing the urgent need to address the current supply shortage in Mindanao, the DOE directed PEMC to develop and implement an interim electricity market design for Mindanao, known as the Interim Mindanao Electricity Market ("IMEM").

The IMEM is a venue for the transparent and efficient utilization of all available capacities in the Mindanao grid and is an immediate solution meant to address the deficiency of electricity supply in Mindanao. It will serve as a trading platform where entities with excess capacities will sell in the IMEM, subject to compensation based on the price determination mechanism duly approved by the ERC. The full commercial operations of the IMEM commenced on December 3, 2013. Since February 27, 2014, however, the IMEM has been under market intervention as initiated by the PEMC due to the Mindanao grid system blackout.

RCOA

The EPIRA likewise provides for a system of RCOA 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 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70.0% of the total energy output of power plants under contract with NPC to the IPPAs.

On June 6, 2011, pursuant to Resolution No. 10, Series of 2011, the ERC declared December 26, 2011 as the "Open Access Date" to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. Accordingly, all electricity-end users with an average monthly peak demand of one MW for the 12 months preceding the Open Access Date, as certified by the ERC to be Contestable Customers, shall have the right to choose their own electricity suppliers.

To ensure smooth transition from the existing structure to RCOA, the ERC promulgated Resolution No. 16, Series of 2012, providing for a transition period from December 26, 2012 until June 25, 2013. However, the ERC effectively extended the transition period when it issued Resolution No. 11, Series of 2013, which allowed Contestable Customers to stay with their current distribution utility until December 25, 2013, or until such time that they were able to find an RES. On June 19, 2015, the Department of Energy promulgated Department Circular No. DC2015-06-0010, which mandated Contestable Customers to secure their retail supply contracts by June 25, 2016, including Contestable Customers with an average demand of 750KW to 999KW for the 12-month period preceding June 25, 2016.

With the implementation of the RCOA, the Contestable Markets (i.e., end-users with an average monthly peak demand of 750 kW as certified by the ERC) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. Likewise, certain end-users will be allowed to directly source power through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level and it is anticipated that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

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 are unbundled from retail rates and that the 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 (3) 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.

These arrangements are now in place, in satisfaction of the conditions for RCOA.

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 (10) years, unless extended by law. Its application was extended for another ten years by Republic Act No. 10150, which was approved in 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 (2) 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 RCOA, 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 ("DOTr"). 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 60.0% 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 an ECC 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 the environmental impact of the project, 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 abandonment phase of the project.

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 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.

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the MARINA and the Philippine Coast Guard. Both are agencies under the DOTr.

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.

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 have a valid Permit to Operate while new or modified sources must first have 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 10.0% blend of bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1.0% to 2.0% 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, failure of an oil company to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In June 2015, the DOE issued Department Circular No. DC 2015-06-007, or the Revised Guidelines on the Utilization of Locally-Produced Bioethanol (“Revised Guidelines”), which repealed Department Circular No. 2011-12-0013, or the “Guidelines on the Utilization of Locally-Produced Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006”. The Revised Guidelines require oil companies operating within the Philippines to secure and maintain a DOE accreditation as an “Oil Industry Participant in the Fuel Bioethanol Program” and submit to the OIMB certain reports in order for the OIMB to monitor the oil companies’ compliance with the Revised Guidelines, including an annual performance compliance report relating to the oil companies’ compliance with the minimum biofuel blends and monthly reports on compliance with local monthly allocations for the use of locally-sourced bioethanol. The Revised Guidelines further require oil companies to strictly comply with the Local Monthly Allocation (“LMA”). The LMA refers to the local bioethanol volume imposed on oil companies based on the committed volume by the local bioethanol producers of bioethanol available for lifting by the oil companies and computed and circulated by the OIMB.

In February 2016, the Congress of the Philippines promulgated Republic Act No. 10745, amending The Biofuels Act of 20016. The law allows natural gas power generation plants to use neat diesel (instead of the mandated biofuel blend) as alternative fuel during shortages of natural gas supply.

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.

Corporate Governance and Management

Board of Directors

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr………	81	Filipino	Chairman and Chief Executive Officer
Ramon S. Ang……………………	62	Filipino	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza……………..	86	Filipino	Director
Leo S. Alvez……………………..	73	Filipino	Director
Aurora T. Calderon……………...	62	Filipino	Director
Joselito D. Campos, Jr................	65	Filipino	Director
Ferdinand K. Constantino............	65	Filipino	Director
Menardo R. Jimenez……………	84	Filipino	Director
Alexander J. Poblador................	63	Filipino	Director
Horacio C. Ramos………………	71	Filipino	Director
Thomas A. Tan………………….	62	Filipino	Director
Iñigo U. Zobel……………………	60	Filipino	Director
Reynaldo G. David……………….	74	Filipino	Independent Director
Reynato S. Puno........................	76	Filipino	Independent Director
Margarito B. Teves………………	73	Filipino	Independent Director

The members of the Board of Directors were elected during the Annual Stockholders meeting of the Company on June 14, 2016.

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); 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., San Miguel Equity Investments Inc., and San Miguel Properties, Inc.; Chairman of the Board of SEA Refinery Corporation, San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, and Philippine Diamond Hotel & Resort, Inc.. 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. and 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 up to the 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, Philippine National Bank, and Philippine Airlines, 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., Ltd., and San Miguel Equity Investments 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 *magna cum laude* from the University of the East with a degree in BS Business Administration, major in Accountancy. 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 degree 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; Chairman of Majent Management and Development Corporation; Chairman of 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 degree 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., E. Zobel, Inc., and Zygnet Prime Holdings 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.

Reynaldo G. David, Filipino, born 1942, has served as an Independent Director of the Company since June 14, 2016. He is a member of the Audit Committee and Executive Compensation Committee. He is also an Independent Director of Petron, a publicly listed company, and Tiger Resort, Leisure & Entertainment, Inc. He has previously held among others, the following positions: President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, *honoris causa*, by the Palawan State University in 2005 and the title Doctor of Humanities, *honoris causa*, by the West Visayas State University in 2009.

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 and Union Bank of the Philippines, Inc.. 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., , The City Club at Alpahaland 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.	65	Filipino	Senior Vice President – Chief Finance Officer and Treasurer
Virgilio S. Jacinto…………	60	Filipino	Senior Vice President – General Counsel, Compliance Officer and Corporate Secretary
Aurora T. Calderon………	62	Filipino	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer
Joseph N. Pineda………..	53	Filipino	Senior Vice President – Deputy Chief Finance Officer
Sergio G. Edeza………….	59	Filipino	Senior Vice President – Head of Treasury
Roberto N. Huang………..	68	Filipino	President – San Miguel Brewery, Inc.
Carlos Antonio M. Berba..	52	Filipino	Managing Director – San Miguel Brewing International Ltd.
Bernard D. Marquez……..	48	Filipino	President – Ginebra San Miguel Inc.
Francisco S. Alejo III…….	68	Filipino	President – San Mguel Pure Foods Company Inc.
Ferdinand A. Tumpalan…	56	Filipino	President – San Miguel Yamamura Packaging Corporation
Lubin B. Nepomuceno….	65	Filipino	General Manager– Petron Corporation
Alan T. Ortiz……………..	63	Filipino	President and Chief Operating Officer – SMC Global Power Holdings Corp.
Elenita D. Go…………….	56	Filipino	General Manager – SMC Global Power Holdings Corp.
Lorenzo G. Formoso……	55	Filipino	Senior Vice President – 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 Investment Holdings, Inc. and Corporate Secretary of Ginebra San Miguel, Inc. and other subsidiaries and affiliates of SMC. He is a Director of 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 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.

Roberto N. Huang is the President of San Miguel Brewery, Inc. He is also a Director of San Miguel Brewery 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 Djarkarta 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, Nomination and Hearing Committee, and Executive Compensation Committee of GSMI. 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., and Magnolia, Inc.; Director of 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. Mr. Ortiz obtained his Bachelor of Arts degree in Economics from 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 Senior Vice President and Head of the Infrastructure Business. Mr. Formoso holds various directorships in various local and offshore subsidiaries of SMC. Previously, he was a consultant of the Company for Infrastructure and Transportation 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. Reynaldo G. David.

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 is compliant 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. Reynaldo G. David 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, March 27, 2014 and July 17, 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, inventors 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[3]……	2016 (estimated)	₱194.5 Million	₱146.2 Million	₱43.6 Million	₱384.3 Million
	2015	₱187.0 Million	₱124.3 Million	₱51.1 Million	₱362.4 Million
	2014	₱174.6 Million	₱199.7 Million	₱48.8 Million	₱422.4 Million
All other officers and directors as a group unnamed……………….	2016 (estimated)	₱185.5 Million	₱53.3 Million	₱43.4 Million	₱282.2 Million
	2015	₱156.6 Million	₱60.4 Million	₱38.1 Million	₱255.1 Million
	2014	₱136.3 Million	₱61.2 Million	₱32.5 Million	₱230.0 Million
Total……………………	**2016 (estimated)**	**₱380.0 Million**	**₱199.5 Million**	**₱87.0 Million**	**₱666.5 Million**
	2015	**₱343.6 Million**	**₱184.7 Million**	**₱89.2 Million**	**₱617.5 Million**
	2014	**₱310.9 Million**	**₱260.9 Million**	**₱80.6 Million**	**₱652.4 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 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.

---

[3]*The 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.*

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 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 voting[4] securities as of September 30, 2016 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.[5] 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 26.02%[6] of the outstanding common stock of Top Frontier, respectively.	Filipino	1,573,100,340	40.84%
Common…...	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	165,526,162	24.31%
Series "2" Preferred Shares……..	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ entities	Filipino	770,938,665	
Common…...	Privado Holdings, Corp. Room 306 Narra Building, 2776 Pasong Tamo Extension, Makati City	Ramon S. Ang, Filipino, as beneficial owner of 100% of the outstanding capital stock of Privado.[7]	Filipino	368,140,516	9.56%

[4]*Common 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.*

[5]*The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of September 30, 2016, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,100,340 shares of the Company which represent about 66.09% of the outstanding common capital stock of the Company.*

[6]*As of September 30, 2016, through Privado Holdings, Corp. and Master Year Limited, both stockholders of record of Top Frontier*

[7]*As of September 30, 2016.*

Common…...	PCD Nominee Corporation Makati City	Various individuals/ entities	Filipino	37,306,803	8.29%
Series "2" Preferred Shares……..	PCD Nominee Corporation Makati City	Various individuals/ Entities	Filipino	282,175,635	

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 September 30, 2016:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	**Preferred**		
Eduardo M. Cojuangco, Jr……..	2,717,556 (D)		Filipino	2,717,556 (0.11%)
Ramon S. Ang…………………..	757,873 (D) 368,140,516 (I)[8]		Filipino	368,898,389 (9.58%)
Leo S. Alvez…………………….	19,326 (D)		Filipino	19,326 (0.00%)
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……..	254,309 (D)	200,000 (D)	Filipino	454,309 (0.01%)
Reynaldo G. David ……………	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) 943,230,964 (I)[9]		Filipino	943,247,135 (24.49%)
Virgilio S. Jacinto......................	113,591 (D)		Filipino	113,591 (0.00%)
Joseph N. Pineda……………….	42,600 (D)		Filipino	42,600 (0.00%)
Lorenzo G. Formoso.................	20,000 (D)		Filipino	20,000 (0.00%)
Elenita D. Go............................	71,962 (D)		Filipino	71,962 (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.

[8] *Through his 100% shareholdings in Privado Holdings Corp.*
[9] *Through his 59.96% shareholdings in Top Frontier Investment Holdings, Inc.*

Ownership and Capitalization

Share Capital

As of October 31, 2016, the Company had a total of 3,852,258,847 common shares issued, of which 2,380,197,580 are outstanding common shares; 279,406,667 issued and outstanding Series “1” Preferred Shares; and 1,192,654,600 issued and outstanding Series “2” Preferrred Shares.

Top 20 Shareholders (as of October 31, 2016)

#	Name of Stockholders	Common	Series "1" Preferred Shares	Series "2-B" Preferred Shares	Series "2-C" Preferred Shares	Series "2-D" Preferred Shares	Series "2-E" Preferred Shares	Series "2-F" Preferred Shares	Series "2-G" Preferred Shares	Series "2-H" Preferred Shares	Series "2-I" Preferred Shares	Total No. of Shares	% of outstanding
1	TOP FRONTIER INVESTMENT HOLDINGS, INC.	1,573,100,340	0	0	0	0	0	0	0	0	0	1,573,100,340	40.835790%
2	PCD NOMINEE CORPORATION (FILIPINO)	166,343,380	0	0	0	82,626,010	121,919,710	201,044,270	61,148,265	157,846,910	146,468,800	937,397,345	24.333706%
3	PRIVADO HOLDINGS CORP.	368,140,516	0	0	0	0	0	0	0	0	0	368,140,516	9.556484%
4	PCD NOMINEE CORPORATION	37,584,065	0	53,373,220	228,652,940	0	0	146,800	2,675	0	0	319,759,700	8.300577%
5	METROPLEX HOLDINGS CORPORATION	0	106,174,534	0	0	0	0	0	0	0	1,578,000	107,752,534	2.797126%
6	LUCENA HOLDINGS CORPORATION	0	89,410,133	0	0	0	0	0	0	0	1,332,000	90,742,133	2.355556%
7	GINGOOG HOLDINGS CORPORATION	1,830,082	83,822,000	0	0	0	0	0	0	0	1,590,000	87,242,082	2.264699%
8	PCD NOMINEE CORPORATION (NON-FILIPINO)	40,749,291	0	93,500	929,940	365,390	477,600	1,448,430	196,460	751,000	1,829,100	46,840,711	1.215928%
9	SAN MIGUEL CORPORATION RETIREMENT PLAN	15,001	0	28,608,970	0	0	0	0	0	0	0	28,623,971	0.743044%
10	PCGG IN TRUST FOR THE COMPREHEN-SIVE AGRARIAN REFORM PROGRAM	27,636,339	0	0	0	0	0	0	0	0	0	27,636,339	0.717406%
11	SAN MIGUEL BREWERY INC. RET. PLAN	0	0	53,000	0	2,666,700	1,333,400	8,000,000	0	0	6,153,600	18,206,700	0.472624%
12	G & E SHAREHOL-DINGS INC.	0	0	0	15,000,000	0	0	0	0	0	0	15,000,000	0.389382%
13	MILLENIUM ENERGY, INC.	10,807,380	0	0	0	0	0	0	0	0	0	10,807,380	0.280547%
14	SAN MIGUEL CORP. RET. PLAN - FIP	0	0	1,094,800	0	0	0	5,333,400	0	1,113,500	2,900,000	10,441,700	0.271054%
15	SAN MIGUEL CORP. RET. PLAN - STP	0	0	560,000	0	0	0	0	2,266,500	0	4,326,100	7,152,600	0.185673%
16	GSIS PROVIDENT FUND	0	0	1,300,000	2,666,700	0	0	0	0	0	0	3,966,700	0.102971%

#	Name of Stockholders	Common	Series “1” Preferred Shares	Series “2-B” Preferred Shares	Series “2-C” Preferred Shares	Series “2-D” Preferred Shares	Series “2-E” Preferred Shares	Series “2-F” Preferred Shares	Series “2-G” Preferred Shares	Series “2-H” Preferred Shares	Series “2-I” Preferred Shares	Total No. of Shares	% of outstanding
17	SYSMART CORPORATION	3,457,000	0	0	0	0	0	0	0	0	0	3,457,000	0.089740%
18	EDUARDO M. COJUANGCO JR.	2,717,556	0	0	0	0	0	0	0	0	0	2,717,556	0.070544%
19	COLUMBUS CAPITANA CORPORATION	2,716,830	0	0	0	0	0	0	0	0	0	2,716,830	0.070526%
20	SAN MIGUEL YAMAMURA PACKAGING CORP. RET. PLAN	0	0	1,120,000	0	0	1,333,300	0	0	0	0	2,453,300	0.063685%
	TOTAL	**2,235,097,780**	**279,406,667**	**86,203,490**	**247,249,580**	**85,658,100**	**125,064,010**	**215,972,900**	**63,613,900**	**159,711,410**	**166,177,600**	**3,664,155,437**	**95.117062%**
	OTHER STOCK-HOLDERS	145,099,800	0	4,224,710	8,309,820	3,675,300	8,936,090	7,360,600	3,052,700	4,288,590	3,155,800	188,103,410	4.882938%
	TOTAL	**2,380,197,580**	**279,406,667**	**90,428,200**	**255,559,400**	**89,333,400**	**134,000,100**	**223,333,500**	**66,666,600**	**164,000,000**	**169,333,400**	**3,852,258,847**	**100.00000%**

Market Price of and Dividends on the 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, Series "1", and Series "2" 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 three quarters of 2016 are as follows.

2012

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	123.00	110.00	80.00	76.60	N/A	N/A	N/A	N/A	N/A	N/A
2nd	117.00	111.00	79.10	74.50	N/A	N/A	N/A	N/A	N/A	N/A
3rd	115.00	110.00	78.10	73.00	75.10	74.90	80.00	74.50	76.00	75.00
4th	111.00	100.00	75.50	75.50	75.20	74.50	81.50	74.00	77.90	74.50

2013

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	125.00	103.20	N/A	N/A	75.00	74.65	77.00	74.50	79.25	74.50
2nd	125.00	83.00	N/A	N/A	80.50	74.95	82.00	75.75	84.00	77.50
3rd	94.50	65.50	N/A	N/A	77.75	74.50	79.60	75.00	81.50	74.95
4th	88.00	57.30	N/A	N/A	77.30	75.60	77.50	75.40	79.80	76.80

2014

	Common		Series "1"		Series "2-A"		Series "2-B"		Series "2-C"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	76.00	54.50	N/A	N/A	77.00	75.00	78.95	76.00	81.00	77.50
2nd	87.00	74.65	N/A	N/A	76.10	74.30	78.90	74.90	81.85	75.00
3rd	83.00	76.90	N/A	N/A	76.00	74.20	76.50	74.50	78.00	75.00
4th	78.95	72.00	N/A	N/A	96.90	75.30	79.00	76.00	82.50	77.00

2015

	Common		Series "1"		Series "2-A"		Series "2-B"	
	High	Low	High	Low	High	Low	High	Low
1st	81.00	66.70	N/A	N/A	76.80	75.00	89.50	78.00
2nd	71.80	59.30	-	-	76.85	75.00	85.60	80.00
3rd	60.60	43.50	-	-	76.00	74.00	85.05	76.00
4th	52.00	44.05	-	-	N/A	N/A	85.00	77.00

	Series "2-C"		Series "2-D"		Series "2-E"		Series "2-F"	
	High	Low	High	Low	High	Low	High	Low
1st	84.50	78.00	N/A	N/A	N/A	N/A	N/A	N/A
2nd	90.00	83.05	N/A	N/A	N/A	N/A	N/A	N/A
3rd	89.00	79.00	80.00	76.00	78.80	76.50	80.00	77.10
4th	84.00	81.00	85.00	78.00	80.10	76.00	80.90	78.50

2016

	Common		Series "1"		Series "2-B"		Series "2-C"		Series "2-D"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	79.20	47.50	-	-	81.00	76.00	83.00	78.50	79.00	75.35
2nd	82.80	65.00	-	-	80.50	76.45	82.00	75.00	80.00	75.50
3rd	86.10	77.50	-	-	79.90	75.00	83.00	78.00	78.80	75.80

	Series "2-E"		Series "2-F"		Series "2-G"		Series "2-H"		Series "2-I"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	79.50	75.50	80.00	75.80	76.00	75.05	75.50	75.00	75.30	71.50
2nd	78.50	75.00	78.90	75.90	78.15	75.00	77.50	74.95	77.10	74.90
3rd	80.50	76.05	80.85	77.50	80.05	77.05	79.00	76.00	79.15	76.00

The closing prices as of November 24, 2016, the latest practicable trading date, are as follows:

Common	₱89.30
Series 1 Preferred	not applicable
Series “2-A” Preferred	not applicable
Series “2-B” Preferred	₱77.25 (November 23, 2016)
Series “2-C” Preferred	₱81.00 (November 23, 2016)
Series “2-D” Preferred	₱79.00 (November 22, 2016)
Series “2-E” Preferred	₱78.00 (November 18, 2016)
Series “2-F” Preferred	₱79.95
Series “2-G” Preferred	₱79.50 (November 23, 2016)
Series “2-H” Preferred	₱79.95
Series “2-I” Preferred	₱78.50

The number of shareholders as of November 24, 2016 is 37,646.

Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC to common shareholders amounted to ₱1.40 per share in 2016.

Cash dividends declared by the Board of Directors of SMC to all Series “2” – Subseries “2-B” Subseries “2-C”, Subseries “2-D”, Subseries “2-E”, Subseries “2-F”, Subseries “2-G”, Subseries “2-H” and Subseries “2-I” preferred shareholders amounted to ₱5.71875, ₱6.00, ₱4.457325, ₱4.744125, ₱5.1054, ₱3.70085625, ₱3.5562375 and ₱3.56371875 per share, respectively, in 2016.

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
	Cash	0.35	July 14	July 31	August 14
	Cash	0.35	September 17	October 9	November 4
	Cash	0.35	December 10	January 8, 2016	February 2, 2016
Total:		1.40			
2016	Cash	0.35	March 17	April 8	May 4
	Cash	0.35	June 14	July 1	July 27
	Cash	0.35	September 15	October 7	November 4
Total:		**1.05**			

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			
2015	Cash	1.0546	June 9	June 26	July 8
	Cash	1.0565625	August 20	September 11	September 21
	Cash	1.0565625	November 10	December 17	December 29
Total:		3.167725			
2016	Cash	1.0565625	January 15	March 21	April 5
	Cash	1.0565625	May 12	June 21	July 6
	Cash	1.0565625	August 10	September 21	October 6
	Cash	1.0565625	November 10	December 21	January 5, 2017
Total:		**4.22625**			

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 10	February 27, 2015	March 25, 2015
	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	May 14	May 29	June 11
	Cash	1.40625	August 20	September 11	September 21
Total:		**4.21875**			

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 10	February 27, 2015	March 25, 2015
	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	May 14	May 29	June 11
	Cash	1.4296875	August 20	September 11	September 21
	Cash	1.4296875	November 10	December 17	December 29
Total:		5.71875			
2016 …………….	Cash	1.4296875	January 15	March 21	April 5
	Cash	1.4296875	May 12	June 21	July 6
	Cash	1.4296875	August 10	September 21	October 6
	Cash	1.4296875	November 10	December 21	January 5, 2017
Total:		**5.71875**			

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 10	February 27, 2015	March 25, 2015
	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	May 14	May 29	June 11
	Cash	1.50	August 20	September 11	September 21
	Cash	1.50	November 10	December 17	December 29
Total:		**6.00**			

2016 …………….	Cash	1.50	January 15	March 21	April 5
	Cash	1.50	May 12	June 21	July 6
	Cash	1.50	August 10	September 21	October 6
	Cash	1.50	November 10	December 21	January 5, 2017
Total:		**6.00**			

Preferred Shares — Series 2D

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015 ……………	Cash	1.11433125	November 10	December 17	December 29
Total:		1.11433125			
2016 …………….	Cash	1.11433125	January 15	March 21	April 5
	Cash	1.11433125	May 12	June 21	July 6
	Cash	1.11433125	August 10	September 21	October 6
	Cash	1.11433125	November 10	December 21	January 5, 2017
Total:		**4.457325**			

Preferred Shares — Series 2E

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015 ……………	Cash	1.18603125	November 10	December 17	December 29
Total:		1.18603125			
2016 …………….	Cash	1.18603125	January 15	March 21	April 5
	Cash	1.18603125	May 12	June 21	July 6
	Cash	1.18603125	August 10	September 21	October 6
	Cash	1.18603125	November 10	December 21	January 5, 2017
Total:		**4.744125**			

Preferred Shares — Series 2F

Year	Type	Per Share Amount (P)	Date Declared	Record Date	Payment Date
2015 ……………	Cash	1.27635	November 10	December 17	December 29
Total:		1.27635			
2016 …………….	Cash	1.27635	January 15	March 21	April 5
	Cash	1.27635	May 12	June 21	July 6
	Cash	1.27635	August 10	September 21	October 6
	Cash	1.27635	November 10	December 21	January 5, 2017
Total:		**5.1054**			

Preferred Shares — Series 2G

Year	Type	Per Share Amount (P)	Date Declared	Record Date	Payment Date
2016 …………….	Cash	1.23361875	May 12	June 21	July 6
	Cash	1.23361875	August 10	September 21	October 6
	Cash	1.23361875	November 10	December 21	January 5, 2017
Total:		**3.70085625**			

Preferred Shares — Series 2H

Year	Type	Per Share Amount (P)	Date Declared	Record Date	Payment Date
2016 …………….	Cash	1.1854125	May 12	June 21	July 6
	Cash	1.1854125	August 10	September 21	October 6
	Cash	1.1854125	November 10	December 21	January 5, 2017
Total:		**3.5562375**			

Preferred Shares — Series 2I

Year	Type	Per Share Amount (P)	Date Declared	Record Date	Payment Date
2016 …………….	Cash	1.18790625	May 12	June 21	July 6
	Cash	1.18790625	August 10	September 21	October 6
	Cash	1.18790625	November 10	December 21	January 5, 2017
Total:		**3.56371875**			

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.

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 September 30, 2016 and December 31, 2015:

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	**September 30, 2016**	**₱531**	**₱ -**	**₱6,510**	**₱551**	On demand or less than 4 to 6 years;	Unsecured; no impairment
	December 31, 2015	1	1	5,816	551	interest and non-interest bearing	
Retirement Plans	**September 30, 2016**	**333**	**-**	**11,800**	**59**	On demand;	Unsecured;
	December 31, 2015	485	-	13,194	-	interest bearing	no impairment
Associates	**September 30, 2016**	**1,392**	**152**	**462**	**29**	On demand;	Unsecured;
	December 31, 2015	1,940	119	452	28	interest and non-interest bearing	no impairment
	September 30, 2016	**-**	**-**	**-**	**19,188**	Less than 1	Unsecured and
	December 31, 2015	-	-	-	20,529	to 10 years; interest bearing	secured
Joint Ventures	**September 30, 2016**	**61**	**-**	**693**	**81**	On demand;	Unsecured;
	December 31, 2015	3	416	665	162	non-interest bearing	no impairment
Shareholders in Subsidiaries	**September 30, 2016**	**226**	**98**	**100**	**2,520**	On demand;	Unsecured;
	December 31, 2015	222	77	108	2,763	non-interest bearing	no impairment
Others	**September 30, 2016**	**129**	**1**	**115**	**6,555**	On demand;	Unsecured;
	December 31, 2015	142	-	80	6,232	non-interest bearing	no impairment
Total	**September 30, 2016**	**₱2,672**	**₱251**	**₱19,680**	**₱28,983**		
Total	December 31, 2015	₱2,793	₱613	₱20,315	₱30,265		

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

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

c. The amounts owed to associates include interest bearing loans to BOC presented as part of “Loans payable” and “Long-term debt” accounts in the consolidated statements of financial position.

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, 2015 and the reviewed unaudited consolidated financial statements as of for the nine months ended September 30, 2015. The following discussion is lifted from the 2015 annual report (SEC Form 17-A) and the quarterly report as of September 30, 2016 (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, 2015 and 2014 and September 30, 2013, 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, 2015 and the nine months ended September 30, 2016. All necessary adjustments to present fairly the consolidated financial position of the SMC Group as of December 31, 2015 and the financial performance and cash flows for the year ended December 31, 2015 and for all the other periods presented, have been made.

I. 2016 SIGNIFICANT TRANSACTIONS

THIRD QUARTER

LONG-TERM DEBT

- *Refinancing of the US300 Million Short-term Loan by SMC Global Power Holdings Corp. (SMC Global)*

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

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

On July 11, 2016, SMC Global issued and listed in the Philippine Dealing & Exchange Corp. fixed rate Philippine Peso-denominated bonds (the "Bonds") with an aggregate principal amount of ₱15,000 million. The Bonds were issued 100% of face value in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter. The bonds comprised of the Series A Bonds, the Series B Bonds, and the Series C Bonds.

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

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

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

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

PREVIOUS QUARTERS

DIVESTMENT

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

On May 30, 2016, the Parent Company entered into agreements with PLDT and Globe, respectively, for the sale of 100% ownership interest of the Parent Company in Vega Telecom, Inc. (Vega) for total amount of ₱30,004 million. Vega holds the telecommunications assets of the Parent Company through its subsidiaries. In addition, advances by the Parent Company to Vega was also assigned to PLDT and Globe, in the total amount of ₱22,077 million. The Parent Company received ₱26,040 million or 50% of the proceeds from the sale of shares and assignment of advances upon signing of the agreement. The payments of the remaining balance will be made to the Parent Company at 25% of the proceeds each on December 1, 2016 and May 30, 2017.

The Parent Company booked a gain from the transaction amounting to ₱6,948 million, net of capital gains tax.

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

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

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

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

INVESTMENTS

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

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

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

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

On March 18, 2016, Petron subscribed to an additional 43,125,482 ordinary shares of stock of PAHL for ₱1,291 million, thereby increasing the ownership interest of Petron in PAHL from 47.25% to 50.26%.

On July 25, 2016, Petron acquired all the remaining 273,000,000 ordinary shares and 102,142,858 "B" ordinary shares of stock of PAHL from Petron Corporation Employees' Retirement Plan for a total consideration of ₱1,921 million, making PAHL a wholly-owned subsidiary of Petron.

EQUITY

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

On February 24, 2016, the Board of Directors of Philippine Stock Exchange, Inc. approved the listing application of the Parent Company of up to 975,571,800 shares of Series "2" Preferred Shares under shelf registration (the "Shelf Registered Shares") and the offering of up to 400,000,000 shares of Series "2" Preferred Shares (the "First Tranche") with a par value of ₱5.00 per share and an offer price of ₱75.00 per share. The Philippine Securities and Exchange Commission approved the shelf registration of the Shelf Registered Shares and issued a permit to sell covering the same on March 8, 2016.

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

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

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

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

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

LONG-TERM DEBT

- *Payment of Long-term Debt*

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

- *Refinancing of Long-term Debt*

\- Atlantic Aurum Investments Philippines Corporation (AAIPC)

On March 14, 2016, AAIPC availed in full the ₱16,700 million loan facility with various banks. The loan has a term of nine years and bears a fixed interest rate of 6.7394% per annum.

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

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

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

\- SMC Consolidated Power Corporation (SCPC)

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

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

- Vertex Tollways Devt. Inc. (Vertex)

On January 29 and February 1, 2016, Vertex has drawn a total of ₱1,100 million, to complete the ₱7,500 million loan facility for the financing of ongoing construction of the Ninoy Aquino International Airport (NAIA) Expressway Project.

II. FINANCIAL PERFORMANCE

2016 vs. 2015

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

San Miguel Corporation's consolidated sales revenues for September 2016 amounted to ₱498,312 million. This is slightly lower than 2015 with the decline in oil prices resulting to lower sales of Petron. Core Beverage, Food and Packaging Businesses continued to post higher sales with 11% revenue growth. The Energy and Infrastructure Businesses also sustained their higher revenues.

The corresponding consolidated operating income reached about ₱73,237 million, 24% higher than last year. Most businesses continued to perform better and sustained double-digit income growth.

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

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

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

The decrease in other charges was primarily due to the lower foreign exchange loss as a result of the lower depreciation of the Philippine Peso (PhP) against the United States Dollar (US$) in 2016 compared to 2015. PhP weakened by ₱1.44 against US$ in September 2016 compared to ₱2.02 in September 2015.

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

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

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

Consolidated net income amounted to ₱42,953 million.

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

2015 vs. 2014

San Miguel Corporation’s consolidated sales revenues for the first nine months of 2015 amounted to ₱503,302 million, 15% lower than 2014. This mainly reflects lower revenues from Petron due to the effect of lower oil prices and lower volumes from SMC Global with the scheduled maintenance of some facilities. This was slightly moderated by the contribution of the Infrastructure Business with the consolidation of Metro Manila Skyway (Skyway) and South Luzon Expressway (SLEX) starting March 2015 as well as the 7% increase in the combined sales of Beverage, Food and Packaging Businesses.

In contrast, the consolidated operating income grew 24% to ₱59,019 million, mainly attributed to Petron’s higher margin, with the more stable pricing environment particularly in September 2015, higher contribution from the Infrastructure Business and the continued good performance from the Beverage, Food and Packaging Businesses.

Excluding the effect of foreign exchange, net income stood at ₱27,012 million, 7% higher than 2014. However, with the foreign exchange losses mostly unrealized and resulting from the conversion of foreign currency denominated-debt to ₱46.74 to a Dollar as of September 30, 2015, the consolidated net income amounted to ₱19,082 million.

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

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

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

The depreciation of the Peso against the US$ by ₱2.02 on September 30, 2015 as compared to ₱0.48 on September 30, 2014, resulted to higher losses on foreign exchange in 2015.

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

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

1. BEVERAGE

2016 vs. 2015

a. San Miguel Brewery Inc.

SMB sustained its growth momentum in the third quarter to register an 18% increase in consolidated revenues at ₱69,298 million by end-September. Operating income likewise showed big improvement with a 19% growth to reach ₱18,714 million.

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

The International Operations registered 21 million cases in sales volume. This translated to ₱8,890 million in revenues, 6% higher than last year, and operating income of ₱451 million, a significant increase from the same period last year. This improvement was led by Indonesia, with higher volumes and improved margins, as well as growth of exports.

b. Ginebra San Miguel Inc. (GSMI)

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

Operating income jumped 65% to ₱654 million.

<u>2015 vs. 2014</u>

a. San Miguel Brewery Inc.

SMB, for the first nine months of 2015, posted consolidated sales revenues of ₱58,790 million, 4% higher versus 2014. This is mainly attributed to Domestic Operations' sustained volume. Domestic revenues increased by 11% to ₱50,165 million. International Operations, on the other hand, have been affected by challenges in North China, Hong Kong and Indonesia. This, in turn, resulted in a 3% decline in consolidated volumes or down to 148.2 million cases.

Operating income grew 3% to ₱15,746 million, on the back of sustained revenue growth and execution of cost management programs.

b. Ginebra San Miguel Inc.

GSMI continued to recover its profitability with September 2015 net income reaching ₱9 million, a significant turnaround from 2014. This was achieved on the back of 5% volume growth bringing September 2015 volumes to 15.8 million cases, a result of a 7% increase in volumes of the flagship brand, Ginebra San Miguel. Consolidated revenue reached ₱11,487 million, 8% ahead of 2014.

Improved distillery efficiencies also helped lowered alcohol costs and further improved gross contribution margin resulting to an operating income in September 2015 of ₱396 million, significantly higher than 2014.

2. FOOD

<u>2016 vs. 2015</u>

San Miguel Pure Foods Company Inc. (SMPFC) and its subsidiaries posted a revenue growth of 5%, bringing consolidated revenue in September 2016 to ₱80,582 million.

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

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

The consolidated operating income of Food Group reached ₱5,613 million, which was ahead of last year's results by 25%.

<u>2015 vs. 2014</u>

SMPFC posted revenue growth of 3%, bringing revenues in September 2015 to ₱76,601 million. Feeds and Flour Businesses sustained the revenues of Agro and Milling Clusters, even with lower selling prices in Poultry and Meat Businesses in the first half of 2015. On the other hand, new product launches as well as, the continued strong demand for core brands, such as Pure Foods, Magnolia, Star and Dari Crème, contributed to the revenue growth of Branded Value-Added Cluster revenues.

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

3. PACKAGING

2016 vs. 2015

The sales revenue of San Miguel Yamamura Packaging Group (SMYPG) for year-to-date September 2016 amounted to ₱19,749 million, 9% higher than 2015. Lower requirements of beverage clients tempered growth in glass revenues during the third quarter and posted an 8% year-to-date increase in sales from the 14% growth reported in the first semester. On the other hand, Metal Business delivered strong performance in the third quarter from its domestic and international operations with the increase in sales to beverage clients and sustained export sales.

With better fixed cost management, the corresponding operating income increased by 12% to ₱1,919 million in September 2016.

2015 vs. 2014

SMYPG grew revenues by 5% to ₱18,186 million for the first nine months of 2015. The Glass Business continued its strong performance, posting a 27% increase in revenues, driven by strong demand from beverage and pharmaceutical companies. Australia Operations also made a solid performance with improved sales from Cospak Limited and contribution from the newly acquired cork company, Vinocor Worldwide Direct Pty. Ltd.

Corresponding operating income increased by 8% to ₱1,709 million.

4. ENERGY

2016 vs. 2015

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

Corresponding consolidated net revenue increased by 3% to ₱60,700 million as a result of higher volumes, partly offset by lower average realization prices for both spot sales and bilateral customers.

The operating income of the Energy Business in September 2016 amounted to ₱22,838 million, 18% higher than last year. Major income contributors are still Sual and Ilijan plants, with Ilijan plant showing a much improved income performance versus last year.

2015 vs. 2014

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

This resulted in consolidated revenues of ₱58,997 million, an amount lower than 2014. Likewise, operating income at ₱19,343 million registered a decline versus 2014.

5. FUEL AND OIL

2016 vs. 2015

Petron sustained momentum, posting a 47% increase in consolidated net income that reached ₱7,427 million in September 2016, mainly driven by sustained growth in volume sales.

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

The effect of lower crude oil and finished product prices offset the increase in sales volume. In September 2016, the consolidated revenue of Petron decreased by 11% to ₱247,770 million. Corresponding operating income grew 23% to ₱16,841 million.

2015 vs. 2014

Petron posted ₱5,068 million in consolidated net income for the first nine months of 2015, a 58% increase from the same period in 2014. This growth is attributed to higher volumes and a more stable pricing environment.

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

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

Petron consolidated revenues, however, dipped by 27% and ended at ₱278,295 million due to lower oil prices. Operating income grew by as much as 91% and reached ₱13,662 million.

6. INFRASTRUCTURE

2016 vs. 2015

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

2015 vs. 2014

The Infrastructure Business which is mainly represented by the toll way operations of Skyway and SLTC, were consolidated in the San Miguel group starting March 2015, contributing ₱9,004 million in revenues and about ₱5,146 million in operating income.

On a full nine-months results, the Infrastructure Business reached about ₱10,954 million in revenues and contributed operating income of ₱6,411 million, both 17% higher than 2014. Revenue growth is attributed to the increase in traffic volumes of Skyway, SLEX, and Southern Tagalog Arterial Road (STAR) and full operations of sections 1 and 2 for TPLEX.

September 2014 revenue and operating loss of the Infrastructure business amounted to ₱631 million and ₱355 million, respectively, which comprise mainly of the tollway operations of TPLEX and STAR.

III. FINANCIAL POSITION

2016 vs. 2015

The Group's consolidated total assets as of September 30, 2016 amounted to ₱1,274,775 million, ₱28,753 million higher than 2015. The increase is primarily due to the recognition of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Trade and other receivables increased by ₱20,885 million primarily due to the receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Inventories increased by ₱14,355 million mainly due to higher price of crude and finished products of Petron, build-up of inventories in preparation for peak season sales of SMPFC and higher inventory of full goods and purchase of new bottles and shells to support increase in production volume of the domestic operations of SMB.

Biological assets increased by ₱396 million mainly due to higher cost to produce growing poultry livestock and increased cost of imported cattle.

Investments and advances increased by ₱5,124 million in 2016 mainly due to additional investments made by SMC Global in Angat Hydro and Mariveles Power Generation Corporation.

Investment property increased by ₱2,073 million mainly due to the acquisition by E-fare of land in Mariveles, Bataan for the construction of an industrial park.

Other intangible assets decreased by ₱17,324 million primarily due to the deconsolidation of licenses attributed to the subsidiaries of Vega, net of the recognition of additional concession rights for the various infrastructure projects, such as the Skyway Stage 3, NAIA Expressway, Boracay Airport, Manila North Harbor Development Program and TPLEX in 2016.

Deferred tax assets increased by ₱2,028 million mainly due to the recognition by the Parent Company of deferred tax asset on net operating loss carry over (NOLCO), provision for doubtful accounts and unrealized foreign exchange loss.

The decrease in loans payable of ₱15,897 million in 2016 was mainly due to net payments made by Petron.

The decrease in income and other taxes payable of ₱1,062 million was mainly due to lower income tax payable of SMPFC in 2016 as income tax expense in the fourth quarter of 2015 was higher than the third quarter of 2016, being the peak period for the Food Group and the deconsolidation of Vega's balance.

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

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

Deferred tax liabilities increased by ₱1,962 million mainly due to the application of MCIT and higher deferred tax liability on inventories of Petron and the recognition by SPPC and SPDC of deferred income tax expense on the temporary difference between the actual monthly payments to PSALM over the finance lease liability-related expenses for 2016.

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

Other noncurrent liabilities decreased by ₱8,097 million mainly due to the deconsolidation of Vega's balance, as a result of the sale of the investment.

Equity reserve decreased by ₱5,325 million primarily due to the increase in ownership interest in ULC BVI and the acquisition of the remaining non-controlling interest in Petrochemical Asia (HK) Limited by Petron.

Cumulative translation adjustments increased by ₱2,253 million mainly due to the translation adjustment on the net assets of foreign subsidiaries, particularly of Petron, San Miguel International Limited and SMB, and the fair value adjustment on the investment in common shares of stock of Top Frontier Investment Holdings, Inc.

The decrease in treasury stock pertains to the issuance of Series “2” in Subseries G, H and I preferred shares of the Parent Company at ₱75.00 per share on March 30, 2016.

2015 vs. 2014

The Group's consolidated total assets as of September 30, 2015 amounted to ₱1,237,590 million, ₱20,101 million higher than 2014. The increase is primarily due to the consolidation of AAIBV's balance of toll road concession rights to operate and maintain the SLEX and the Skyway and the recognition of goodwill upon the consolidation of AAIBV starting March 5, 2015, net of the decrease in cash and cash equivalents.

Cash and cash equivalents decreased by ₱63,958 million mainly due to the: a) redemption of the 2010 Preferred Shares of Petron and Series A and B Preferred Shares of Petron Global Limited (PGL); b) net payment by Petron of short-term loans; c) payment by SMC Global of finance lease liabilities; and d) payment by the Group of interests and other financing charges and dividends and distributions. The effect of the foregoing transactions was partially offset by the consolidation of the cash and cash equivalents balance of AAIBV Group and the proceeds from issuance of undated subordinated capital securities and loan drawdown by SMC Global.

Trade and other receivables decreased by ₱28,132 million mainly due to the receipt by Petron of the refund of Value-Added Tax (VAT) claims and the collection of: a) non-trade receivables of SMHC, b) advances to crude supplier of Petron, and c) trade receivables of SMPFC.

Inventories decreased by ₱10,345 million mainly due to lower volume and price of crude and finished products of Petron, net of the seasonal build-up of raw materials by SMPFC.

Prepaid expenses and other current assets increased by ₱20,011 million mainly due to the increase in: a) unutilized VAT credit certificates of Petron Philippines and excess input VAT of Petron Malaysia with the implementation of Goods and Services Tax starting April 1, 2015; and b) excess input VAT of SMC Global due to payments made for the purchase of materials and equipment and payment of labor for the construction of the new power plants; and the consolidation of AAIBV Group's balance, particularly its advances to contractors and suppliers, prepaid taxes, restricted cash and prepaid insurance and other expenses.

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

Investments and advances decreased by ₱13,216 million in 2015 mainly due to the reclassification from investments in associates to investments in subsidiaries of the carrying amount of the investment in AAIBV Group and Liberty Telecoms Holdings, Inc. (LTHI).

Property, plant and equipment increased by ₱32,906 million mainly due to the on-going plant construction of Davao Power Plant, Limay Power Plant (Phase 1 and 2), additional capital expenditures on the Refinery Master Plan Phase 2 (RMP-2) Project and Petron Malaysia's network expansion and regular maintenance.

Investment property increased by ₱329 million mainly due to the acquisition by San Miguel Properties, Inc. of land for future development in Makati City, net of the reclassification to property, plant and equipment of the Makati Diamond Residences' model unit and land where the building is located.

Biological assets increased by ₱163 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by ₱17,206 million mainly due to the recognition of goodwill upon the consolidation of AAIBV Group.

Other intangible assets increased by ₱70,365 million mainly due to the consolidation of AAIBV's toll road concession rights to operate and maintain the SLEX and the Stages 1 to 3 of the Skyway; the recognition of licenses upon the consolidation of LTHI and the recognition of additional toll road concession rights for the various infrastructure projects namely: NAIA Expressway, TPLEX and Boracay Airport.

Deferred tax assets increased by ₱2,049 million mainly due to the recognition by the Parent Company of deferred tax asset on NOLCO, marked-to-market loss on derivatives and unrealized forex loss.

Other noncurrent assets decreased by ₱6,838 million mainly due to the elimination of the noncurrent receivable of the Parent Company from AAIBV upon its consolidation starting March 2015.

Loans payable decreased by ₱33,418 million in 2015 mainly due to the payments made by Petron and SMPFC of their short-term loans.

Accounts payable and accrued expenses decreased by ₱19,129 mainly due to payment made by Petron to various contractors and suppliers, primarily related to the RMP-2 Project and lower liabilities for crude oil and petroleum product importations due to decline both in volume and price of crude and finished products. The decrease was moderated by the increase in payable to suppliers and contractors pertaining to the on-going power plant construction in Davao and Bataan (Phase 1 and 2), and consolidation of AAIBV Group's balance.

Dividends payable decreased by ₱1,592 million mainly due to the payment by the Parent Company in 2015 of the dividends payable to its preferred stockholders which were outstanding in 2014.

The increase in long-term debt of ₱66,396 million was mainly due to the consolidation of the balance of AAIBV, and the loan availments made by: a) SMC Global to finance the ongoing construction of the power plant in Limay - Phase 2, b) Vertex to fund the NAIA Expressway Project, c) Citra Central Expressway Corp. to fund the Skyway Stage 3 Project, and d) Private Infra Dev Corporation (PIDC) to fund the TPLEX Project.

Deferred tax liabilities increased by ₱6,879 million primarily due to the consolidation of AAIBV.

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

Other noncurrent liabilities increased by ₱13,549 million mainly due to deposit for future stock subscription received by Vega and consolidation of the noncurrent liability of the AAIBV Group.

Equity reserve decreased by ₱1,346 million primarily due to the acquisition by Rapid Thoroughfares Inc. (Rapid) from DMCI Holdings, Inc. and D.M. Consunji, Inc. (collectively, “DMCI”) of its 25.11% non-controlling interest in PIDC.

Cumulative translation adjustments decreased by ₱3,406 million mainly due to the translation adjustments on the net assets of the foreign subsidiaries of Petron and SMHC.

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

The decrease in NCI of ₱3,912 million was mainly due to the redemption of the Series A and B Preferred Shares of PGL and the 2010 Preferred Shares of Petron and the acquisition by Rapid from DMCI of its 25.11% NCI in PIDC. The effect of these transactions was tempered by the recognition of NCI upon the issuance of undated subordinated capital securities of SMC Global and the consolidation of AAIBV Group.

Equity

The increase in equity is due to:

(In millions)	September 30	
	2016	2015
Income during the period	**₱42,953**	₱19,082
Reissuance of treasury shares	**29,722**	54,456
Other comprehensive income (loss)	**3,938**	(5,431)
Issuance of capital stock	**69**	25
Cash dividends and distributions	**(20,736)**	(17,417)
Reduction to non-controlling interests and others	**(6,876)**	(4,729)
Redemption of Subseries "2-A" preferred shares	**-**	(54,076)

	₱49,070	(₱8,090)

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	September 30	
	2016	2015
Net cash flows provided by operating activities	**₱46,445**	₱35,324
Net cash flows used in investing activities	**(21,225)**	(31,909)
Net cash flows used in financing activities	**(31,771)**	(70,117)

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

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

(In millions)	September 30	
	2016	2015
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	**₱24,154**	₱ -
Interest received	**2,653**	3,203
Proceeds from sale of investments and property and equipment	**479**	731
Additions to property, plant and equipment	**(28,275)**	(43,983)
Decrease (increase) in other noncurrent assets and others	**(10,846)**	3,341
Additions to investments and advances	**(7,492)**	(1,902)
Acquisition of subsidiaries	**(1,905)**	(7,721)
Cash and cash equivalents acquired from business combination, net of cash paid	**-**	14,415

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

(In millions)	September 30	
	2016	2015
Proceeds from reissuance of treasury shares	**₱29,722**	₱54,456
Payment of cash dividends and distributions	**(19,161)**	(19,010)
Payment of finance lease liabilities	**(17,811)**	(16,614)
Payment of short-term loans - net	**(16,331)**	(31,541)
Decrease in non-controlling interests	**(5,514)**	(461)
Proceeds from (payments of) long-term debt - net	**(2,745)**	9,000
Redemption of preferred shares	**-**	(94,718)
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	**-**	28,746

The effect of exchange rate changes on cash and cash equivalents amounted to ₱2,045 million and ₱2,744 million on September 30, 2016 and 2015, respectively.

V. KEY PERFORMANCE INDICATORS

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

	September 2016	December 2015
Liquidity:		
Current Ratio	**1.59**	1.32
Solvency:		
Debt to Equity Ratio	**1.94**	2.24
Asset to Equity Ratio	**2.94**	3.24
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**12.30%**	5.20%
Interest Rate Coverage Ratio	**3.81**	3.39

	Period Ended September 30	
	2016	2015
Operating Efficiency:		
Volume Growth	**8%**	10%
Revenue Growth	**(1%)**	(15%)
Operating Margin	**15%**	12%

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

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

* *Annualized for quarterly reporting*

OTHER INFORMATION

- 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. Amounts owed by/owed to related parties are collectible/to be settled in cash. 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 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 the Trustees of the Gropup’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.

2015 SIGNIFICANT TRANSACTIONS

INVESTMENTS

INFRASTRUCTURE

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 was executed in accordance with the requirements of the laws of the Netherlands 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 investment cost for the additional 48.47% equity interest amounted to US$224 million or ₱9,893 million.

With the transfer of the 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 Additional 25.11% Ownership Interest in Private Infra Dev Corp. (PIDC) by Rapid Thoroughfares, Inc. (Rapid)

On September 21, 2015, Rapid , DMCI Holdings, Inc. and D.M. Consunji, Inc. (collectively, “DMCI") entered into a Deed of Sale of Shares wherein Rapid acquired the shares held by DMCI in PIDC, equivalent to 25.11% of the total outstanding capital stock of PIDC for a consideration of ₱1,827 million. As of September 30, 2015, Rapid effectively and beneficially owns 70.11% ownership interest in PIDC.

TELECOMMUNICATIONS

Acquisition of Additional 51.88% Equity Interest in Liberty Telecoms Holdings, Inc. (LTHI)

In September 2015, Vega Telecom, Inc. (Vega) acquired an additional 51.88% equity interest in LTHI thru the conduct of a tender offer and the acquisition of shares from the other shareholders.

In compliance with the Securities Regulation Code, Vega conducted a tender offer for the common shares of LTHI held by the public. A total of 57,271,369 common shares or 4.43% of the outstanding common shares of LTHI were tendered, and subsequently were crossed at the Philippine Stock Exchange (PSE) on September 2, 2015.

On September 2, 2015, Vega acquired a total of 426,800,168 common shares and 2,907,768,174 preferred shares from West Bay Holding S.P.C. Company, Wi-Tribe Asia Limited and White Dawn Solutions Holdings, Inc.

Upon completion of the tender offer and share purchases, Vega beneficially owns 87.18% of the outstanding common shares and 100% of the unlisted preferred shares of LTHI. As such, Vega obtained control and consolidated LTHI effective September 2, 2015.

LTHI is a holding company and owns 100% of shares of stock in Wi-Tribe. It operates its business through Wi-Tribe which provides data communications services primarily through broadband internet services.

FOOD

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.

BEVERAGE

Acquisition by San Miguel Brewery Inc. (SMB) of the Non-alcoholic Beverage Assets of Ginebra San Miguel Inc.(GSMI)

SMB paid a total of ₱432 million (exclusive of value-added tax) for the acquisition of the assets of GSMI used in its non-alcoholic beverage business ("NAB Business") under the Deed of Sale for the property, plant and equipment used in the NAB Business ("NAB PPE") executed on April 1, 2015 and the Deed of Sale for the finished goods inventories and other inventories consisting of containers, raw materials, goods-in-process and packaging materials for the NAB Business executed on April 30, 2015. The purchase price is net of adjustments to the price of the NAB PPE after subsequent validation and confirmation by the parties.

OTHERS

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.

PREFERRED SHARES

Reissuance of Series "1" Preferred Shares of the Parent Company

On April 14, 2015, the Parent Company issued from its treasury shares 279,406,667 Series "1" Preferred Shares in the name of certain subscribers at ₱75.00 per share or a total amount of ₱20,956 million.

On June 10, 2015, the 279,406,667 Series "1" Preferred Shares of the Parent Company were traded on the PSE.

Reclassification of 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares of the Parent Company

At the Annual Stockholders' Meeting of the Parent Company held on June 9, 2015, the stockholders of the Parent Company approved the amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares. With the approved reclassification, the resulting distribution of the preferred shares of the Parent Company was 300,000,000 for Series "1" Preferred Shares and 1,910,000,000 for Series "2" Preferred Shares. The stockholders also approved the issuance of the Series "2" Preferred Shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares was approved by the Securities and Exchange Commission (SEC) on July 14, 2015.

On July 14, 2015, the Board of Directors (BOD) of the Parent Company authorized the following:

- Issuance and offer for sale to the public and investors of 446,667,000 of the Series “2” Preferred Shares of the Parent Company, at an issue price of ₱75.00 per share, to be issued up to three subseries;
- Filing of a Registration Statement and Prospectus with the SEC; and
- Filing of listing application with the PSE of the new subseries of the Series “2” Preferred Shares.

For these purposes, the BOD has authorized the engagement of the services of underwriters, advisors, legal counsels, stock and transfer agent, receiving agent/bank, and other agents as may be necessary, proper or desirable to effect the offering. The proceeds of the public offering will be used for the redemption of the outstanding Series “2-A” Preferred Shares of the Parent Company which may be redeemed on September 21, 2015.

Issuance of 446,667,000 Series “2” Preferred Shares – Subseries D, E and F by the Parent Company

On September 21, 2015, the Parent Company issued and listed in the PSE 446,667,000 Series “2” Preferred Shares in Subseries D, E and F. The Parent Company received ₱33,500 million from the issuance of the shares and used the proceeds from such issuance to redeem the SMC2A Preferred Shares.

The preferred shares were issued with the following dividend rates.

Subseries	Number of Shares	Dividend Rate Per Annum
2 – D	89,333,400	5.9431%
2 – E	134,000,100	6.3255%
2 – F	223,333,500	6.8072%

Redemption of Series “2” Preferred Shares – Subseries A by the Parent Company

On September 21, 2015, the Parent Company redeemed the Series “2” Preferred Shares – Subseries A at a redemption price of ₱75.00 per share plus any unpaid cash dividends.

Redemption of the 2010 Preferred Shares by Petron Corporation (Petron)

On November 7, 2014, the 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.

Redemption of Preferred Shares by Petron Global Limited (PGL)

On May 13, 2015, PGL redeemed its 150,000,000 series A and 200,000,000 series B cumulative, non-voting, non-participating and non-convertible preferred shares at a redemption price equal to its original issue price and par value of US$1.00 per share. These preferred shares were issued to a third party investor in 2012.

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 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 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.

B. UNDATED SUBORDINATED CAPITAL SECURITIES

Issuance of US$300 Million Undated Subordinated Capital Securities by SMC Global Power Holdings Corp. (SMC Global)

On August 26, 2015, SMC Global issued and listed in the Singapore Stock Exchange a Reg S, Unrated Perpetual Non-Call 5.5 years US$300 million Undated Subordinated Capital Securities. SMC Global priced the deal at 6.75%.

The issuance proceeds of ₱13,862 million will be used to finance investments in power-related assets, including its Greenfield power projects, and general corporate purposes.

C. FINANCING

PARENT COMPANY

On April 10, 2015, the Parent Company purchased a total of US$284 million or ₱12,611 million in principal amount of the US$800 million Medium Term Notes (MTN) issued in April 2013 to mature in 2023. The Parent Company purchased the Notes validly tendered and accepted for purchase at 95%, or a discount of 5%. The Parent Company recognized a gain of about ₱275 million for the transaction.

On September 8, 2015, the Parent Company drew US$287 million or ₱13,469 million from a loan facility agreement signed in April 2015. Proceeds from the 5-year floating rate loan were used for the repayment on April 10, 2015 of the MTN Tender Offer and any fees, costs and expenses in connection with the Tender Offer. The US$287 million loan's interest rate of LIBOR + 1.6% per annum is lower than the MTN rate of 4.875%.

PETRON

On July 29, 2015, Petron drew a US$550 million loan, amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a fixed spread. Proceeds were used to refinance existing debt amounting to US$550 million, effectively extending the loan maturity profile from 2016 and 2017 to 2020. The US$550 million refinancing facility's spread is lower compared to the refinanced loans.

SMC Global

On March 6, 2015, 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.

South Luzon Tollway Corporation (SLTC)

On May 22, 2015, SLTC issued fixed rate bonds amounting to ₱7,300 million divided into Series A (₱2,400 million), Series B (₱2,400 million) and Series C (₱2,500 million) having a term of 5 years and 3 months or maturing on August 22, 2020, 7 years or maturing on May 22, 2022, and 10 years or maturing on May 22, 2025 respectively, with a fixed interest rate per annum of 4.9925%, 5.5796% and 6.4872%, respectively.

The net proceeds of SLTC's ₱7,300 million fixed rate bond offering were used to prepay the 5-year ₱7,975 million Peso-denominated Floating Rate Corporate Notes and Security Agreement drawn on April 4, 2012 with interest rate of the higher of (i) a spread of 3% per annum over PDST-F rate and (ii) the BSP Overnight Borrowing Rate plus 0.75% per annum.

Internally generated funds was used to pay the balance of the prepayment amounting to ₱675 million.

Vertex Tollways Devt. Inc. (Vertex)

On February 27 and May 29, 2015, Vertex has drawn ₱2,200 million and ₱2,600 million loan, respectively, for the financing of the ongoing construction of the Ninoy Aquino International Airport (NAIA) Expressway Project.

PIDC

On April 24, 2015, PIDC made the final drawdown of ₱3,640 million to complete the ₱15,140 million ten-year term loan facility used for financing the Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) Project.

CITRA CENTRAL EXPRESSWAY CORP. (CCEC)

On August 28 and September 30, 2015, CCEC has drawn ₱3,500 million and ₱480 million from the ₱31,000 million available loan facility to partially finance the design and construction of the Stage 3 of Metro Manila Skyway Project.

I. FINANCIAL PERFORMANCE

<u>2015 vs. 2014</u>

San Miguel Corporation's consolidated sales revenues for the first nine months of 2015 amounted to ₱504,520 million, 15% lower than last year. This mainly reflects lower revenues from Petron due to the effect of lower oil prices and lower volumes from SMC Global with the scheduled maintenance of some facilities. This was slightly moderated by the contribution of infrastructure business with the consolidation of Skyway and SLEX starting March 2015 as well as the 7% increase in the combined sales of beverage, food and packaging businesses.

In contrast, the consolidated operating income grew 23% to ₱58,131 million, mainly attributed to Petron's higher margin, with the more stable pricing environment particularly during the current period, higher contribution from our infrastructure business and the continued good performance from the beverage, food and packaging businesses.

Excluding the effect of foreign exchange, net income stood at ₱26,832 million, 7% higher than last year. However, with the foreign exchange losses mostly unrealized and resulting from the conversion of foreign denominated debt to ₱46.74 to a dollar as of end September 2015, the year-to-date consolidated net income amounted to ₱18,945 million.

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

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

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

The depreciation of the peso against the US$ by ₱2.02 on September 30, 2015 as compared to ₱0.48 on September 30, 2014, resulted to higher foreign exchange losses in 2015.

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

2014 vs. 2013

San Miguel Corporation's 2014 consolidated sales revenue for September 2014 amounted to about ₱593,470 million, 9% higher than 2013. Most businesses continued to grow during the third quarter of 2014 with the Energy business registering 25% increase versus same quarter in 2013.

The corresponding consolidated operating income for September 2014 amounted to ₱47,209 million, 2% higher than 2013. SMC Global continued to deliver better results with higher volumes and prices as well as lower generation costs. Petron, on the other hand, showed a decline in profitability with the sharp drop in crude prices during the 3rd quarter of 2014 resulting to high-priced inventories being sold at lower prices.

Net income before non-controlling interests amounted to ₱23,151 million, 31% higher than 2013, with lower interest expenses and foreign exchange losses. The corresponding net income attributable to equity holders of the Parent Company is ₱13,170 million, 74% higher than 2013's comparable figure.

The increase in equity in net earnings of associates and joint ventures was mainly due to the increase in share in the net income in our non-controlling interests in Philippine Airlines, Inc. and in AAIBV.

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 Refinery Master Plan Phase 2 (RMP-2) Project of Petron.

The overall performance of the Group resulted in the significant increase in income before tax and income tax expense in September 2014.

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

7. BEVERAGE

2015 vs. 2014

SMB

SMB, for the first nine months of 2015, posted consolidated sales revenues of ₱58,790 million, 4% higher versus 2014. This is mainly attributed to domestic operations' sustained volume. Domestic revenues increased by 11% to ₱50,165 million. International operations, on the other hand, have been affected by challenges in North China, Hong Kong and Indonesia. This, in turn, resulted in a 3% decline in consolidated volumes or down to 148.2 million cases.

Operating income grew 3% to ₱15,746 million, on the back of sustained revenue growth and execution of cost management programs.

GSMI

GSMI continues to recover its profitability with September 2015 year-to-date net income reaching ₱9 million, a significant turnaround from last year.

This was achieved on the back of 5% volume growth bringing September year-to-date volumes to 15.8 million cases, a result of a 7% increase in volumes of the flagship brand, Ginebra San Miguel. Consolidated revenues reached ₱11,487 million, 8% ahead of last year.

Improved distillery efficiencies also helped lowered alcohol costs and further improved gross contribution margin resulting to an operating income as of September 2015 of ₱396 million, significantly higher than last year.

2014 vs. 2013

SMB

SMB's consolidated sales volume reached 153 million cases, 3% higher compared to the same period in 2013. This translated to a 5% growth in consolidated revenues reaching about ₱56,283 million.

Operating income reached ₱15,270 million. Beer Domestic operations still felt the effects of the increase in excise taxes in January 1, 2014, as reflected in the slightly slimmer margins. On the other hand, Beer International continued to deliver strong operational performance, particularly from Hong Kong, Guangdong and exports.

GSMI

GSMI continued to recover as it posted an operating income of ₱124 million as of September 2014, a turnaround from 2013. This was on volumes of 15 million cases, 2% higher than 2013's level. Consolidated revenues of ₱10,628 million are up by 7% from 2013, at the back of the implemented price increase last January 2014. Gross contribution remained at 26%, significantly ahead of 2013, owing to lower bottle and alcohol costs, and improved efficiencies at the distillery.

1. FOOD

2015 vs. 2014

SMPFC posted revenue growth of 3%, bringing food revenues as of September 2015 to ₱76,601 million. Feeds and flour businesses sustained the revenues of Agro and Milling Clusters, even with lower selling prices in poultry and meat businesses in the first half of the year. On the other hand, new product launches as well as, the continued strong demand for core brands, such as Pure Foods, Magnolia, Star and Dari Crème, contributed to the revenue growth of Branded Value-Added Cluster revenues.

The consolidated operating income for the period rose 4% to ₱4,499 million. This was achieved as margins for feeds business and core brands have improved, moderating the weak performance of poultry and meats businesses.

2014 vs. 2013

SMPF's consolidated revenue for September 2014 grew 4% to ₱74,415 million. This growth was driven by Agro and Milling businesses which posted a revenue increment of 7% due to favorable market prices and better sales volume. Branded value-added cluster has improved sales by 2% to ₱15,883 million driven by Magnolia dairy, fats and oil.

Including the incremental cost incurred due to port congestion and the net cost of damages to our facilities due to Typhoon Glenda, the Food business managed to increase its consolidated operating income by 18%. Consolidated operating income reached ₱4,327 million in September 2014, resulting from better margins for Poultry, Meats business and Flour as well as improved fixed cost management.

8. PACKAGING

2015 vs. 2014

San Miguel Yamamura Packaging Group (SMYPG) grew revenues by 5% to ₱18,186 million for the first nine months of 2015. The glass business continued its strong performance, posting a 27% increase in revenues, driven by strong demand from beverage and pharmaceutical companies. Australia operations also made a solid performance with improved sales from Cospak Limited and contribution from the newly acquired cork company, Vinocor Worldwide Direct Pty. Ltd.

Corresponding operating income increased by 8% to ₱1,709 million.

2014 vs. 2013

SMYPG's consolidated operating income for September 2014 amounted to ₱1,576 million, 6% higher than 2013.

Revenues as of September 2014, on the other hand, showed a decline of 3% versus 2013 - ending at ₱17,264 million. The business continued to experience lower demands from Glass, Plastics and Metal businesses due to lower requirements from SMB, GSMI and carbonated soft drink clients.

9. ENERGY

2015 vs. 2014

SMC Global's offtake volume for the first nine months of 2015 was 12.3 giga-watt hours, 5% lower than last year. This was mainly due to lower bilateral volumes, still reflective of the scheduled maintenance outage and occasional gas supply restrictions experienced at the Malampaya gas facilities and the scheduled annual maintenance of Ilijan and Sual power plants. The decrease was moderated by higher generation of San Roque and higher contribution from the Limay Co-generation power plant.

This resulted in consolidated revenues of about ₱58,997 million, an amount lower than last year. Likewise, operating income at ₱19,343 million registered a decline versus last year.

2014 vs. 2013

Higher bilateral volume from Sual and Ilijan contributed primarily to SMC Global's higher offtake volume at 13 million megawatt hours as of September 2014, surpassing 2013's level by 4%. Coupled with higher average bilateral and Wholesale Electricity Spot Market prices versus 2013, consolidated revenues grew 19% to about ₱65,516 million.

The Energy business' September 2014 consolidated operating income amounted to ₱21,877 million. The co-generation solid fuel fired power plant in Limay contributed 5% to the total operating income.

10. FUEL AND OIL

2015 vs. 2014

Petron posted ₱5,068 million in consolidated net income for the first nine months of 2015, a 58% increase from the same period of last year. This growth is attributed to higher volumes and a more stable pricing environment.

Philippine operations led the volume growth with September year-to-date sales reaching 46.6 million barrels, higher by 22% from last year. Gains from the company's service station expansion program continued as shown by the 12% increase in retail volumes. LPG sales also grew 21% as Petron Gasul brand remains the most preferred in the market.

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

Petron consolidated revenues, however, dipped by 27% and ended at ₱278,295 million due to lower oil prices. Operating income grew by as much as 91% and reached ₱13,662 million.

<u>2014 vs. 2013</u>

Petron's September 2014 consolidated revenues reached about ₱379,540 million, 13% higher than 2013. This is on volumes of 64.7 million barrels, 7% ahead of 2013's level. Petron Philippines contributed 38.3 million barrels in volume and ₱234,849 million in revenues, 11% and 17% higher than 2013, respectively. Higher demand from power generation coupled with the 6% increase in retail volumes contributed by the service station expansion program supported the growth. Malaysia operations also contributed 26.3 million barrel, a 2% growth from 2013 driven by retail and aviation fuel sales.

Operating income for the first nine months of 2014 amounted to ₱7,148 million, a 25% decline from 2013. This is due to the sharp drop in crude prices during the third quarter of 2014 resulting to high-priced inventories being sold at low prices.

11. INFRASTRUCTURE

<u>2015 vs. 2014</u>

Infrastructure business, which is mainly represented by the tollway operations of Skyway and SLTC, was consolidated in the San Miguel group starting March 2015, contributing ₱9,004 million in revenues and about ₱5,146 million in operating income.

On a full nine-months results, the Infrastructure business reached about ₱10,954 million in revenues and contributed operating income of ₱6,411 million, both 17% higher than last year. Revenue growth is attributed to increase in traffic volumes of Skyway, SLEX, and Southern Tagalog Arterial Road (STAR) and full operations of sections 1 and 2 for TPLEX.

II. FINANCIAL POSITION

<u>2015 vs. 2014</u>

The Group's consolidated total assets as of September 30, 2015 amounted to ₱1,237,014 million, ₱19,964 million higher than 2014. The increase is primarily due to the consolidation of AAIBV's balance of toll road concession rights to operate and maintain the SLEX and the Skyway and the recognition of goodwill upon the consolidation of AAIBV starting March 5, 2015, net of the decrease in cash and cash equivalents.

Cash and cash equivalents decreased by ₱63,958 million mainly due to the: a) redemption of the 2010 Preferred Shares of Petron and Series A and B Preferred Shares of PGL; b) net payment by Petron of short-term loans; c) payment by SMC Global of finance lease liabilities; and d) payment by the Group of interests and other financing charges and dividends and distributions. The effect of the foregoing transactions was partially offset by the consolidation of the cash and cash equivalents balance of AAIBV Group and the proceeds from issuance of undated subordinated capital securities and loan drawdown by SMC Global.

Trade and other receivables decreased by ₱28,558 million mainly due to the receipt by Petron of the refund of Value-Added Tax (VAT) claims and the collection of: a) non-trade receivables of SMHC, b) advances to crude supplier of Petron, and c) trade receivables of SMPFC.

Inventories decreased by ₱10,345 million mainly due to lower volume and price of crude and finished products of Petron, net of the seasonal build-up of raw materials by SMPFC.

Prepaid expenses and other current assets increased by ₱20,437 million mainly due to the increase in: a) unutilized VAT credit certificates of Petron Philippines and excess input VAT of Petron Malaysia with the implementation of Goods and Services Tax starting April 1, 2015; and b) excess input VAT of SMC Global due to payments made for the purchase of materials and equipment and payment of labor for the construction of the new power plants; and the consolidation of AAIBV Group's balance, particularly its advances to contractors and suppliers, prepaid taxes, restricted cash and prepaid insurance and other expenses.

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

Investments and advances decreased by ₱13,353 million in 2015 mainly due to the reclassification from investments in associates to investments in subsidiaries of the carrying amount of the investment in AAIBV Group and LTHI.

Property, plant and equipment increased by ₱32,722 million mainly due to the on-going plant construction of Davao Power Plant, Limay Power Plant (Phase 1 and 2), additional capital expenditures on the RMP-2 project and Petron Malaysia's network expansion and regular maintenance.

Investment property increased by ₱329 million mainly due to the acquisition by San Miguel Properties, Inc. of land for future development in Makati City, net of the reclassification to property, plant and equipment of the Makati Diamond Residences' (MDR) model unit and land where the building is located.

Biological assets increased by ₱163 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by ₱17,206 million mainly due to the recognition of goodwill upon the consolidation of AAIBV Group.

Other intangible assets increased by ₱70,365 million mainly due to the consolidation of AAIBV's toll road concession rights to operate and maintain the SLEX and the Stages 1 to 3 of the Skyway; the recognition of licenses upon the consolidation of LTHI and the recognition of additional toll road concession rights for the various infrastructure projects namely: NAIA Expressway, TPLEX and Boracay Airport.

Deferred tax assets increased by ₱2,049 million mainly due to the recognition by the Parent Company of deferred tax asset on the net operating loss carry over (NOLCO), marked-to-market loss on derivatives and unrealized forex loss.

Other noncurrent assets decreased by ₱6,654 million mainly due to the elimination of the noncurrent receivable of the Parent Company from AAIBV upon its consolidation starting March 2015.

Loans payable decreased by ₱33,418 million in 2015 mainly due to the payments made by Petron and SMPFC of their short-term loans.

Accounts payable and accrued expenses decreased by ₱19,129 mainly due to payment made by Petron to various contractors and suppliers, primarily related to the RMP-2 Project and lower liabilities for crude oil and petroleum product importations due to decline both in volume and price of crude and finished products. The decrease was moderated by the increase in payable to suppliers and contractors pertaining to the on-going power plant construction in Davao and Bataan (Phase 1 and 2), and consolidation of AAIBV Group's balance.

Dividends payable decreased by ₱1,592 million mainly due to the payment by the Parent Company in 2015 of the dividends payable to its preferred stockholders which were outstanding in 2014.

The increase in long-term debt of ₱66,396 million was mainly due to the consolidation of the balance of AAIBV, and the loan availments made by: a) SMC Global to finance the ongoing construction of the power plant in Limay - Phase 2, b) Vertex to fund the NAIA Expressway Project, c) CCEC to fund the Skyway Stage 3 Project, and d) PIDC to fund the TPLEX Project.

Deferred tax liabilities increased by ₱6,879 million primarily due to the consolidation of AAIBV.

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

Other noncurrent liabilities increased by ₱13,549 million mainly due to deposit for future stock subscription received by Vega and consolidation of the noncurrent liability of the AAIBV Group.

Revaluation increment decreased by ₱1,346 million primarily due to the acquisition by Rapid from DMCI of its 25.11% non-controlling interest in PIDC.

Cumulative translation adjustments decreased by ₱3,405 million mainly due to the translation adjustments on the net assets of the foreign subsidiaries of Petron and SMHC.

Additional appropriation on retained earnings was made by SMPFC mainly to finance future capital expenditures.

The decrease in non-controlling interests (NCI) of ₱3,912 million was mainly due to the redemption of the Series A and B Preferred Shares of PGL and the 2010 Preferred Shares of Petron and the acquisition by Rapid from DMCI of its 25.11% NCI in PIDC. The effect of these transactions was tempered by the recognition of NCI upon the issuance of undated subordinated capital securities of SMC Global and the consolidation of AAIBV Group.

2014 vs. 2013

The Group's consolidated total assets as of September 30, 2014 amounted to ₱1,230,501 million, ₱60,414 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 ₱46,088 million mainly due to the receipt of the proceeds from the sale of equity interest in Trustmark and Zuma and other related investments and advances and the collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit Holdings, Inc. (JG Summit), net of the funds used for payment of dividends.

Trade and other receivables decreased by ₱27,494 million primarily due to the collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit.

The increase in inventories amounting to ₱6,230 million basically represents the increase in importations of finished products by Petron Philippines and the increase in inventory of certain raw materials for feeds and the seasonal build-up of other major raw materials such as wheat, soybean meal and rice bran by SMPFC.

Prepaid expenses and other current assets increased by ₱7,539 million mainly due to the higher amount of input VAT of a) Petron as a result of the increase in the importations of crude oil and finished products during the period and b) SMC Global on the purchases of materials and equipment and payment of labor for the construction of the new power plants.

The increase in assets held for sale and the corresponding decrease in investments and advances pertains to the reclassification of the carrying value of the investment in shares of stock of Trustmark and Zuma and other related investments and advances.

Investment property increased by ₱1,956 million mainly due to the acquisition by Brewery Properties, Inc. of a property in Malabon for future expansion of Polo Brewery and additional construction costs of the MDR Project.

The increase in other intangible assets of ₱6,005 million represents the recognition of additional toll road concession rights for the various infrastructure projects namely: TPLEX, STAR, NAIA Expressway and the Boracay Airport.

Deferred tax assets increased by ₱2,373 million mainly due to the recognition of deferred tax on the NOLCO and on the unrealized foreign exchange loss of the Parent Company.

Other noncurrent assets decreased by ₱7,164 million mainly due to partial collection by Petron of its noncurrent receivables from Petron Corporation Employees Retirement Plan.

The increase in loans payable of ₱13,592 million in 2014 represents the net availments made by the Group during the period, for working capital requirements.

The increase in accounts payable and accrued expenses of ₱41,181 million primarily represents the proceeds from the divestment of the equity interest in Trustmark and Zuma and other related investments and advances, which were booked under this account pending the fulfillment of certain closing conditions under the Agreement.

Income and other taxes payable decreased by ₱1,647 million mainly due to the lower income subject to tax for the third quarter of 2014 compared to the fourth quarter of 2013.

Dividends payable decreased by ₱1,957 million mainly due to the payment by the Parent Company in 2014 of the dividends to its preferred stockholders which were outstanding in 2013.

The decrease in long-term debt of ₱2,977 million was mainly due to the payments made for the following: SMC exchangeable bonds, SMB bonds and San Miguel Yamamura Asia Corporation (SMYAC) loan, net of availments used for the various capital projects of Petron, Infrastructure and Energy businesses and translation adjustments.

Deferred tax liabilities increased by ₱1,054 million mainly due to the recognition by SMC Global of deferred tax liabilities relating to its finance lease liabilities and the increase in deferred tax liabilities of Petron from its unrealized gains and capitalized interests.

The reclassification to current liabilities of the retention payable to the contractors of the RMP-2 Project of Petron primarily represents the decrease in other noncurrent liabilities by ₱3,421 million.
Cumulative translation adjustments increased by ₱751 million mainly due to the effect of translation of the net assets of foreign subsidiaries and the fair value adjustment on the investment in shares of stock of Indophil.

Additional appropriations of retained earnings were made by SMC Shipping and Lighterage Corporation, SMPFC, SMYAC and SMITS, Inc. to finance future capital expenditures.

NCI increased by ₱12,058 million primarily due to the issuance of undated subordinated capital securities by SMC Global and the share of NCI in the net income of mainly SMB, Petron and SMPFC, net of dividends declared by Petron, SMB and SMPFC.

Equity

The increase (decrease) in equity is due to:

(In millions)	**September 30**	
	2015	2014
Reissuance of treasury shares	**₱54,456**	₱ -
Income during the period	**18,945**	23,151
Issuance of capital stock	**25**	95
Redemption of Subseries "2-A" preferred shares	**(54,076)**	-
Cash dividends and distributions	**(17,417)**	(16,997)
Other comprehensive income (loss)	**(5,431)**	1,176
Net addition (reduction) to non-controlling interests and others	**(4,729)**	13,094
	(₱8,227)	₱20,519

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**September 30**	
	2015	2014
Net cash flows provided by operating activities	**₱35,386**	₱19,493
Net cash flows provided by (used in) investing activities	**(31,254)**	38,794
Net cash flows used in financing activities	**(70,117)**	(13,479)

Net cash from operations for the period basically consists of income for the period less changes in noncash current assets, certain current liabilities and others.

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

(In millions)	September 30	
	2015	2014
Cash and cash equivalents acquired from business combination net of cash paid	**₱14,415**	₱ -
Decrease (increase) in other noncurrent assets and others	**3,996**	(3,509)
Interest received	**3,203**	2,860
Proceeds from sale of investments and property and equipment	**731**	67,029
Additions to property, plant and equipmen	**(43,983)**	(25,197)
Acquisition of subsidiaries	**(7,721)**	(247)
Additions to investments and advances	**(1,902)**	(2,147)

Net cash flows used in financing activities primarily consist of the following:

(In millions)	September 30	
	2015	2014
Redemption of preferred shares	**(₱94,718)**	₱ -
Proceeds from (payments of) short-term loans - net	**(31,541)**	13,276
Payment of cash dividends	**(19,010)**	(18,955)
Payment of finance lease liabilities	**(16,614)**	(15,075)
Proceeds from reissuance of treasury shares	**54,456**	-
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	**28,746**	13,127
Proceeds from (payment of) long-term debt - net	**9,000**	(5,831)

The effect of exchange rate changes on cash and cash equivalents amounted to ₱2,027 million and ₱1,280 million on September 30, 2015 and 2014, respectively.

IV. 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.

	September 2015	**December 2014**
Liquidity:		
Current Ratio	**1.38**	1.52
Solvency:		
Debt to Equity Ratio	**2.24**	2.12
Asset to Equity Ratio	**3.24**	3.12
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**3.23%**	6.15%
Interest Rate Coverage Ratio	**3.21**	2.97

	Period Ended September 30	
	2015	2014
Operating Efficiency:		
Volume Growth	**10%**	4%
Revenue Growth	**(15%)**	9%
Operating Margin	**12%**	8%

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

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

* *Annualized for quarterly reporting*

OTHER INFORMATION

- 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. Amounts owed by/owed to related parties are collectible/to be settled in cash. 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 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 the Trustees of the Gropup'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.

External Audit Fees and Services

The Parent Company paid the external auditor Audit Fees amounting to ₱12 million in 2015, ₱10 million in 2014 and ₱13 million in 2013. 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.

Independent Auditors and Counsel

Legal Matters

All legal opinions/matters in connection with the issuance of each Offer will be passed upon by Picazo Buyco Tan Fider & Santos (“Picazo Law”) for the Company and SyCip Salazar Hernandez & Gatmaitan for the 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, 2013, 2014, and 2015 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 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 Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds 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 Bonds 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 Bonds 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 Bonds.

PROSPECTIVE PURCHASERS OF THE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, 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.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

Given the above, all Bondholders are required to provide the Issuer through the Paying Agent their valid Tax Identification numbers issued by the BIR.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

An investor who is exempt from or is not subject to final withholding tax on interest income, or is entitled to be taxed at a preferential rate may claim such exemption or avail itself of such preferential rate by submitting the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance;

(i) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto;

(ii) with respect to tax treaty relief, a copy of the duly filed tax treaty relief application with the International Tax Affairs Division of the BIR as required under the BIR Revenue Memorandum Order No. 72-2010[10]; including any clarification, supplement or amendment thereto and, once available, a BIR-certified certificate, ruling or opinion addressed to the relevant applicant or Bondholder confirming its entitlement to the preferential tax rate under the applicable treaty;

(iii) a duly notarized undertaking executed by (1) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent of any suspension or revocation of the tax exemption certificate, certificate, ruling or opinion issued by the BIR, executed using the prescribed form, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax; and

(iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; *provided* that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; *provided further* that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status.

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Bonds, to the underwriters or selling agents who shall then forward the same with the application to purchase to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar upon submission of the Investor Registration Form in accordance with the procedures of the Registrar.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

[10] On 23 June 2016, the BIR issued BIR Revenue Memorandum Order No. 27-2016 ("RMO 27-2016"), which amends BIR Revenue Memorandum Order No. 72-2010. RMO 27-2016 provides that in lieu of filing a tax treaty relief application, preferential treaty rates for dividends, interests and royalties shall be granted outright by withholding final taxes at the applicable treaty rate. As of the date of this Prospectus, the effectivity of RMO 27-2016 has been suspended.

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.00 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 32%, 25%, or 30%, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers‘ gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the BIR for the availment of tax treaty benefits.

Estate and Donor‘s Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A Bondholder shall be subject to donor‘s tax based on the net gift on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is not a stranger. For this purpose, a stranger is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor or lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate or donor‘s taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor‘s tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the 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 (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows 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 the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor‘s taxes.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

Appendix

A. Unaudited Consolidated Financial Statements as of and for the nine months ended September 30, 2016

B. Audited Consolidated Financial Statements as of and for the years ended December 31, 2015, 2014 and 2013

C. List of properties owned and leased by SMC

D. List of Public Issuances of the SMC Group (Equity and Debt) (2014-2016) Registered with the SEC.

A. Unaudited Consolidated Financial Statements as of and for the nine months ended September 30, 2016

ANNEX "A"

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

ASSETS

	2016 Unaudited	2015 Audited
Current Assets		
Cash and cash equivalents (Notes 9 and 10)	P 176,252	P 180,758
Trade and other receivables - net (Notes 5, 9 and 10)	121,612	100,727
Inventories	78,503	64,148
Current portion of biological assets - net	3,650	3,319
Prepaid expenses and other current assets (Notes 9 and 10)	76,756	73,659
Total Current Assets	456,773	422,611
Noncurrent Assets		
Investments and advances - net	32,053	26,929
Available-for-sale financial assets (Notes 9 and 10)	41,995	41,546
Property, plant and equipment - net (Note 6)	498,600	497,352
Investment property - net	6,819	4,746
Biological assets - net of current portion	2,242	2,177
Goodwill - net	60,050	58,603
Other intangible assets - net	122,645	139,969
Deferred tax assets	18,469	16,441
Other noncurrent assets - net (Notes 5, 9 and 10)	35,129	35,648
Total Noncurrent Assets	818,002	823,411
	P 1,274,775	P 1,246,022

LIABILITIES AND EQUITY

	2016 Unaudited	2015 Audited
Current Liabilities		
Loans payable (Notes 5, 9 and 10)	P 130,962	P 146,859
Accounts payable and accrued expenses (Notes 5, 9 and 10)	107,167	102,836
Finance lease liabilities - current portion (Notes 9 and 10)	16,322	16,567
Income and other taxes payable	12,845	13,907
Dividends payable	3,573	1,996
Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)	16,443	37,554
Total Current Liabilities	287,312	319,719
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)	356,493	330,823
Deferred tax liabilities	17,291	15,329
Finance lease liabilities - net of current portion (Notes 9 and 10)	155,268	162,713
Other noncurrent liabilities (Notes 5, 9 and 10)	24,464	32,561
Total Noncurrent Liabilities	553,516	541,426
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	16,425	16,417
Capital stock - preferred	10,187	10,187
Additional paid-in capital	177,654	177,871
Equity reserve	(6,123)	(798)
Reserve for retirement plan	(3,540)	(3,546)
Cumulative translation adjustments	2,978	725
Retained earnings:		
Appropriated	50,722	48,927
Unappropriated	144,473	127,855
Treasury stock	(109,501)	(139,501)
	283,275	238,137
Non-controlling Interests	150,672	146,740
Total Equity	433,947	384,877
	P 1,274,775	P 1,246,022

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

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

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

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

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

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

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

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

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

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

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

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

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
SEPTEMBER 30, 2016
(In Millions)

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

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

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

The Group prepared its interim consolidated financial statements as of and for the period ended September 30, 2016 and comparative financial statements for the same period in 2015 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

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

Amendments to Standards Adopted in 2016

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

- Disclosure Initiative (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income, consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and consolidated statements of comprehensive income.

- Accounting for Acquisitions of Interests in Joint Operations *(Amendments to PFRS 11, Joint Arrangements).* The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination. The amendments to PFRS 11 are applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments to PAS 16 and PAS 38 are applied prospectively in accordance with PAS 8.

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:

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

  - *Disclosure of information "elsewhere in the interim financial report" (Amendment to PAS 34).* PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" – i.e., incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g., management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross reference are not made available to users of the interim financial statements on the same terms and at the same time. The amendment to PAS 34 is applied retrospectively, in accordance with PAS 8.

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

New and Amended Standards Not Yet Adopted

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

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

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

- PFRS 15, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

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

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15, *Revenue from Contracts with Customers*. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities. If the required disclosure is provided in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities. On February 17, 2016, the FRSC has adopted the amendments to PAS 7, which apply prospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12)*. The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

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

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

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

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

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

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

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

2. Segment Information

Operating Segments

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

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

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

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

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

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

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

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

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

Inter-segment Transactions

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

Financial information about reportable segments follows:

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

3. Discontinued Operations

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

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

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

The result of discontinued operations is presented below:

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

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

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

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

The effect of disposal on the financial position follows:

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

Cash consideration received	**P26,040**
Transaction cost	**(9)**
Cash and cash equivalents disposed of	**(1,877)**
Net cash flows	**P24,154**

4. Other Income (Charges)

Other income (charges) consists of:

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

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

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

5. **Related Party Disclosures**

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

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

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

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

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

c. The amounts owed to associates include interest bearing loans to Bank of Commerce (BOC) presented as part of “Loans payable” and “Long-term debt” accounts in the consolidated statements of financial position.

6. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2016 and December 31, 2015

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

(Forward)

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

September 30, 2015

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

(Forward)

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

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

7. **Basic and Diluted Earnings Per Share (EPS)**

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

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the Long-term Incentive Plan for Stock Options of the Parent Company, which are assumed to be exercised at the date of grant.

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

Basic and diluted EPS is computed as follows:

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

8. Dividends

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

September 30, 2016

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

September 30, 2015

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

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

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

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

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

9. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,881 and P1,933 for the period ended September 30, 2016 and for the year ended December 31, 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

September 30, 2016	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P9,543**	**P29,214**	**P24,620**	**P14,806**	**P31,147**	**P54,883**	**P164,213**
Interest rate	**5.65% - 8.74899%**	**5.5% - 8.74899%**	**5.5% - 10.50%**	**4.9925% - 8.74899%**	**4.3458% - 8.74899%**	**4.7575% - 7.73404%**	
Foreign currency-denominated (expressed in Philippine peso)	**71**	**-**	**-**	**-**	**-**	**25,044**	**25,115**
Interest rate	**12.45% - 13.27%**	**-**	**-**	**-**	**-**	**4.875%**	
Floating Rate							
Philippine peso-denominated	**1,176**	**1,328**	**1,222**	**544**	**540**	**1,511**	**6,321**
Interest rate	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or 5.75%, whichever is higher**	**PDST-R + margin or 5.75%, whichever is higher**	**PDST-R + margin**	
Foreign currency-denominated (expressed in Philippine peso)	**6,169**	**123,234**	**16,504**	**24,195**	**1,802**	**9,872**	**181,776**
Interest rate	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	
	P16,959	**P153,776**	**P42,346**	**P39,545**	**P33,489**	**P91,310**	**P377,425**

December 31, 2015	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P6,060	P29,399	P9,643	P23,426	P13,730	P58,854	P141,112
Interest rate	5.65% - 8.74899%	5.65% - 8.74899%	5.65% - 8.74899%	5.50% - 10.50%	4.9925% - 8.74899%	5.50% - 8.74899%	
Foreign currency-denominated (expressed in Philippine peso)	14,021	-	-	-	-	24,301	38,322
Interest rate	7% - 13.27%	-	-	-	-	4.875%	
Floating Rate							
Philippine peso-denominated	1,096	1,215	1,303	1,059	545	1,915	7,133
Interest rate	PDST-R + margin or BSP overnight rate, whichever is higher	PDST-R + margin or BSP overnight rate, whichever is higher	PDST-R + margin or BSP overnight rate, whichever is higher	PDST-R + margin or BSP overnight rate, whichever is higher	PDST-R + margin or 5.75%, whichever is higher	PDST-R + margin or 5.75%, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	16,672	11,181	126,410	11,046	20,901	-	186,210
Interest rate	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin,		
	P37,849	P41,795	P137,356	P35,531	P35,176	P85,070	P372,777

Foreign Currency Risk

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

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

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

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

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

	US Dollar to Philippine Peso
September 30, 2016	**48.50**
December 31, 2015	47.06
September 30, 2015	46.74
December 31, 2014	44.72

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

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

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

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

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

Commodity Price Risk

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

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

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

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

Liquidity Risk
Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

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

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

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

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

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

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

Investments

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

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

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

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

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

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

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

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

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

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

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

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

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

10. Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or

(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Debt Issue Costs

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

Offsetting Financial Instruments

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

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

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

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

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

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

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 1.3% to 3.8% and 2.4% to 4.6% as of September 30, 2016 and December 31, 2015, respectively. The discount rates used for foreign currency-denominated loans range from 0.5% to 6.8% and 0.4% to 9.1% as of September 30, 2016 and December 31, 2015, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedging

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

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

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either:

(a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);

(b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or

(c) hedges of a net investment in foreign operations.

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

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

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

The Group discontinues fair value hedge accounting if:

(a) the hedging instrument expires, is sold, is terminated or is exercised;

(b) the hedge no longer meets the criteria for hedge accounting; or

(c) the Group revokes the designation.

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

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

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

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

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

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

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

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

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Interest Rate Swap

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

Currency Forwards

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

Currency Options

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

Commodity Swaps

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

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

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

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

11. Events After the Reporting Date

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

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

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

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

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

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

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

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

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

12. Other Matters

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

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

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

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

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 25 (c) and Note 45 (a) of the 2015 Audited Consolidated Financial Statements, that remain outstanding as of September 30, 2016. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended September 30, 2016.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of September 30, 2016. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

i. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

B. Audited Consolidated Financial Statements as of and for the years ended December 31, 2015, 2014 and 2013

<u>ANNEX "B"</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015, 2014 and 2013

SAN MIGUEL CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of San Miguel Corporation (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

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

RAMON S. ANG
President and Chief Operating Officer

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

Signed this 17th day of March 2016

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
Mandaluyong City) S. S.

Before me, a Notary Public for and in Mandaluyong City this 17th day of March 2016, personally appeared the following:

Name	Passport No.	Date/Place of Issue
Mr. Eduardo M. Cojuangco, Jr.	EC3542719	02/27/15/DFA-Manila
Mr. Ramon S. Ang	EC3542718	02/27/15/DFA-Manila
Mr. Ferdinand K. Constantino	EB5297621	05/04/12/DFA-Manila

known to me to be the same persons who executed the foregoing instrument and that they acknowledged to me that the same is their free and voluntary act and deed and that of the corporation they represent.

IN WITNESS WHEREOF, I have hereunto affixed my notarial seal at the date and place first above written.

Doc. No. 139;
Page No. 87;
Book No. IV;
Series of 2016.

PAULA KATHERINA A. GAN
Commission No. 0308-15
Notary Public for Mandaluyong City
Until Dec. 31, 2016
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 53988
PTR No. 2599895; 01/04/16; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15; Q.C.

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

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

Branches: Subic · Cebu · Bacolod · Iloilo

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, 2015 and 2014, 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, 2015, 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.

KPMG

ANNEX "B-1"

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, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2015, in accordance with Philippine Financial Reporting Standards.

R.G. MANABAT & CO.

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-4, Group A, valid until August 24, 2018
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2013
Issued May 9, 2013; valid until May 8, 2016
PTR No. 5321509MD
Issued January 4, 2016 at Makati City

March 17, 2016
Makati City, Metro Manila

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

PW-277

COMPANY NAME

SAN MIGUEL CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

No. 40 San Miguel Avenue
Mandaluyong City

Form Type	Department requiring the report	Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
	632-3000	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
		December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Bella O. Navarra			

CONTACT PERSON's ADDRESS

No. 40 San Miguel Avenue, Mandaluyong City

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015, 2014 and 2013

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015, 2014 AND 2013
(In Millions)

	Note	2015	2014 As restated	2013 As restated
ASSETS				
Current Assets				
Cash and cash equivalents	*5, 9, 41, 42*	**P180,758**	P258,606	P191,613
Trade and other receivables - net	*4, 5, 6, 10, 34, 36, 40, 41, 42*	**100,727**	129,238	163,337
Inventories	*4, 5, 11*	**64,148**	85,846	83,315
Current portion of biological assets - net	*17*	**3,319**	3,320	3,427
Prepaid expenses and other current assets	*4, 5, 12, 14, 35, 41, 42*	**73,659**	52,886	38,516
		422,611	529,896	480,208
Assets held for sale	*8, 13*	**-**	554	13
Total Current Assets		**422,611**	530,450	480,221
Noncurrent Assets				
Investments and advances - net	*4, 5, 13*	**26,929**	46,651	69,055
Available-for-sale financial assets	*4, 14, 41, 42*	**41,546**	41,459	42,048
Property, plant and equipment - net	*4, 5, 15, 35*	**497,352**	455,323	426,759
Investment property - net	*4, 16*	**4,746**	3,643	4,176
Biological assets - net of current portion	*4, 17*	**2,177**	1,973	1,911
Goodwill - net	*4, 5, 18, 39*	**58,603**	41,211	41,752
Other intangible assets - net	*4, 5, 18, 39*	**139,969**	45,114	36,032
Deferred tax assets	*4, 5, 24*	**16,441**	14,651	15,608
Other noncurrent assets - net	*4, 5, 19, 34, 35, 36, 40, 41, 42*	**35,648**	37,014	52,141
Total Noncurrent Assets		**823,411**	687,039	689,482
		P1,246,022	P1,217,489	P1,169,703

	Note	2015	2014 As restated	2013 As restated
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable	*5, 20, 31, 34, 41, 42*	**P146,859**	P180,059	P143,226
Accounts payable and accrued expenses	*4, 5, 21, 34, 35, 36, 41, 42*	**102,836**	121,844	117,257
Finance lease liabilities - current portion	*4, 5, 31, 35, 41, 42*	**16,567**	16,219	15,654
Income and other taxes payable	*5*	**13,907**	13,303	13,058
Dividends payable	*5, 34, 37*	**1,996**	3,134	3,544
Current maturities of long-term debt - net of debt issue costs	*5, 22, 31, 34, 41, 42*	**37,554**	19,852	42,807
Total Current Liabilities		**319,719**	354,411	335,546

Forward

	Note	2015	2014 As restated	2013 As restated
Noncurrent Liabilities				
Long-term debt - net of current maturities and debt issue costs	*5, 22, 31, 34, 41, 42*	**P330,823**	P283,136	P264,690
Deferred tax liabilities	*5, 24*	**15,329**	7,820	11,061
Finance lease liabilities - net of current portion	*4, 5, 31,35, 41, 42*	**162,713**	170,111	179,394
Other noncurrent liabilities	*4, 5, 23, 34, 35, 36, 41, 42*	**32,561**	12,091	13,619
Total Noncurrent Liabilities		**541,426**	473,158	468,764
Equity	*25, 37, 38, 40*			
Equity Attributable to Equity Holders of the Parent Company				
Capital stock - common		**16,417**	16,415	16,414
Capital stock - preferred		**10,187**	10,187	10,187
Additional paid-in capital		**177,871**	178,101	178,085
Reserve for retirement plan		**(3,546)**	(1,216)	790
Equity reserve	*6*	**(798)**	761	764
Cumulative translation adjustments		**725**	3,874	4,081
Retained earnings:				
Appropriated		**48,927**	52,088	28,230
Unappropriated		**127,855**	120,571	138,727
Treasury stock		**(139,501)**	(139,881)	(139,954)
		238,137	240,900	237,324
Non-controlling Interests	*2, 5, 6*	**146,740**	149,020	128,069
Total Equity		**384,877**	389,920	365,393
		P1,246,022	P1,217,489	P1,169,703

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Millions, Except Per Share Data)

	Note	**2015**	2014 As restated	2013 As restated
SALES	*7, 26, 34*	**P673,925**	P773,723	P747,303
COST OF SALES	*27*	**532,923**	660,913	630,892
GROSS PROFIT		**141,002**	112,810	116,411
SELLING AND ADMINISTRATIVE EXPENSES	*28*	**(62,319)**	(57,035)	(60,690)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*12, 20, 22, 31, 34, 35*	**(32,521)**	(29,710)	(30,970)
INTEREST INCOME	*32*	**4,315**	4,012	3,539
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	*13*	**(386)**	1,701	(502)
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*6, 8, 13, 15, 16, 18, 19*	**(81)**	777	41,192
OTHER INCOME (CHARGES) - Net	*5, 13, 14, 22, 33, 41, 42*	**(4,073)**	6,307	(14,087)
INCOME BEFORE INCOME TAX		**45,937**	38,862	54,893
INCOME TAX EXPENSE	*24, 43*	**16,944**	10,284	3,700
NET INCOME		**P28,993**	P28,578	P51,193
Attributable to:				
Equity holders of the Parent Company		**P12,448**	P15,137	P38,517
Non-controlling interests	*6*	**16,545**	13,441	12,676
		P28,993	P28,578	P51,193
Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*38*			
Basic		**P2.53**	P3.80	P13.63
Diluted		**2.53**	3.78	13.55

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Millions)

	Note	**2015**	2014 As restated	2013 As restated
NET INCOME		**P28,993**	P28,578	P51,193
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*36*	**(4,529)**	(4,109)	1,985
Income tax benefit (expense)		**1,320**	1,233	(592)
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	**(121)**	552	(1,253)
		(3,330)	(2,324)	140
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		**(4,884)**	(522)	219
Net gain (loss) on available-for-sale financial assets	*14*	**75**	(810)	1,767
Income tax benefit (expense)		**(13)**	17	(10)
		(4,822)	(1,315)	1,976
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**(8,152)**	(3,639)	2,116
TOTAL COMPREHENSIVE INCOME - Net of tax		**P20,841**	P24,939	P53,309
Attributable to:				
Equity holders of the Parent Company		**P6,969**	P12,924	P38,614
Non-controlling interests	*6*	**13,872**	12,015	14,695
		P20,841	P24,939	P53,309

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(In Millions)

		Equity Attributable to Equity Holders of the Parent Company													
		Capital Stock		Additional Paid-in	Reserve for Retirement	Equity	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Plan	Reserve	Translation Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Equity
As of January 1, 2015, As previously reported		**P16,415**	**P10,187**	**P178,101**	**(P1,115)**	**P761**	**P4,071**	**P180**	**P52,088**	**P119,655**	**(P67,093)**	**(P72,788)**	**P240,462**	**P149,019**	**P389,481**
Adjustments due to reclassification of an asset held for sale to investment in an associate	*13*	-	-	-	(101)	-	(13)	(364)	-	916	-	-	438	1	439
As of January 1, 2015, As restated		16,415	10,187	178,101	(1,216)	761	4,058	(184)	52,088	120,571	(67,093)	(72,788)	240,900	149,020	389,920
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	(3,111)	-	-	-	-	-	(3,111)	(1,773)	(4,884)
Share in other comprehensive loss of associates and joint ventures - net	*13*	-	-	-	(40)	-	-	(66)	-	-	-	-	(106)	(15)	(121)
Net gain on available-for-sale financial assets	*14*	-	-	-	-	-	-	28	-	-	-	-	28	34	62
Equity reserve for retirement plan	*36*	-	-	-	(2,290)	-	-	-	-	-	-	-	(2,290)	(919)	(3,209)
Other comprehensive loss		-	-	-	(2,330)	-	(3,111)	(38)	-	-	-	-	(5,479)	(2,673)	(8,152)
Net income		-	-	-	-	-	-	-	-	12,448	-	-	12,448	16,545	28,993
Total comprehensive income (loss)		-	-	-	(2,330)	-	(3,111)	(38)	-	12,448	-	-	6,969	13,872	20,841
Issuance of common shares	*25*	2	-	25	-	-	-	-	-	-	-	-	27	-	27
Reissuance of treasury shares		-	-	-	-	-	-	-	-	-	-	54,456	54,456	-	54,456
Redemption of Subseries “2-A” preferred shares		-	-	(255)	-	-	-	-	-	-	-	(54,076)	(54,331)	-	(54,331)
Net reduction to non-controlling interests and others	*5, 6, 13*	-	-	-	-	(1,559)	-	-	-	-	-	-	(1,559)	(1,968)	(3,527)
Appropriations - net	*25*	-	-	-	-	-	-	-	(3,161)	3,161	-	-	-	-	-
Cash dividends and distributions:	*37*														
Common		-	-	-	-	-	-	-	-	(3,330)	-	-	(3,330)	(7,544)	(10,874)
Preferred		-	-	-	-	-	-	-	-	(4,995)	-	-	(4,995)	(1,582)	(6,577)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(5,058)	(5,058)
As of December 31, 2015	*25*	**P16,417**	**P10,187**	**P177,871**	**(P3,546)**	**(P798)**	**P947**	**(P222)**	**P48,927**	**P127,855**	**(P67,093)**	**(P72,408)**	**P238,137**	**P146,740**	**P384,877**

Forward

		Equity Attributable to Equity Holders of the Parent Company													
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Equity Reserve	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock			Non-controlling Interests	Total Equity
	Note	Common	Preferred				Translation Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total		
As of January 1, 2014, As previously reported		P16,414	P10,187	P178,085	P862	P764	P4,079	P784	P28,230	P138,256	(P67,166)	(P72,788)	P237,707	P128,070	P365,777
Adjustments due to reclassification of an asset held for sale to investment in an associate	*13*	-	-	-	(72)	-	(10)	(772)	-	471	-	-	(383)	(1)	(384)
As of January 1, 2014, As restated		16,414	10,187	178,085	790	764	4,069	12	28,230	138,727	(67,166)	(72,788)	237,324	128,069	365,393
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*	-	-	-	(29)	-	(3)	590	-	-	-	-	558	(6)	552
Net loss on available-for-sale financial assets	*14*	-	-	-	-	-	-	(786)	-	-	-	-	(786)	(7)	(793)
Equity reserve for retirement plan	*36*	-	-	-	(1,977)	-	-	-	-	-	-	-	(1,977)	(899)	(2,876)
Other comprehensive loss		-	-	-	(2,006)	-	(11)	(196)	-	-	-	-	(2,213)	(1,426)	(3,639)
Net income		-	-	-	-	-	-	-	-	15,137	-	-	15,137	13,441	28,578
Total comprehensive income (loss)		-	-	-	(2,006)	-	(11)	(196)	-	15,137	-	-	12,924	12,015	24,939
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:	*37*														
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	(P1,216)	P761	P4,058	(P184)	P52,088	P120,571	(P67,093)	(P72,788)	P240,900	P149,020	P389,920

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company: Capital Stock: Common	Capital Stock: Preferred	Additional Paid-in Capital	Reserve for Retirement Plan	Equity Reserve	Cumulative Translation Adjustments: Translation Reserve	Cumulative Translation Adjustments: Fair Value Reserve	Retained Earnings: Appro-priated	Retained Earnings: Unappro-priated	Treasury Stock: Common	Treasury Stock: Preferred	Total	Non-controlling Interests	Total Equity
As of January 1, 2013, As previously reported		P16,408	P10,187	P177,762	(P176)	P1,467	P5,522	(P491)	P27,219	P154,475	(P67,336)	(P72,788)	P252,249	P96,688	P348,937
Adjustments due to reclassification of an asset held for sale to investment in an associate	*13*	-	-	-	-	-	-	(81)	-	7	-	-	(74)	(2)	(76)
As of January 1, 2013, As restated		16,408	10,187	177,762	(176)	1,467	5,522	(572)	27,219	154,482	(67,336)	(72,788)	252,175	96,686	348,861
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*	-	-	-	(72)	-	(10)	(1,172)	-	-	-	-	(1,254)	1	(1,253)
Net gain on available-for-sale financial assets	*14*	-	-	-	-	-	-	1,756	-	-	-	-	1,756	1	1,757
Equity reserve for retirement plan	*36*	-	-	-	1,038	-	-	-	-	-	-	-	1,038	355	1,393
Other comprehensive income (loss)		-	-	-	966	-	(1,453)	584	-	-	-	-	97	2,019	2,116
Net income		-	-	-	-	-	-	-	-	38,517	-	-	38,517	12,676	51,193
Total comprehensive income (loss)		-	-	-	966	-	(1,453)	584	-	38,517	-	-	38,614	14,695	53,309
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	*40*	-	-	-	-	-	-	-	-	-	(315)	-	(315)	-	(315)
Stock options	*40*	-	-	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, 33*	-	-	-	-	-	-	-	-	(42,299)	-	-	(42,299)	-	(42,299)
Cash dividends and distributions:	*37*														
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	P790	P764	P4,069	P12	P28,230	P 138,727	(P67,166)	(P72,788)	P237,324	P128,069	P365,393

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Millions)

	Note	**2015**	2014 As restated	2013 As restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P45,937**	P38,862	P54,893
Adjustments for:				
Depreciation, amortization and others - net	*7, 29*	**37,510**	25,224	43,825
Interest expense and other financing charges	*31*	**32,521**	29,710	30,970
Interest income	*32*	**(4,315)**	(4,012)	(3,539)
Equity in net losses (earnings) of associates and joint ventures	*13*	**386**	(1,701)	502
Loss (gain) on sale of investments and property and equipment	*13, 15*	**81**	(777)	(41,192)
Operating income before working capital changes		**112,120**	87,306	85,459
Changes in noncash current assets, certain current liabilities and others	*39*	**(6,147)**	(14,852)	(5,005)
Cash generated from operations		**105,973**	72,454	80,454
Interest and other financing charges paid		**(24,409)**	(21,735)	(21,423)
Income taxes paid		**(14,525)**	(11,287)	(11,832)
Net cash flows provided by operating activities		**67,039**	39,432	47,199
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	*39*	**(7,633)**	(302)	(512)
Cash and cash equivalents acquired from business combination, net of cash paid	*39*	**14,415**	-	-
Additions to investments and advances and available-for-sale financial assets	*13, 14*	**(3,544)**	(6,314)	(26,814)
Additions to property, plant and equipment	*7, 15*	**(59,973)**	(38,951)	(65,865)
Increase in other noncurrent assets and others		**(8,833)**	(7,359)	(11,783)
Proceeds from sale of investments and property and equipment	*6, 8, 13, 14, 15, 16, 19*	**2,607**	66,945	72,962
Interest received		**4,136**	3,481	3,476
Dividends received from associates	*13*	**7**	5	3,857
Net cash flows provided by (used in) investing activities		**(58,818)**	17,505	(24,679)

Forward

	Note	2015	2014 As restated	2013 As restated
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P760,238**	P827,018	P853,769
Long-term borrowings		**77,070**	47,591	146,370
Payments of:				
Short-term borrowings		**(794,373)**	(789,191)	(865,777)
Long-term borrowings		**(73,092)**	(54,309)	(80,225)
Proceeds from reissuance of treasury shares	*25*	**54,201**	-	-
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	*6*	**28,708**	23,008	30,546
Proceeds from issuance of capital stock	*25*	**27**	7	69
Redemption of Series "2A" preferred shares	*25*	**(54,076)**	-	-
Redemption of preferred shares of subsidiaries	*6*	**(40,642)**	-	-
Payments of finance lease liabilities		**(22,296)**	(20,152)	(19,168)
Cash dividends paid	*37*	**(9,802)**	(9,702)	(10,951)
Cash dividends and distributions paid to non-controlling shareholders		**(13,847)**	(14,571)	(10,454)
Increase (decrease) in non-controlling interests		**(369)**	205	(1,616)
Net cash flows provided by (used in) financing activities		**(88,253)**	9,904	42,563
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**2,184**	152	1,023
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(77,848)**	66,993	66,106
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**258,606**	191,613	125,507
CASH AND CASH EQUIVALENTS AT END OF YEAR	*9*	**P180,758**	P258,606	P191,613

See Notes to the Consolidated Financial Statements.

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. On March 16, 2012, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company to extend the corporate term of the Parent Company for another fifty (50) years from August 21, 2013, as approved on the March 14, 2011 and June 7, 2011 meetings of the Parent Company's Board of Directors (BOD) and stockholders, respectively.

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 various businesses, including beverage, food and packaging, energy, mining, fuel and oil, infrastructure, telecommunications and real estate property management and development.

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. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on March 17, 2016.

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
	2015	2014	
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 and subsidiaries, PT Delta Djakarta Tbk [(a)] and subsidiary, San Miguel (Baoding) Brewery Company Limited (SMBB) [(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. and Siam Holdings Ltd.(SHL)]	**78.27**	78.27	Philippines
Food Business:			
San Miguel Pure Foods Company Inc. (SMPFC) [(a)] and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. and subsidiaries {including Golden Avenue Corp. 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) and subsidiaries {including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Pure Foods (VN) Co., Ltd., formerly San Miguel Hormel (VN) Co. Ltd. (SMHVN)}] [(a)]	**85.37**	85.37	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2015	2014	
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)] and subsidiaries and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary]	**65.00**	65.00	British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc.	**100.00**	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	**60.00**	60.00	Philippines
Energy Business:			
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI) and subsidiary, SMC Power Generation Corp., 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 Ltd. (Ovincor) [(a)], Limay Energen Corporation, New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Singapore Trading Pte., Ltd. (PSTPL), 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, and Petrochemical Asia (HK) Limited (PAHL) and subsidiaries]	**100.00**	100.00	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. (SMHC) [(a)] and subsidiaries [including Rapid Thoroughfares Inc. (Rapid) [(a)] and subsidiary, Private Infra Dev Corporation (PIDC) [(a)] , Trans Aire Development Holdings Corp. (TADHC) [(a)], Optimal Infrastructure Development, Inc. (Optimal) [(a)], Vertex Tollways Devt. Inc. (Vertex) [(a)], Universal LRT Corporation (BVI) Limited (ULC) [(a)], Terramino Holdings, Inc. (THI) [(a)] and subsidiary, Alloy Manila Toll Expressways Inc. (AMTEX) [(a)], Manila North Harbour Port, Inc. (MNHPI) [(b)] and Sleep International (Netherlands) Cooperatief U.A. (Sleep) [(a)] and Wiselink Investment Holdings, Inc. (Wiselink) [(a)] {collectively own Cypress Tree Capital Investments, Inc. (Cypress) including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (collectively the Cypress Group)}[(a)], Atlantic Aurum Investments B.V. (AAIBV) [(a)] and subsidiaries{including Stage 3 Connector Tollways Holding Corporation (S3CTH) and subsidiary, Citra Central Expressway Corp. (CCEC), Atlantic Aurum Investments Philippines Corporation (AAIPC) and subsidiary, Citra Metro Manila Tollways Corporation (CMMTC) and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. (MTDME) and subsidiaries, Manila Toll Expressway Systems Inc. (MATES) and South Luzon Tollway Corporation (SLTC)} [(a, c)]]	**100.00**	100.00	Philippines

Forward

	Percentage of Ownership		Country of
	2015	2014	Incorporation
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC), Power Smart Capital Ltd. (PSCL) [(a)] {collectively own Bell Telecommunication Philippines, Inc. (BellTel) and subsidiaries}, Trans Digital Excel Inc. (TDEI) and subsidiary, CobaltPoint Telecom, Inc. (CTI), formerly, Express Telecommunications Company, Inc. [(d)], A.G.N. Philippines, Inc. and San Miguel Equity Securities Inc. {collectively own Eastern Telecommunications Philippines, Inc. (ETPI) and subsidiary, Telecommunications Technologies Phils., Inc. (TTPI)}, Liberty Telecoms Holdings, Inc. (LTHI) and subsidiaries, wi-tribe Telecoms, Inc. (wi-tribe) and Skyphone Logistics Inc. [(e)]]	**100.00**	100.00	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) [(a)] and subsidiaries [including Excel Unified Land Resources Corporation, SMPI Makati Flagship Realty Corp. (SMPI Flagship), Bright Ventures Realty, Inc. and Carnell Realty, Inc.] [(a)]	**99.70**	99.70	Philippines
Others:			
San Miguel Foods and Beverage International Limited [(a)] and subsidiaries [including PT San Miguel Indonesia Foods & Beverages 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., SMC Cebu Shipyard Land, Inc. and Mactan Shipyard Corporation]	**70.00**	70.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	**58.33**	58.33	Philippines
SMC Stock Transfer Service Corporation	**100.00**	100.00	Philippines
ArchEn Technologies Inc.	**100.00**	100.00	Philippines
SMITS, Inc. and subsidiaries [(a)]	**100.00**	100.00	Philippines
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) *Consolidated to SMHC effective December 9, 2015 (Note 5).*
(c) *Consolidated to SMHC effective March 5, 2015 (Note 5).*
(d) *Consolidated to Vega effective December 4, 2015 (Note 5).*
(e) *Consolidated to Vega effective September 2, 2015 (Note 5).*
(f) *Acquired by SMEII from Clariden Holdings, Inc. (Clariden) on 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 financial statements of the subsidiaries 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 its subsidiaries as follows: SMB, GSMI, SMPFC, SMYPC, SMYPIL, SMYAC, Petron, TADHC, ULC, ETPI, SMPI, AIBC, SMCSLC, PIDC and AMTEX in 2015 and 2014; AAIBV, MNHPI, LTHI and CTI in 2015; and Sleep, Cypress and Wiselink in 2014 (Notes 5 and 6).

A change in the ownership interest in 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 the consolidated statements of income; 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.

<u>Adoption of New and Amended Standards and Interpretation</u>
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 2015

The Group has adopted the following PFRS effective 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. The adoption of the amendment did not have an effect on the consolidated financial statements.

- 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 adoption of the amendment did not have an effect on the consolidated financial statements.

- 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 adoption of the amendments did not have an effect on the consolidated financial statements.

- 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: Presentation* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Definition of 'Related Party' *(Amendments to PAS 24, Related Party Disclosures).* 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 adoption of the amendments did not have an effect on the consolidated financial statements.

- 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 adoption of the amendment did not have an effect on the consolidated financial statements.

- 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 the consolidated statements of income. 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. The adoption of the amendments did not have an effect on the consolidated financial statements.

Additional disclosures required by the amended standards 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, 2015 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:

- 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 the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. 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.

- 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 FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- IFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

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

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

Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

The Group has no financial assets classified as HTM investments as of December 31, 2015 and 2014.

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

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

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

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

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

The Group's derivative assets and financial assets at FVPL are classified under this category (Notes 12, 41 and 42).

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

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

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

The Group's cash and cash equivalents, trade and other receivables, option deposit, noncurrent receivables and deposits, and restricted cash are included under this category (Notes 9, 10, 12, 19, 41 and 42).

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

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

The Group's investments in equity and debt securities are classified under this category (Notes 12, 14, 41 and 42).

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, 41 and 42).

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

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities are included under this category (Notes 20, 21, 22, 23, 35, 41 and 42).

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 the consolidated statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the consolidated statements of income.

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

The Group discontinues fair value hedge accounting if:

(a) the hedging instrument expires, is sold, is terminated or is exercised;

(b) the hedge no longer meets the criteria for hedge accounting; or

(c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as of December 31, 2015 and 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 the consolidated statements of income.

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

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

The Group has no outstanding derivatives accounted for as a cash flow hedge as of December 31, 2015 and 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 the consolidated statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of income.

The Group has no hedge of a net investment in a foreign operation as of December 31, 2015 and 2014.

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

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.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

The Group has not bifurcated any embedded derivatives as of December 31, 2015 and 2014.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

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

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

Inventories

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

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 also 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.
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.
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.
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.

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 the consolidated statements of income.

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 the consolidated statements of income. 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 the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance 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 the consolidated statements of income.

- *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 the consolidated statements of income.

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 the consolidated statements of income.

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 for 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.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. 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. CPIP 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	3 - 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 the consolidated statements of income 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 the consolidated statements of income 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 carried 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 the consolidated statements of income 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 the consolidated statements of income 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
Port concession right	25
Computer software and licenses	2 - 10

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 the consolidated statements of income 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 can provide with the infrastructure, to whom it can 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 the consolidated statements of income 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 the consolidated statements of income.

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 projects:

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

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 the consolidated statements of income 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 the consolidated statements of income 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 the consolidated statements of income.

Intangible Asset - Port Concession Right. The Group's port concession right pertains to the right granted by the ROP to MNHPI to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. Port concession right is recognized initially at cost. Following initial recognition, the port concession right is carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures related to port facility arising from the concession contracts or that increase future revenues are recognized as additions to the intangible asset and are stated at cost.

The port 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 the consolidated statements of income in the expense category consistent with the function of the intangible asset.

The port 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 port concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Intangible Asset - Mineral Rights and Evaluation Assets. The Group's mineral rights and evaluation assets have finite lives and are carried 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 the consolidated statements of income as incurred.

Amortization of mineral rights and evaluation assets is recognized in the consolidated statements of income 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 the consolidated statements of income.

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. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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 the consolidated statements of income 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 the consolidated statements of income. 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 Group purchased liquefied petroleum gas cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% 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 the consolidated statements of income.

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.

<u>Provisions</u>
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. 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.

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.

<u>Capital Stock and Additional Paid-in Capital</u>
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 the consolidated statements of income as accrued.

Additional Paid-in Capital
When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

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. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

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 use of the toll road and the toll is paid by way of cash or charges against an E-Pass or RFID account.

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 occupy and 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 the consolidated statements of income.

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 to receive the payment is established.

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. 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 when 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.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Share-based Payment Transactions

Under the Group's Long-term Incentive Plan for Stock Options (LTIP) and Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of the Parent Company. Such transactions are handled centrally by the Parent Company.

Share-based transactions in which the Parent Company grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions.

The cost of 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. 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 the consolidated statements of income.

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 the consolidated statements of income 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 directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. 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 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.

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.

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 the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net 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 net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

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 the consolidated statements of income. 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 are retranslated at the functional currency rate of exchange ruling at the reporting 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 the consolidated statements of income, 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 the consolidated statements of income 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 the consolidated statements of income.

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 the consolidated statements of income 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.

<u>Non-cash Distribution to Equity Holders of the Parent Company, Assets Held for Sale and Discontinued Operations</u>
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 the consolidated statements of income. 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 the consolidated statements of income.

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:

Measurement of Biological Assets. 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 breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market 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.

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 35).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P179,280 and P186,330 as of December 31, 2015 and 2014, respectively (Note 35).

The combined carrying amounts of power plants and equipment under finance lease amounted to P183,042 and P188,155 as of December 31, 2015 and 2014, respectively (Notes 15 and 35).

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 P1,258, P1,672 and P1,428 in 2015, 2014 and 2013, respectively (Note 35).

Rent expense recognized in the consolidated statements of income amounted to P3,904, P3,673 and P3,347 in 2015, 2014 and 2013, respectively (Notes 27, 28 and 35).

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 35).

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 35) 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 infrastructure retirement obligation (IRO); and (iii) present value of total franchise fees over 25 years and its subsequent amortization.

    (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) SLEX; (ii) NAIA Expressway Project; (iii) Skyway; (iv) TPLEX Project; and (v) STAR.

   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. *Port Concession Right.* The Group's port concession right represents the right to manage, operate, develop and maintain the Manila North Harbor.

d. *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 the property but also to the other assets used in 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.

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).

Evaluating Control over its Investees. Determining whether the Group has control in an investee requires significant judgment. Although the Group owns less than 50% of the voting rights of BPI, NVRC and PAHL, management has determined that the Group controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Group receives substantially all of the returns related to the BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. The Group controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

The Group has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Group controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Group assessed it has control over PAHL by virtue of the extent of the Group's participation in the BOD and management of PAHL, of which the Group established it has: (i) power over PAHL; (ii) it is exposed and has rights to variable returns from its involvement with PAHL; and (iii) it has ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, the Group considered PAHL a subsidiary beginning January 1, 2013.

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 in Thai San Miguel Liquor Co. Ltd. (TSML), Thai Ginebra Trading (TGT), Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP) 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 45).

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, 36, 41 and 42.

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 P10,297 and P8,511 as of December 31, 2015 and 2014, respectively.

The carrying amount of trade and other receivables, and noncurrent receivables and deposits amounted to P110,116 and P144,205 as of December 31, 2015 and 2014, 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 P2,190 and P2,310 as of December 31, 2015 and 2014, respectively.

The carrying amount of inventories amounted to P64,148 and P85,846 as of December 31, 2015 and 2014, 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.

No impairment loss was recognized in 2015 and 2014.

The carrying amount of AFS financial assets amounted to P41,616 and P41,890 as of December 31, 2015 and 2014, respectively (Notes 12 and 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 P509,966 and P465,550 as of December 31, 2015 and 2014, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P190,032 and P171,397 as of December 31, 2015 and 2014, respectively (Note 15).

Investment property, net of accumulated depreciation and amortization amounted to P4,754 and P3,651 as of December 31, 2015 and 2014, respectively. Accumulated depreciation and amortization of investment property amounted to P1,122 and P780 as of December 31, 2015 and 2014, 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 P7,014 and P6,916 as of December 31, 2015 and 2014, respectively. Accumulated amortization of deferred containers amounted to P11,260 and P9,637 as of December 31, 2015 and 2014, 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 P113,888 and P37,862 as of December 31, 2015 and 2014, respectively (Note 18).

Estimated Useful Lives of Intangible Assets - Airport, Toll Road, Power and Port Concession Rights. The Group estimates the useful lives of airport, toll road, power and port 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, power and port concession rights amounted to P110,128 and P34,061 as of December 31, 2015 and 2014, 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 P58,603 and P41,211 as of December 31, 2015 and 2014, respectively (Note 18).

The combined carrying amounts of licenses and trademarks and brand names amounted to P26,081 and P7,252 as of December 31, 2015 and 2014 (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, however, is currently completing the purchase price allocation exercise on the acquisition of MNHPI, LTHI and CTI in 2015. The identifiable assets and liabilities at fair value are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

The carrying amount of goodwill arising from business combinations amounted to P18,918 and P7 in 2015 and 2014, respectively (Notes 5, 18 and 39).

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 (DENR) 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, 2015 and 2014. 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, 2015 and 2014.

Deferred exploration and development costs included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P690 and P673 as of December 31, 2015 and 2014, respectively (Notes 19 and 35).

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 P16,441 and P14,651 as of December 31, 2015 and 2014, 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 P12,622 and P10,235 as of December 31, 2015 and 2014, 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 P653,990 and P553,826 as of December 31, 2015 and 2014, 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 36 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 P28,056 and P26,925 as of December 31, 2015 and 2014, respectively (Note 36).

Asset Retirement Obligation. The Group has ARO arising from refinery, leased service stations, depots, blending plant and franchised store. 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 6.23% 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 ARO amounted to P1,839 and P1,659 as of December 31, 2015 and 2014, respectively (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, 2015 and 2014 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 as of December 31, 2015 and 2014 (Note 18).

The cost of infrastructure maintenance and restoration represents the present value of TADHC's IRO recognized and is presented as part of IRO under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P26 and P42 in 2015 and P21 and P44 in 2014, 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, 18 and 33).

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, included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P641 and P24 as of December 31, 2015 and 2014, respectively (Note 23).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P344 as of December 31, 2015 (Note 21).

5. Business Combinations

The significant acquisitions made by the Group are as follows:

Infrastructure

- AAIBV

  On March 5, 2015, a Notarial Deed of Transfer of Shares was executed in accordance with the requirements of the laws of the Netherlands whereby Padma Fund L.P. (Padma) transferred to 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 transfer of the 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 SLEX, the Skyway Stages 1 and 2 and Skyway Stage 3 which will connect 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:

	Note	2015
Assets		
Cash and cash equivalents		**P21,595**
Trade and other receivables - net		**5,956**
Inventories		**22**
Prepaid expenses and other current assets		**2,713**
Property, plant and equipment - net	*15*	**189**
Other intangible assets - net	*18*	**55,166**
Deferred tax assets		**120**
Other noncurrent assets - net		**163**
Liabilities		
Accounts payable and accrued expenses		**(15,689)**
Income and other taxes payable		**(717)**
Dividends payable		**(373)**
Current maturities of long-term debt - net of debt issue costs		**(3,684)**
Long-term debt - net of debt issue costs		**(43,951)**
Deferred tax liabilities		**(4,642)**
Other noncurrent liabilities		**(6,608)**
Total Identifiable Net Assets at Fair Value	*39*	**P10,260**

The fair value of trade and other receivables amounted to P5,956. The gross amount of the receivables is P6,622 of which P666 is expected to be uncollectible as at the acquisition date (Note 10).

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

	Note	2015
Total consideration transferred		**P9,893**
Equity interest held before business combination	*13*	**9,295**
Non-controlling interest measured at proportionate interest in identifiable net assets		**9,435**
Total identifiable net asset at fair value		**(10,260)**
Goodwill	*18, 39*	**P18,363**

Goodwill arising from the acquisition of AAIBV 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.

- MNHPI

On December 9, 2015, SMHC subscribed to 13,000,000 common shares of MNHPI equivalent to 43.33% equity interest for a total consideration of P13,000.

MNHPI holds the concession rights to manage, operate, develop and maintain the Manila North Harbor and other port facilities.

With the 43.33% ownership interest of SMHC and the 35% equity interest held by Petron, the Group obtained control and consolidated MNHPI effective December 9, 2015.

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

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

	Note	2015
Assets		
Cash and cash equivalents		**P1,394**
Trade and other receivables - net		**597**
Inventories		**303**
Prepaid expenses and other current assets		**745**
Property, plant and equipment - net	*15*	**30**
Other intangible assets	*18*	**9,818**
Deferred tax assets		**33**
Other noncurrent assets - net		**264**
Liabilities		
Loans payable		**(2,345)**
Accounts payable and accrued expenses		**(554)**
Long-term debt - net of debt issue costs		**(2,251)**
Finance lease liabilities		**(75)**
Other noncurrent liabilities		**(3,821)**
Total Identifiable Net Assets at Fair Value	*39*	**P4,138**

The fair value of trade and other receivables amounted to P597. The gross amount of the receivables is P676, of which P79 is expected to be uncollectible as at the acquisition date (Note 10).

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

	Note	2015
Total consideration transferred		**P1,300**
Equity interest held before business combination		**1,807**
Non-controlling interest measured at proportionate interest in identifiable net assets		**1,356**
Total identifiable net asset at fair value		**(4,138)**
Goodwill	*18, 39*	**P325**

<u>Telecommunications</u>

- LTHI

On July 14, 2015, the BOD of the Parent Company authorized Vega to acquire the entire interest and participation of West Bay Holding S.P.C. Company, formerly Qtel West Bay Holdings S.P.C., wi-tribe Asia Limited, and White Dawn Solutions Holdings, Inc. (collectively, the “Sellers”) in LTHI. In compliance with the Securities Regulation Code, Vega conducted a tender offer of the common shares of LTHI held by the public.

A total of 57,271,369 common shares or 4.43% of the outstanding common shares of LTHI were tendered, and subsequently crossed at the PSE on September 2, 2015. After completion of the tender offer, Vega held 87.18% of the common shares of LTHI.

On September 2, 2015, Vega acquired beneficial ownership in LTHI in a separate share sale transactions from the Sellers for a total of 426,800,168 common shares and 2,907,768,174 preferred shares.

Upon completion of the tender offer and share purchases, Vega effectively owned 97.46% of the total outstanding capital stock of LTHI, inclusive of the common and preferred shares. As such, Vega obtained control and consolidated LTHI effective September 2, 2015.

LTHI is a holding company and owns 100% of shares of stock in wi-tribe. It operates its business through wi-tribe which provides data communications services primarily through broadband internet services. wi-tribe is also authorized to lease capacity from other telecommunication companies and to operate as a virtual network operator and/or as a reseller in the provisioning of its telecommunication services.

On January 28, 2016, the SEC approved the amendment to the articles of incorporation of wi-tribe to change its corporate name to Tori Spectrum Telecom Inc. (Tori Spectrum).

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

The Group recognized gain on remeasurement on step acquisition of LTHI upon consolidation on September 2, 2015 (Note 33).

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

	Note	**2015**
Assets		
Cash and cash equivalents		**P32**
Trade and other receivables - net		**60**
Inventories		**43**
Prepaid expenses and other current assets		**486**
Property, plant and equipment - net	*15*	**1,687**
Other intangible assets - net	*18*	**11,933**
Other noncurrent assets - net		**88**
Liabilities		
Accounts payable and accrued expenses		**(1,892)**
Deferred tax liabilities		**(152)**
Other noncurrent liabilities		**(180)**
Total Identifiable Net Assets at Fair Value	*39*	**P12,105**

The fair value of trade and other receivables amounted to P60. The gross amount of the receivables is P514, of which P454 is expected to be uncollectible as at the acquisition date (Note 10).

Total identifiable net assets at fair value is equal to the consideration transferred, the equity interest held before business combination and non-controlling interest measured at proportionate interest in identifiable net assets.

The Group remeasured it's equity interest held before business combination resulting in the recognition of gain amounting to P3,540, included as part of "Other income (charges)" account in the 2015 consolidated statements of income (Note 33).

- CTI

On December 4, 2015, Vega acquired 88.17% ownership in CTI through the acquisition of 100% equity interest in TDEI, which holds 78.45% equity interest in the total outstanding capital stock of CTI and direct acquisition of 9.72% equity interest for a total consideration of P5,180.

CTI is primarily engaged in the operations and maintenance of a nationwide cellular mobile telephone system using analog advance mobile phone service system. CTI is also authorized to lease capacity from other telecommunication companies and to operate as a virtual network operator and/or as a reseller in the provisioning of its telecommunication services.

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

	Note	2015
Assets		
Cash and cash equivalents		**P3**
Trade and other receivables - net		**3**
Prepaid expenses and other current assets		**20**
Property, plant and equipment - net	*15*	**28**
Other intangible assets - net	*18*	**6,202**
Other noncurrent assets - net		**3**
Liabilities		
Accounts payable and accrued expenses		**(46)**
Other noncurrent liabilities		**(1,170)**
Total Identifiable Net Assets at Fair Value	*39*	**P5,043**

The fair value of trade and other receivables amounted to P3. The gross amount of the receivables is P225, of which P222 is expected to be uncollectible as at the acquisition date (Note 10).

Total identifiable net assets at fair value is equal to the consideration transferred, the amounts deposited for future stock subscription and non-controlling interest measured at proportionate interest in identifiable net assets.

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

In May and June 2014, BellTel acquired 100% of the outstanding shares of stock of SLDC and DPI, respectively, 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:

	Note	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	*15*	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	*39*	P1,257

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

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

	Note	2014
Total cash consideration transferred		P1,264
Total identifiable net asset at fair value		(1,257)
Goodwill	*18, 39*	P7

Others

- SWCC

On October 15, 2014, the Parent Company through SMEII, as buyer, and 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 cement and other goods of similar nature, and any and all equipment, materials, supplies, used or employed in or related to the manufacture of such finished goods.

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

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

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

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

On April 1, 2015, the Parent Company through SMEII subscribed to additional 770,000 common shares of SWCC for P116. The said subscription was fully paid, and the subject shares of stock were issued to SMEII on April 15, 2015.

As discussed in Note 4, the Group is currently completing the purchase price allocation exercise on acquisition of MNHPI, LTHI and CTI in 2015. 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 P678,743 and consolidated net income for the period would have been P28,728. 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.

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 Series 2 Preferred Shares

  On October 17, 2014, the SEC issued in favor of Petron a Permit to Sell for the public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") with a P1.00 par value per share.

On November 3, 2014, Petron issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two subseries, (i) 7,122,320 Series 2A Preferred Shares (the "Series 2A Preferred Shares") and (ii) 2,877,680 Series 2B Preferred Shares (the "Series 2B Preferred Shares").

The Series 2A Preferred Shares may be redeemed by Petron starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every 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.

b) Redemption of the Preferred Shares issued in 2010

On March 5, 2015, Petron redeemed the preferred shares issued in 2010 at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's Articles of Incorporation. On July 6, 2015, the SEC approved the amendment of the Articles of Incorporation of Petron to provide a re-issuability feature on its preferred shares.

- PGL

As of December 31, 2014, PGL has issued an aggregate of 73,559,188 common shares with a par value of US$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares Series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares 2B at an issue price equal to the par value of each share of US$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US$1.00 per share.

On various dates in 2015, the Parent Company through Petron, acquired additional PGL common shares of 12,131,829 for US$1.00 per share or for a total consideration of US$12.

As of December 31, 2015, Petron held a total of 85,691,017 common shares in PGL representing 100% of the voting capital stock of PGL.

Infrastructure

- SMHC

On January 21, 2014, SEC approved the application for the Amendment of the Articles of Incorporation for the increase in authorized capital stock of SMHC from P5,000 divided into 5,000,000 common shares to P35,000 divided into 35,000,000 common shares, both with par value of P1,000.00 per share. The amendment was approved by the BOD and stockholders of SMHC on May 29, 2013 and filed with the SEC on December 27, 2013. 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 of which P15,422 was paid in 2013 while the remaining balance of P328 was paid in 2014.

On various dates in 2014, the Parent Company 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 common share of which P9,874 was paid. The balance of the subscription amounting to P4,376 was paid by the Parent Company in 2015.

On August 6, 2015, the Parent Company subscribed to an additional 9,100,000 common shares of SMHC for a total subscription price of P13,650 or P1,500.00 per common share of which P7,716 was paid.

a) THI

On December 17, 2014, the BOD and stockholders of THI 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) CMMTC

On September 27, 2013, the Parent Company through THI, a wholly-owned subsidiary of SMHC, sold to AAIPC the 25,409,482 common shares of CMMTC representing 37.33% of its outstanding capital stock for a total consideration of P13,759. The Group derecognized the assets (including goodwill) and liabilities, and the carrying amount of non-controlling interest as a result of the sale.

The Group recognized a net 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.

c) Vertex and Optimal

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.

d) Rapid

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 made additional deposits for future stock subscription amounting to P579. In 2015, SMHC subscribed to 12,500,000 common shares of Rapid at P150.00 per share for a total consideration of P1,875. As payment for the subscription, SMHC applied its P579 deposit for future stock subscription and paid P531. The balance amounting to P765 remained unpaid as of December 31, 2015.

On December 19, 2014, the BOD and stockholders of Rapid 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 and was approved on April 21, 2015.

On September 21, 2015, Rapid and DMCI Holdings, Inc. and D.M. Consuji, Inc. (collectively, "DMCI") entered into a Deed of Sale of Shares wherein Rapid acquired the shares of DMCI in PIDC for a consideration of P1,827.

As of December 31, 2015, Rapid effectively and beneficially owns 70.11% ownership interest in PIDC.

e) TADHC

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 approved the increase in the 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. Of the total increase in authorized capital stock, SMHC subscribed to 1,965,580 common shares at P100.00 per share or 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 and was approved on April 29, 2015.

On November 18, 2015, SMHC executed a Subscription Agreement with TADHC for the subscription of 34,420 common shares at P100.00 per share or a total subscription price of P3.

On December 9, 2015, the BOD and stockholders of TADHC resolved and approved the increase in authorized capital stock from P1,720 divided into 17,000,000 common shares and 200,000 preferred shares to P2,520 divided into 25,000,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share of the total increase in authorized capital stock. Of the total increase in authorized capital stock, SMHC subscribed to 3,250,000 common shares at P150.00 per share or a total subscription price of P488. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 22, 2015.

<u>Food</u>

- SMPFC

a) Redemption of Outstanding Preferred Shares

On February 3, 2015, SMPFC's BOD approved the redemption of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share or a total redemption price of P15,000.

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.

b) Issuance of Series "2" Perpetual Preferred Shares

On March 12, 2015, SMPFC issued 15,000,000 cumulative, non-voting, non-participating, and non-convertible peso-denominated perpetual Series "2" Preferred Shares with a par value of P10.00 per share at the offer price of P1,000.00 per share. The Series "2" Preferred Shares were issued with a dividend rate set at 5.6569% per annum payable once for every dividend period as follows: (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 Series "2" Preferred Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the third 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 Series "2" Preferred Shares may also be redeemed in whole and not in part, under certain conditions. Unless the Series "2" Preferred 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 March 12, 2015, the SMPFC Series "2" Preferred Shares were listed on the PSE.

The proceeds from the issuance of the Series "2" Perpetual Preferred Share, net of transaction costs amounted to P15,000.

The proceeds of the issuance were used to refinance the redemption of the outstanding 15,000,000 Preferred Shares issued on March 3, 2011 at the redemption price of P1,000.00 per share plus any and all accumulated unpaid cash dividends to relevant stockholders of record as of February 17, 2015.

c) Acquisition of the 49% ownership interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)

In January 2015, SMPFIL, a wholly-owned subsidiary of SMPFC, signed an agreement for the purchase from Hormel Netherlands B.V. (Hormel) of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% interest in SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in SMHVN, 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 became a wholly-owned subsidiary of SMPFIL. Consequently, Hormel's non-controlling interest amounting to P126 as of January 2015 was derecognized. As part of the agreement, Hormel paid its share of the cash requirement to settle SMHVN's obligations, including estimated contingent liabilities and costs to temporarily close the farm and feedmill operations. This resulted in the recognition of equity reserves amounting to P384 presented as part of "Equity reserve" account in the 2015 consolidated statement of financial position.

With the divestment made by Hormel, SMHVN changed its corporate name to San Miguel Pure Foods (VN) Co., Ltd., in June 2015 following the issuance of the Binh Duong People's Committee of the amended business license of SMHVN.

Energy

- SMC Global

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% of the face value of the Securities, at the rate of 7.50% per annum with a step-up date on November 7, 2019.

On August 26, 2015, SMC Global issued and listed in the SGX-ST a Reg S, Unrated Perpetual Non-Call 5.5 years US$300 Undated Subordinated Capital Securities. SMC Global priced the deal at 6.75% per annum with a step-up date on February 26, 2021.

The holders of the Securities are conferred a right to receive distributions on a semi-annual basis from their issue date at the initial rate of distribution, 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 step-up date, 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.

Packaging

- CAI

On January 15, 2013, the Parent Company through SMYPC, sold its 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, 2015 and 2014.

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.

Real Estate

- The BOD and stockholders of SMPI, in their meetings held on November 5, 2015 and December 17, 2015, respectively, approved to increase its authorized capital stock from P1,280 divided into 128,000,000 common shares to P15,000 divided into 1,500,000,000 common shares, both with a par value of P10.00 per share. Of the total increase in authorized capital stock, the Parent Company subscribed to 450,000,000 common shares for a total subscription price of P9,000. As of December 31, 2015, the Parent Company paid P692 as deposit for subscription of the shares. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on February 2, 2016 and was approved on March 11, 2016.

- SMPI Flagship

  On October 20, 2014, the BOD and stockholders of SMPI Flagship approved to amend its articles of incorporation to change its primary purpose to allow SMPI Flagship 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 amendment was approved by the SEC on November 3, 2014.

  In 2015, SMPI Flagship completed the Makati Diamond Residence, a first class, high-rise serviced apartment, open to the general public, located in Makati City.

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 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 at P150.00 per share and 13,500,000 preferred shares at P1,500.00 per share or a total subscription price of P21,622. 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 and was approved on April 6, 2015.

- BellTel

  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 in BellTell.

  In December 2015, Vega made an additional subscription in BellTel of 1,592,000 unissued common shares amounting to P587 thereby increasing direct ownership interest to 50%.

  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 35).

  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 noncontrolling 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, 2015			December 31, 2014		
	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	**P54,235**	**P20,477**	**P19,759**	P81,621	P18,729	P19,397
Net income attributable to non-controlling interests	**P5,335**	**P6,588**	**P1,710**	P3,947	P7,018	P1,553
Other comprehensive income (loss) attributable to non-controlling interests	**P2,363**	**P170**	**P21**	(P1,556)	P201	(P6)
Dividends paid to non-controlling interests	**P4,970**	**P4,836**	**P1,453**	P6,027	P4,570	P2,858

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

	December 31, 2015			December 31, 2014		
	Petron	**SMB**	**SMPFC**	Petron	SMB	SMPFC
Current assets	**P115,725**	**P25,935**	**P40,032**	P219,029	P20,413	P48,192
Noncurrent assets	**178,542**	**67,156**	**21,005**	172,295	68,135	18,463
Current liabilities	**(126,579)**	**(10,263)**	**(21,150)**	(202,587)	(9,105)	(29,782)
Noncurrent liabilities	**(84,588)**	**(40,837)**	**(871)**	(75,045)	(41,189)	(910)
Net assets	**P83,100**	**P41,991**	**P39,016**	P113,692	P38,254	P35,963
Sales	**P360,178**	**P82,374**	**P106,860**	P482,535	P79,005	P102,999
Net income	**P6,270**	**P13,518**	**P4,752**	P3,009	P13,515	P3,843
Other comprehensive income (loss)	**(5,932)**	**(73)**	**(44)**	(4,758)	443	(40)
Total comprehensive income (loss)	**P338**	**P13,445**	**P4,708**	(P1,749)	P13,958	P3,803
Cash flows provided by (used in) operating activities	**P8,468**	**P18,522**	**P11,995**	(P737)	P15,457	P5,739
Cash flows provided by (used in) investing activities	**(14,592)**	**(3,052)**	**(5,704)**	(3,659)	(3,501)	11,535
Cash flows provided by (used in) financing activities	**(66,343)**	**(9,713)**	**(11,220)**	44,488	(16,290)	(10,089)
Effects of exchange rate changes on cash and cash equivalents	**746**	**207**	**(3)**	112	22	-
Net increase (decrease) in cash and cash equivalents	**(P71,721)**	**P5,964**	**(P4,932)**	P40,204	(P4,312)	P7,185

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

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

The energy segment is engaged in power generation, distribution and trading and coal mining. The power generation assets supply electricity to a variety of customers, including Manila Electric Company (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, 2015, 2014 and 2013

	Beverage			**Food**			**Packaging**			**Energy**			**Fuel and Oil**			**Infrastructure**			**Telecommunications**			**Others**			**Eliminations**			**Consolidated**		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Sales																														
External sales	**P98,386**	P94,230	P88,936	**P106,845**	P102,976	P99,754	**P19,751**	P19,365	P18,559	**P68,704**	P77,586	P72,212	**P356,813**	P475,425	P459,102	**P13,288**	P922	P5,503	**P1,743**	P1,515	P1,347	**P8,395**	P1,704	P1,890	**P -**	P -	P -	**P673,925**	P773,723	P747,303
Inter-segment sales	**616**	286	516	**15**	23	19	**5,299**	4,861	6,628	**8,803**	6,708	1,832	**3,365**	7,110	4,536	**-**	-	-	**33**	-	-	**14,900**	5,820	4,369	**(33,031)**	(24,808)	(17,900)	**-**	-	-
Total sales	**P99,002**	P94,516	P89,452	**P106,860**	P102,999	P99,773	**P25,050**	P24,226	P25,187	**P77,507**	P84,294	P74,044	**P360,178**	P482,535	P463,638	**P13,288**	P922	P5,503	**P1,776**	P1,515	P1,347	**P23,295**	P7,524	P6,259	**(P33,031)**	(P24,808)	(P17,900)	**P673,925**	P773,723	P747,303
Result																														
Segment result	**P23,252**	P22,437	P20,476	**P7,644**	P6,463	P5,510	**P2,198**	P2,078	P1,589	**P23,703**	P25,899	P20,541	**P13,984**	P2,211	P10,887	**P7,272**	(P373)	P3,868	**(P1,806)**	(P463)	(P239)	**P1,850**	(P2,956)	(P7,213)	**P586**	P479	P302	**P78,683**	P55,775	P55,721
Interest expense and other financing charges																												**(32,521)**	(29,710)	(30,970)
Interest income																												**4,315**	4,012	3,539
Equity in net earnings (losses) of associates and joint ventures																												**(386)**	1,701	(502)
Gain (loss) on sale of investments and property and equipment																												**(81)**	777	41,192
Other income (charges) - net																												**(4,073)**	6,307	(14,087)
Income tax expense																												**(16,944)**	(10,284)	(3,700)
Net income																												**P28,993**	P28,578	P51,193
Attributable to:																														
Equity holders of the Parent Company																												**P12,448**	P15,137	P38,517
Non-controlling interests																												**16,545**	13,441	12,676
Net Income																												**P28,993**	P28,578	P51,193

December 31, 2015, 2014 and 2013

	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Telecommunications			Others			Eliminations			Consolidated		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Other Information																														
Segment assets	**P75,289**	P72,346	P78,069	**P56,365**	P62,494	P68,398	**P34,611**	P31,959	P33,132	**P318,022**	P300,520	P292,344	**P284,140**	P380,435	P346,524	**P168,207**	P60,734	P41,186	**P41,550**	P14,144	P11,432	**P234,832**	P250,806	P258,556	**(P111,397)**	(P100,985)	(P128,866)	**P1,101,619**	P1,072,453	P1,000,775
Investments in and advances to associates and joint ventures	**525**	659	720	**-**	-	-	**3,949**	3,782	3,636	**10,613**	10,612	6,012	**1,811**	1,169	892	**(624)**	10,769	7,465	**-**	8,873	7,515	**10,655**	10,787	42,815	**-**	-	-	**26,929**	46,651	69,055
Goodwill and trademarks and brand names																												**59,278**	41,454	41,995
Other assets																												**41,755**	41,726	42,257
Assets held for sale																												**-**	554	13
Deferred tax assets																												**16,441**	14,651	15,608
Consolidated Total Assets																												**P1,246,022**	P1,217,489	P1,169,703
Segment liabilities	**P22,558**	P21,243	P23,574	**P17,233**	P16,220	P15,854	**P5,688**	P5,318	P6,383	**P28,197**	P23,519	P16,941	**P31,756**	P65,165	P72,522	**P40,487**	P16,811	P31,141	**P22,320**	P25,361	P21,062	**P79,431**	P75,555	P76,109	**(P114,718)**	(P117,636)	(P135,125)	**P132,952**	P131,556	P128,461
Loans payable																												**146,859**	180,059	143,226
Long-term debt																												**368,377**	302,988	307,497
Finance lease liabilities																												**179,280**	186,330	195,048
Income and other taxes payable																												**13,907**	13,303	13,058
Dividends payable and others																												**4,441**	5,513	5,959
Deferred tax liabilities																												**15,329**	7,820	11,061
Consolidated Total Liabilities																												**P861,145**	P827,569	P804,310

For the Years Ended December 31, 2015, 2014 and 2013

	Beverage			**Food**			**Packaging**			**Energy**			**Fuel and Oil**		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Capital expenditures	**P1,319**	P1,138	P1,278	**P3,128**	P647	P1,978	**P2,150**	P2,092	P2,383	**P31,105**	P17,447	P4,123	**P13,474**	P13,038	P51,412
Depreciation and amortization of property, plant and equipment (Note 29)	**1,837**	2,153	2,295	**945**	1,057	932	**1,580**	1,468	1,415	**6,513**	6,171	5,404	**5,364**	5,494	5,253
Noncash items other than depreciation and amortization of property, plant and equipment	**1,670**	1,185	2,106	**2,171**	2,089	1,959	**218**	299	1,057	**7,930**	973	9,724	**3,701**	738	3,558
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**1,098**	-	1,539		245	-		19	-		-	-	**262**	798	-

	Infrastructure			**Telecommunications**			**Others**			**Eliminations**			**Consolidated**		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Capital expenditures	**P243**	P34	P69	**P4,209**	P1,599	P1,231	**P4,345**	P2,956	P3,391	**P -**	P -	P -	**P59,973**	P38,951	P65,865
Depreciation and amortization of property, plant and equipment (Note 29)	**148**	54	28	**523**	378	428	**1,185**	1,132	1,012	**-**	-	-	**18,095**	17,907	16,767
Noncash items other than depreciation and amortization of property, plant and equipment	**3,621**	366	1,303	**(3,417)**	35	15	**828**	570	5,701	**-**	-	-	**16,722**	6,255	25,423
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets		-	-	**1,333**	-	-		-	96		-	-	**2,693**	1,062	1,635

8. Assets Held for Sale

a) Indophil Resources NL (Indophil)

On December 18, 2014, the shareholders of Indophil qualified to vote, approved the scheme of arrangement proposed by Alsons Prime Investments Corporations 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.

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.

On January 30, 2015, Coastal View received the payment on the sale of investment in shares of stock of Indophil amounting to A$14 (P493).

b) Petron Mega Plaza

During the second quarter of 2013, Petron sold its remaining office units located at Petron Megaplaza covering the 28th to 44th floors and parking spaces, and 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.

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2015**	2014
Cash in banks and on hand		**P33,011**	P32,363
Short-term investments		**147,747**	226,243
	41, 42	**P180,758**	P258,606

Cash in banks earn 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 (Note 32).

10. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2015**	2014
Trade		**P55,573**	P57,872
Non-trade	*18, 40*	**40,535**	57,585
Amounts owed by related parties	*34, 36*	**14,544**	22,034
		110,652	137,491
Less allowance for impairment losses	*4, 5, 28*	**9,925**	8,253
	4, 41, 42	**P100,727**	P129,238

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade receivables include claims from the Government, interest receivable, claims receivable, contracts receivable, subscription receivable and others. Claims from the Government pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism.

The movements in the allowance for impairment losses are as follows:

	Note	**2015**	2014
Balance at beginning of year		**P8,253**	P8,450
Charges for the year	*28*	**189**	848
Amounts written off		**(84)**	(348)
Acquisition of subsidiaries	*5*	**1,421**	-
Translation adjustments and others		**146**	(697)
Balance at end of year		**P9,925**	P8,253

The aging of receivables is as follows:

December 31, 2015	**Trade**	**Non-trade**	**Amounts owed by related parties**	**Total**
Current	**P42,829**	**P29,740**	**P14,544**	**P87,113**
Past due:				
1 - 30 days	**5,613**	**3,637**	**-**	**9,250**
31 - 60 days	**1,440**	**582**	**-**	**2,022**
61 - 90 days	**866**	**1,136**	**-**	**2,002**
Over 90 days	**4,825**	**5,440**	**-**	**10,265**
	P55,573	**P40,535**	**P14,544**	**P110,652**

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	23,230	-	27,385
	P57,872	P57,585	P22,034	P137,491

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 41).

11. Inventories

Inventories consist of:

	2015	2014
At NRV:		
Finished goods and goods in process (including petroleum products)	**P37,901**	P60,850
Materials and supplies (including coal)	**20,431**	19,529
Containers	**1,482**	1,212
At Cost:		
Raw land inventory and real estate projects	**4,334**	4,255
	P64,148	P85,846

The cost of finished goods and goods in process amounted to P38,629 and P61,750 as of December 31, 2015 and 2014, 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 P2,798 and P618 as of December 31, 2015 and 2014, respectively.

The cost of materials and supplies amounted to P21,295 and P20,372 as of December 31, 2015 and 2014, respectively.

Containers at cost amounted to P2,080 and P1,779 as of December 31, 2015 and 2014, respectively.

The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P649 and P553 as of December 31, 2015 and 2014, respectively, with corresponding costs at point of harvest amounting to P621 and P509, respectively. Net unrealized gain on fair valuation of agricultural produce amounted to P29 and P44 as of December 31, 2015 and 2014, 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, 2015 and 2014, based on management's assessment.

The fair value of raw land inventory amounted to P9,740 and P7,318 as of December 31, 2015 and 2014, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory is its current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property, size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2015**	2014
Prepaid taxes and licenses		**P60,227**	P41,345
Restricted cash - current	*41, 42*	**4,230**	1,604
Advances to contractors and suppliers		**1,720**	3,673
CIP - airport concession arrangements	*4, 35*	**974**	857
Prepaid insurance		**603**	453
Catalyst		**454**	-
Prepaid rent		**426**	318
Derivative assets	*41, 42*	**391**	360
Financial assets at FVPL	*41, 42*	**147**	136
AFS financial assets - current portion	*4, 14, 41, 42*	**70**	431
Option deposit	*41, 42*	**-**	1,118
Others		**4,417**	2,591
		P73,659	P52,886

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 2015, 2014 and 2013, was recognized as part of "Other financing charges" under "Interest expense and other financing charges" account in the consolidated statements of income (Note 31).

"Others" consist of prepayments for various operating expenses and payments for professional services relating to the loan that SCPC is applying for in 2015.

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 42.

13. Investments and Advances

Investments and advances consist of:

	Note	2015	2014 As restated
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		**P27,129**	P50,946
Additions		**700**	3,578
Disposal		**-**	(21,506)
Reclassification to investments in shares of stock of subsidiaries	*5*	**(13,096)**	-
Others		**-**	(5,889)
Balance at end of year		**14,733**	27,129
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year		**1,709**	(6,240)
Disposal		**-**	5,712
Equity in net earnings (losses)		**(386)**	1,701
Share in other comprehensive income (loss)		**(121)**	552
Reclassification to investments in shares of stock subsidiaries	*5*	**(695)**	-
Dividends		**(7)**	(5)
Others		**-**	(11)
Balance at end of year		**500**	1,709
		15,233	28,838
Advances		**11,696**	17,813
		P26,929	P46,651

The following are the developments relating to the Group's investments in shares of stock of associates and joint ventures:

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 Group received from the Lucio Tan Group, a total of US$874 or an equivalent of P38,616 from the 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 the sale of the equity interest and cancellation of subscription rights on the shares of stock of Fortunate Star. As a result, a gain of P491 was recognized in the 2014 consolidated statement of income, included as part of "Gain on sale of investments and property and equipment" account.

b. Investment in Bank of Commerce (BOC)

In 2012, the Parent Company through SMPI, started the negotiation for the sale of 44,817,164 common shares of BOC, representing 39.93% equity ownership interest. Accordingly, the investment in BOC with a carrying amount of P8,785, which includes the accumulated share in BOC's total comprehensive income of P983, was reclassified from "Investments and advances" account to "Assets held for sale" account in the 2012 consolidated statements of financial position.

In 2015, SMPI's management determined that there are no active buyers of its investment. Consequently, SMPI ceased to classify the investment as part of "Assets held for sale". As a result, the Group restated the comparative consolidated financial statements to appropriately recognize and bring back the investment in BOC to its carrying value, using equity method, as if the reclassification did not occur.

The effect of the restatement on the affected assets and equity components is shown below:

	December 31, 2014		
	As Previously Reported	Prior Period Adjustments	As Restated
Changes in assets:			
Investment and advances	P37,427	P9,224	P46,651
Asset held for sale	9,339	(8,785)	554
Total	P46,766	P439	P47,205
Changes in components of equity:			
Cumulative translation adjustment	P4,251	(P377)	P3,874
Reserve for retirement plan	(1,115)	(101)	(1,216)
Unappropriated retained earnings	119,655	916	120,571
Non-controlling interests	149,019	1	149,020
Total	P271,810	P439	P272,249

	December 31, 2013		
	As Previously Reported	Prior Period Adjustments	As Restated
Changes in assets:			
Investment and advances	P60,654	P8,401	P69,055
Asset held for sale	8,798	(8,785)	13
Total	P69,452	(P384)	P69,068
Changes in components of equity:			
Cumulative translation adjustment	P4,863	(P782)	P4,081
Reserve for retirement plan	862	(72)	790
Unappropriated retained earnings	138,256	471	138,727
Non-controlling interests	128,070	(1)	128,069
Total	P272,051	(P384)	P271,667

The effects of the prior year adjustments on the statements of comprehensive income in 2014 and 2013 are shown below.

	December 31, 2014		
	As Previously Reported	Prior Period Adjustments	As Restated
Profit or loss:			
Equity in net earnings of associates and joint ventures	P1,255	P446	P1,701
Changes in other comprehensive income:			
Share in other comprehensive income of associates and joint ventures	175	377	552
Net income attributable to:			
Equity holders of the Parent Company	14,692	445	15,137
Non-controlling interest	13,440	1	13,441
	P28,132	P446	P28,578

	December 31, 2013		
	As Previously Reported	Prior Period Adjustments	As Restated
Profit or loss:			
Equity in net earnings (losses) of associates and joint ventures	(P967)	P465	(P502)
Changes in other comprehensive income:			
Share in other comprehensive loss of associates and joint ventures	(480)	(773)	(1,253)
Net income attributable to:			
Equity holders of the Parent Company	38,053	464	38,517
Non-controlling interest	12,675	1	12,676
	P50,728	P465	P51,193

The prior year adjustments did not have a material impact on the consolidated statements of cash flows in 2014 and 2013.

c. AAIBV

Upon the execution of a Notarial Deed of Transfer of Shares, Padma transferred to SMHC an additional 48.47% equity interest in AAIBV resulting in the increase in SMHC's ownership to 95%. As such, SMHC gained control and consolidated AAIBV effective March 5, 2015 (Note 5).

d. Northern Cement Corporation (NCC)

SMC through SMYPC, has 35% equity interest in NCC representing 104,500,000 common shares.

NCC is primarily engaged in manufacturing, developing, processing, exploiting, buying and selling cement and/or other products derived therefrom.

e. LTHI

Upon completion of the tender offer and share purchases, Vega effectively owns 97.46% of the total outstanding capital stock of LTHI. As such, Vega gained control and consolidated LTHI effective September 2, 2015 (Note 5).

f. 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 of December 31, 2013.

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 33). Also, the remaining investment in 2,561,031 common shares and 1,904,540 preferred shares of Top Frontier amounting to P35,829 as of December 31, 2013 were reclassified to "Available-for-sale financial assets" account (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 33).

g. Meralco

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.

As a result of the sale, 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 Hydro and KWPP

PVEI, a subsidiary of SMC Global, and Korea Water Resources Corporation (K-Water) entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 Megawatt (MW) Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water.

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.

In accordance with the entry of PVEI in Angat Hydro and KWPP, K-Water and PVEI are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, PVEI 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. This was subsequently reduced to 1.5% of the amount of the bridge loan facility effective August 4, 2015.

Advances:

a. SMPI made deposits to Primeria Commercio Holdings, Inc. (PCHI) amounting to P804 as of December 31, 2015 and 2014. The deposits will be applied against future stock subscriptions of SMPI to the shares of stock of PCHI.

b. The deposits made by Vega amounting to P5,959 as of December 31, 2014 were applied against the acquisition of 88.17% equity interest in CTI in 2015 (Note 5).

c. SMC Global and SMEC made deposits to certain land holding companies for future stock subscriptions amounting to P9,131 and P8,602, as of December 31, 2015 and 2014, 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, 2015

	Angat Hydro and KWPP	**NCC**	**BOC**	**TGT and TSML**	**Others**	**Total**
Country of incorporation	**Philippines**	**Philippines**	**Philippines**	**Thailand**		
Percentage of ownership	**60.00%**	**35.00%**	**39.93%**	**44.90%**		
Share in net income (loss)	**(P529)**	**P194**	**P50**	**(P110)**	**P9**	**(P386)**
Share in other comprehensive income (loss)	**-**	**(27)**	**(324)**	**(25)**	**255**	**(121)**
Share in total comprehensive income (loss)	**(P529)**	**P167**	**(P274)**	**(P135)**	**P264**	**(P507)**
Dividends received from associates	**P -**	**P -**	**P -**	**P -**	**P7**	**P7**
Carrying amount of investments in shares of stock of associates and joint ventures	**P1,290**	**P3,950**	**P8,949**	**P525**	**P519**	**P15,233**

December 31, 2014

	AAIBV	LTHI	NCC	TGT and TSML	Angat Hydro and KWPP	BOC	MNHPI	Others	Total
Country of incorporation	Netherlands	Philippines	Philippines	Thailand	Philippines	Philippines	Philippines		
Percentage of ownership	46.53%	45.58%	35.00%	44.90%	60.00%	44.90%	35.00%		
Share in net income (loss)	P1,246	(P389)	P170	(P66)	(P11)	P446	P102	P203	P1,701
Share in other comprehensive income (loss)	199	-	(24)	6	-	377	-	(6)	552
Share in total comprehensive income (loss)	P1,445	(P389)	P146	(P60)	(P11)	P823	P102	P197	P2,253
Dividends received from associates	P -	P -	P -	P -	P -	P -	P -	P5	P5
Carrying amount of investments in shares of stock of associates and joint ventures	P8,732	P2,915	P3,782	P659	P1,819	P9,224	P987	P720	P28,838

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, 2015

	Angat Hydro and KWPP	**NCC**	**BOC**	**TGT and TSML**	**Others**
Current assets	**P1,146**	**P1,663**	**P128,320**	**P477**	**P2,825**
Noncurrent assets	**19,736**	**5,754**	**9,154**	**894**	**1,120**
Current liabilities	**(20,866)**	**(1,400)**	**(117,673)**	**(84)**	**(853)**
Noncurrent liabilities	**(36)**	**(38)**	**(3,071)**	**(950)**	**(889)**
Net assets (liabilities)	**(P20)**	**P5,979**	**P16,730**	**P337**	**P2,203**
Sales	**P1,249**	**P5,042**	**P3,955**	**P704**	**P2,004**
Net income (loss)	**(P882)**	**P780**	**P330**	**P105**	**P99**
Other comprehensive income (loss)	**-**	**(40)**	**1,935**	**-**	**-**
Total comprehensive income (loss)	**(P882)**	**P740**	**P2,265**	**P105**	**P99**

December 31, 2014

	AAIBV	LTHI	NCC	TGT and TSML	Angat Hydro and KWPP	BOC	MNHPI	Others
Current assets	P21,293	P936	P1,763	P1,295	P407	P131,846	P1,974	P3,739
Noncurrent assets	60,669	2,532	4,374	1,330	20,187	8,865	8,091	1,259
Current liabilities	(7,914)	(1,989)	(719)	(30)	(19,714)	(120,131)	(2,590)	(1,498)
Noncurrent liabilities	(60,740)	(330)	(178)	(1,300)	(17)	(3,403)	(5,508)	(573)
Net assets (liabilities)	P13,308	P1,149	P5,240	P1,295	P863	P17,177	P1,967	P2,927
Sales	P11,831	P427	P4,545	P848	P154	P4,453	P2,115	P3,052
Net income (loss)	P2,759	(P897)	P761	(P148)	(P19)	P1,330	P278	P192
Other comprehensive income (loss)	(131)	-	(69)	-	-	1,407	-	(21)
Total comprehensive income (loss)	P2,628	(P897)	P692	(P148)	(P19)	P2,737	P278	P171

14. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	Note	**2015**	2014
Equity securities		**P40,933**	P40,968
Government and other debt securities		**457**	722
Proprietary membership shares and others		**226**	200
	4, 41, 42	**41,616**	41,890
Less current portion	*12*	**70**	431
		P41,546	P41,459

Equity Securities

Equity securities include the investments in the shares of stock of Top Frontier consisting of 2,561,031 common shares and 1,904,540 preferred shares with a total amount of P35,597 and P35,742 as of December 31, 2015 and 2014, respectively. The shares were reclassified to "Available-for-sale financial assets" account in 2013 as a result of the property dividend distribution (Note 13).

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 4.47% to 8.88% in 2015 and 2014 (Note 32).

b) Ovincor's corporate bonds are maintained at the HSBC Bank Bermuda Limited and carried at fair value with fixed annual interest rates 6.75% to 7.00% (Note 32).

The movements in AFS financial assets are as follows:

	Note	**2015**	2014
Balance at beginning of the year		**P41,890**	P42,406
Additions		**163**	298
Disposals		**(438)**	(359)
Amortization of premium		**(15)**	(14)
Reclassification	*8*	**-**	(527)
Fair value loss		**(2)**	86
Currency translation adjustment		**18**	-
Balance at end of the year	*4, 41, 42*	**P41,616**	P41,890

The methods and assumptions used to estimate the fair value of AFS financial assets are discussed in Note 42.

15. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost										
January 1, 2014		P25,474	P47,504	P221,761	P49,648	P15,669	P125,520	P2,176	P108,494	P596,246
Additions		771	3,438	5,028	789	1,292	6,041	112	21,669	39,140
Disposals/reclassifications/ acquisition of subsidiaries		2,788	(749)	-	682	(426)	(4,133)	(32)	5,988	4,118
Currency translation adjustments		(428)	(450)	-	(587)	(393)	(489)	(37)	(173)	(2,557)
December 31, 2014		28,605	49,743	226,789	50,532	16,142	126,939	2,219	135,978	636,947
Additions		869	3,743	-	1,177	1,191	9,041	115	43,837	59,973
Disposals/reclassifications/ acquisition of subsidiaries		3,036	(1,770)	-	(362)	(74)	5,132	(147)	2,938	8,753
Currency translation adjustments		(1,158)	(1,263)	-	(1,562)	(1,029)	(317)	-	(346)	(5,675)
December 31, 2015		**31,352**	**50,453**	**226,789**	**49,785**	**16,230**	**140,795**	**2,187**	**182,407**	**699,998**
Accumulated Depreciation and Amortization										
January 1, 2014		2,812	18,637	21,127	30,285	9,673	74,354	1,152	-	158,040
Depreciation and amortization	*29*	181	1,805	5,804	1,887	1,310	6,776	144	-	17,907
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	26,931	32,218	10,471	77,185	1,270	-	171,397
Depreciation and amortization	*29*	205	1,754	6,031	1,730	1,287	6,925	163	-	18,095
Disposals/reclassifications/ acquisition of subsidiaries		61	(777)	-	(109)	(53)	4,656	(284)	-	3,494
Currency translation adjustments		(75)	(722)	-	(751)	(565)	(841)	-	-	(2,954)
December 31, 2015		**3,574**	**20,194**	**32,962**	**33,088**	**11,140**	**87,925**	**1,149**	**-**	**190,032**

Forward

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses										
January 1, 2014		P266	P2,663	P -	P -	P -	P8,517	P1	P -	P11,447
Impairment	*29*	-	-	-	-	-	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
Impairment	*29*	-	202	-	-	-	2,129	-	-	2,331
Disposals and reclassifications		-	-	-	-	-	(9)	-	-	(9)
Currency translation adjustments		-	(22)	-	-	-	87	-	-	65
December 31, 2015		**266**	**2,450**	-	-	-	**9,897**	**1**	-	**12,614**
Carrying Amount										
December 31, 2014		P24,956	P27,534	P199,858	P18,314	P5,671	P42,064	P948	P135,978	P455,323
December 31, 2015		**P27,512**	**P27,809**	**P193,827**	**P16,697**	**P5,090**	**P42,973**	**P1,037**	**P182,407**	**P497,352**

"Equipment, furniture and fixtures" includes machinery, telecommunications equipment, transportation equipment, tools and small equipment and office equipment.

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P20,426, P17,926 and P18,306 in 2015, 2014 and 2013, respectively (Notes 29 and 33). These amounts include annual amortization of capitalized interest amounting to P128, P123 and P117 in 2015, 2014 and 2013, respectively.

The Group has interest amounting to P3,027 and P3,621 which was capitalized in 2015 and 2014, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 4.347% to 6.77% and 4.88% to 8.10% in 2015 and 2014, respectively. The unamortized capitalized borrowing costs amounted to P12,047 and P9,148 as of December 31, 2015 and 2014, respectively.

The combined carrying amounts of power plants and equipment under finance lease amounted to P183,042 and P188,155 as of December 31, 2015 and 2014, respectively (Notes 4 and 35).

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.

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, 2014	P2,306	P534	P465	P1,631	P4,936
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
Additions	1,189	-	1	77	1,267
Reclassifications	(272)	412	-	5	145
Disposals	(4)	-	-	-	(4)
Currency translation adjustments	18	19	-	-	37
December 31, 2015	**4,334**	**972**	**469**	**101**	**5,876**
Accumulated Depreciation and Amortization					
January 1, 2014	101	205	446	-	752
Depreciation and amortization	8	13	11	-	32
Disposals and reclassifications	-	-	(6)	-	(6)
Currency translation adjustments	1	1	-	-	2
December 31, 2014	110	219	451	-	780
Depreciation and amortization	10	14	5	-	29
Reclassifications	16	284	-	-	300
Currency translation adjustments	5	8	-	-	13
December 31, 2015	**141**	**525**	**456**	**-**	**1,122**
Accumulated Impairment Losses					
December 31, 2014 and 2015	**8**	**-**	**-**	**-**	**8**
Carrying Amount					
December 31, 2014	P3,285	P322	P17	P19	P3,643
December 31, 2015	**P4,185**	**P447**	**P13**	**P101**	**P4,746**

No impairment loss was recognized in 2015 and 2014.

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 2015, 2014 and 2013.

The fair value of investment property amounting to P21,420 and P6,579 as of December 31, 2015 and 2014, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs
The valuation of investment property applied one or more or a combination of the three approaches below:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

17. Biological Assets

Biological assets consist of:

	Note	**2015**	2014
Current:			
Growing stocks		**P2,950**	P2,977
Goods in process		**369**	343
		3,319	3,320
Noncurrent:			
Breeding stocks - net	*4*	**2,177**	1,973
		P5,496	P5,293

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P1,769, P1,537 and P1,524 in 2015, 2014 and 2013, respectively (Note 29).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	**2015**	2014
Cost			
Balance at beginning of year		**P6,173**	P6,036
Increase (decrease) due to:			
Production		**39,157**	37,560
Purchases		**604**	896
Mortality		**(712)**	(734)
Sales and harvest		**(37,072)**	(36,184)
Retirement		**(1,560)**	(1,401)
Balance at end of year		**6,590**	6,173
Accumulated Amortization			
Balance at beginning of year		**880**	698
Additions	*29*	**1,769**	1,537
Retirement		**(1,555)**	(1,339)
Disposals		**-**	(16)
Balance at end of year		**1,094**	880
Carrying Amount		**P5,496**	P5,293

The Group harvested approximately 477.9 million and 452.9 million kilograms of grown broilers in 2015 and 2014, respectively, and 0.68 million and 0.75 million heads of marketable hogs and cattle in 2015 and 2014, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P42,857 and P37,106 in 2015 and 2014, respectively.

18. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2015	2014 As restated
Goodwill	**P58,603**	P41,211
Other intangible assets	**139,969**	45,114
	P198,572	P86,325

The movements in goodwill are as follows:

	Note	**2015**	2014 As restated
Balance at beginning of year		**P41,211**	P41,752
Additions	*4, 5, 39*	**18,918**	7
Currency translation adjustments and others		**(1,526)**	(548)
Balance at end of year	*4*	**P58,603**	P41,211

The movements in other intangible assets with indefinite useful lives are as follows:

	Note	Licenses	Trademarks and Brand Names	Total
Cost				
January 1, 2014		P7,005	P436	P7,441
Currency translation adjustments		4	1	5
December 31, 2014		7,009	437	7,446
Additions		-	446	446
Acquisition of subsidiaries	*5, 39*	18,465	-	18,465
Currency translation adjustments		(69)	12	(57)
December 31, 2015		**25,405**	**895**	**26,300**
Accumulated Impairment Losses				
January 1, 2014		-	193	193
Currency translation adjustments		-	1	1
December 31, 2014		-	194	194
Impairment		**-**	**14**	**14**
Currency translation adjustments		**-**	**11**	**11**
December 31, 2015		**-**	**219**	**219**
Carrying Amount				
December 31, 2014		P7,009	P243	P7,252
December 31, 2015		**P25,405**	**P676**	**P26,081**

In November 2014, the Parent Company through SMPFC entered into an Intellectual Property Rights Transfer Agreement with Felicisimo Martinez & Co. Inc.'s (FMC) *La Pacita* for the transfer to SMPFC of FMC's trademarks, formulations, recipes and other intangible properties (collectively, the "IP Rights") relating to the *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 (Note 10).

In February 2015, the refundable deposit was reversed following the substantial fulfillment of the closing conditions and the payment of the consideration.

The movements in other intangible assets with finite useful lives are as follows:

	Note	Toll Road Concession Rights	Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Airport Concession Right	Computer Software and Licenses	Power Concession Right	Project Development Cost	Port Concession Right	Others	Total
Cost											
January 1, 2014		P13,312	P1,582	P1,720	P917	P218	P -	P11,040	P -	P2,119	P30,908
Additions		7,540	-	-	1,402	34	496	-	-	127	9,599
Acquisition of subsidiaries	*5, 39*	-	-	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
Additions		10,052	-	-	1,056	21	47	-	621	388	12,185
Acquisition of subsidiaries	*5, 39*	71,564	-	-	-	4	-	-	10,353	29	81,950
Disposals and reclassifications		9	2	-	-	(31)	-	-	-	70	50
Currency translation adjustments		1,799	14	-	-	-	-	-	-	(84)	1,729
December 31, 2015		**115,316**	**1,509**	**1,885**	**3,375**	**236**	**543**	**-**	**10,974**	**2,723**	**136,561**
Accumulated Amortization											
January 1, 2014		258	510	-	25	122	-	-	-	1,209	2,124
Amortization		336	33	-	12	13	15	-	-	289	698
Disposals and reclassifications		-	(22)	-	-	-	-	-	-	(1)	(23)
Currency translation adjustments		-	2	-	-	-	-	-	-	(16)	(14)
December 31, 2014		594	523	-	37	135	15	-	-	1,481	2,785
Amortization		2,556	32	-	41	12	21	-	28	284	2,974
Acquisition of subsidiaries	*5, 39*	15,994	-	-	-	-	-	-	535	-	16.529
Disposals and reclassifications		-	-	-	-	(15)	-	-	-	190	175
Currency translation adjustments		259	2	-	-	-	-	-	-	(51)	210
December 31, 2015		**19,403**	**557**	**-**	**78**	**132**	**36**	**-**	**563**	**1,904**	**22,673**
Carrying Amount											
December 31, 2014		P31,298	P970	P1,885	P2,282	P107	P481	P -	P -	P839	P37,862
December 31, 2015		**P95,913**	**P952**	**P1,885**	**P3,297**	**P104**	**P507**	**P -**	**P10,411**	**P819**	**P113,888**

Project development cost represents the upfront fee paid by Vertex to the Department of Public Works and Highways (DPWH) for the NAIA Expressway Project which was reclassified to toll road concession rights as of December 31, 2014 (Note 35).

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:

	2015			2014		
	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	**P29,719**	**P -**	**P -**	P30,947	P -	P -
Infrastructure	**21,946**	**-**	**-**	3,580	-	-
Food	**2,820**	**676**	**-**	2,820	229	-
Packaging	**2,418**	**-**	**-**	2,069	-	-
Beverage	**905**	**1,719**	**-**	1,000	1,802	-
Telecommunications	**733**	**23,686**	**-**	733	5,221	-
Energy	**-**	**-**	**1,720**	-	-	1,720
Others	**62**	**-**	**165**	62	-	165
Total	**P58,603**	**P26,081**	**P1,885**	P41,211	P7,252	P1,885

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 2015 and 2014. 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 2015 and 2014 amounted to P100 and P127, respectively (Note 33). No impairment loss was recognized in 2013.

The recoverable amount of licenses, 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% in 2015 and 2014. 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.

Impairment loss recognized in 2015 amounted to P14 (Note 33).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins*. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

- *Discount Rates*. The Group uses the weighted-average cost of capital as the discount rate, which reflects management’s estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

19. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2015**	2014
Noncurrent receivables and deposits - net	*34, 36, 40, 41, 42*	**P9,389**	P14,967
Deferred containers - net	*4, 29*	**7,014**	6,916
Advances to contractors and suppliers		**3,939**	-
Retirement assets	*36*	**3,175**	3,830
Deposits on land for future development		**1,546**	1,433
Noncurrent prepaid rent		**2,228**	2,989
Restricted cash	*41, 42*	**1,431**	1,055
Noncurrent prepaid input tax		**1,418**	1,435
Idle assets	*4*	**1,194**	785
Catalyst		**947**	1,540
Deferred exploration and development costs	*4, 35*	**690**	673
Others		**2,677**	1,391
		P35,648	P37,014

Noncurrent receivables and deposits include amounts owed by related parties amounting to P5,771 and P11,427 as of December 31, 2015 and 2014, respectively (Note 34) and the costs related to the capitalized expenditures for the development of the Metro Rail Transit Line 7 (MRT 7) Project amounting to P2,598 and P2,429 as of December 31, 2015 and 2014, respectively (Note 35).

Restricted cash represents: (i) SPI's Cash Flow Waterfall Accounts with a local bank amounting to P1,209 and P1,021 as of December 31, 2015 and 2014, respectively, as part of the provisions in the Omnibus Loan and Security Agreement; and (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 P103 and P34 as of December 31, 2015 and 2014, respectively.

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 42.

"Others" consist of marketing assistance to dealers and other noncurrent prepaid expenses.

20. Loans Payable

Loans payable consist of:

	Note	**2015**	2014
Parent Company			
Peso-denominated		**P7,050**	P7,685
Subsidiaries			
Peso-denominated		**123,035**	136,265
Foreign currency-denominated		**16,774**	36,109
	41, 42	**P146,859**	P180,059

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 2.00% to 5.50% in 2015 and 2014. Interest rates for foreign currency-denominated loans range from 3.00% to 12.60% and from 1.63% to 9.00% in 2015 and 2014, respectively (Note 31).

Loans payable include interest-bearing amounts payable to a related party amounting to P3,988 and P6,400 as of December 31, 2015 and 2014, respectively (Note 34).

Loans payable of the Group are not subject to covenants.

21. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2015**	2014
Trade		**P46,692**	P56,250
Non-trade		**41,596**	56,447
Accrued payroll		**4,771**	4,528
Amounts owed to related parties	*34*	**2,963**	499
Derivative liabilities	*41, 42*	**2,581**	325
Accrued interest payable		**2,434**	2,379
Retention payable		**1,203**	-
Current portion of IRO	*4*	**370**	21
Retirement liabilities	*36*	**91**	127
Subscriptions payable		**-**	28
Payables on the purchase of shares of stock		**-**	1,206
Others		**135**	34
	41, 42	**P102,836**	P121,844

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 42.

22. Long-term Debt

Long-term debt consists of:

	2015	2014
Parent Company		
Term notes:		
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, with maturities in various dates through 2018 (a)	**P77,749**	P73,506
Floating interest rate based on LIBOR plus margin, with maturities in various dates through 2020 (b)	**13,210**	-
Fixed interest rate of 4.875% with maturities up to 2023 (c)	**24,044**	35,336
Peso-denominated:		
Floating interest rate based on PDST-F plus margin, with maturities up to 2015 (d)	**-**	7,850
	115,003	116,692
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 6.05%, 5.93% and 6.60% maturing in 2017, 2019 and 2022, respectively (e)	**19,889**	19,862
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (f)	**14,881**	14,863
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (g)	**7,217**	-
Fixed interest rate of 10.50% maturing in 2019 (h)	**2,796**	2,793
Foreign currency-denominated:		
Fixed interest rate of 7.00% maturing in 2016 (i)	**13,952**	13,190
Term notes:		
Foreign currency-denominated:		
Fixed interest rate of 12.45%, 12.85% and 13.27% maturing in 2016 (j)	**65**	-
Peso-denominated:		
Fixed interest rate of 7.00% maturing in 2017 (k)	**19,926**	19,891
Fixed interest rate based on PDST-F plus margin, with maturities up to 2021 (l)	**14,824**	11,415
Fixed interest rate of 6.2921% and 6.0606% with maturities up to 2023 (m)	**12,056**	13,386
Fixed interest rate of 6.52% maturing in 2021 (n)	**9,163**	-
Fixed interest rate of 8.74899% maturing in 2022 (o)	**8,676**	-
Fixed interest rate of 6.9343%, 6.9983% and 7.5573% maturing in 2027 (p)	**8,579**	-
Fixed interest rate of 6.81768%, 6.8385% and 7.2374% maturing in 2025 (q)	**6,321**	-
Fixed interest rate of 5.4583% plus Gross Receipts Tax (GRT) maturing in 2022 (r)	**4,976**	-
Fixed interest rate of 6.3212% and 7.1827% with maturities up to 2018 and 2021, respectively (s)	**3,433**	3,466

Forward

	Note	**2015**	2014
Fixed interest rate of 6.6583% with maturities up to 2023 (t)		**P3,384**	P3,462
Fixed interest rate of 5.65% with maturities up to 2019 (u)		**2,250**	-
Fixed interest rate of 6.175% and 6.145% maturing in 2016 (v)		**1,500**	1,500
Floating interest rate based on PDST-F plus margin, maturing in 2015 (w)		**-**	3,693
Fixed interest rate of 5.4885% maturing in 2015 (w)		**-**	798
Floating interest rate based on PDST-F plus margin or BSP overnight rate plus margin, whichever is higher, with maturities up to 2019 (x)		**3,243**	3,240
Floating interest rate based on PDST-F plus margin, with maturities up to 2022 (y)		**3,177**	3,175
Floating interest rate based on PDST-F plus margin, with maturities up to 2021 (z)		**349**	349
Floating interest rate based on PDST-F plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018 (aa)		**343**	457
Foreign currency-denominated:			
Floating interest rate based on LIBOR plus margin, with maturities up to 2018 (bb)		**32,439**	21,984
Floating interest rate based on LIBOR plus margin, with maturities up to 2020 (cc)		**25,177**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2016 (dd)		**15,850**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2019 (ee)		**15,639**	20,821
Floating interest rate based on Cost of Fund (COF) plus margin, with maturities up to 2019 (ff)		**3,269**	3,805
Floating interest rate based on LIBOR plus margin (gg)		**-**	15,094
Floating interest rate based on LIBOR plus margin (hh)		**-**	9,052
		253,374	186,296
	41, 42	**368,377**	302,988
Less current maturities		**37,554**	19,852
		P330,823	P283,136

a. 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 in 2010, to fund infrastructure investments and for general corporate purposes.

   Unamortized debt issue costs amounted to P841 and P1,176 as of December 31, 2015 and 2014, respectively.

b. The amount represents the drawdown of US$287 on September 8, 2015 from the Parent Company's US$800-Term Facility signed in March 2015. Proceeds for the five-year floating rate loan were used for the repayment of the Medium Term Note (MTN) Tender Offer in April 2015.

   Unamortized debt issue costs amounted to P296 as of December 31, 2015.

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 MTN Programme. The Notes which were listed on the SGX-ST on the same date bear interest at the rate of 4.875% per annum, payable semi-annually in arrears every 26th of April and October of each year.

   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.

   On April 10, 2015, the Parent Company purchased US$284 of the US$400 Notes offered for purchase in the tender offer. The aggregate cash amount paid by the Parent Company based on the aggregate principal amount of the Notes repurchased is US$278. The Parent Company recognized a gain on redemption amounting to P275 included as part of "Others" under "Other income (charges)" account in the 2015 consolidated statement of income (Note 33).

   Unamortized debt issue costs amounted to P257 and P440 as of December 31, 2015 and 2014, respectively.

d. The amount represents drawdown of various loans in 2009 and 2010 by the Parent Company used for financing general and corporate requirements.

   On December 14, 2015, the Parent Company paid the remaining balance of the loan amounting to P7,850.

e. 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 Philippine Dealing & Exchange Corp. (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 P111 and P138 as of December 31, 2015 and 2014, respectively.

f. The amount represents the issuance of SMB of 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 seven 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 ten 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 on Interest Payment Date). SMB may (but shall be likewise not 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 listed on the PDEx on April 2, 2014.

Unamortized debt issue costs amounted to P119 and P137 as of December 21, 2015 and 2014, respectively.

g. The amount represents SLTC's peso-denominated fixed rate bonds (SLTC Bonds) worth P7,300. The SLTC Bonds were issued in three series: Series A Bonds amounting to P2,400 with a fixed interest rate of 4.9925% per annum, Series B Bonds amounting to P2,400 with a fixed interest rate of 5.5796% per annum and Series C Bonds amounting to P2,500 with a fixed interest rate of 6.4872% per annum.

   The net proceeds of the bond offering were used to prepay the five-year Peso-denominated Corporate Notes drawn in 2012. The SLTC Bonds were listed on the PDEx on May 22, 2015.

   Unamortized debt issue costs amounted to P83 as of December 31, 2015.

h. The amount represents SMB's peso denominated fixed rate Series C Bonds with an aggregate principal amount of P2,810 which was part of the P38,800 SMB Bonds sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 17, 2009. The SMB Bonds were listed on the PDEx for trading on November 17, 2009.

   Unamortized debt issue costs amounted to P14 and P17 as of December 31, 2015 and 2014, respectively.

i. 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 P5 and P72 as of December 31, 2015 and 2014, respectively.

j. The amount represents unsecured facility loans entered into by PT SMPFI in 2015 with a foreign bank amounting to P65. PT SMPFI obtained the loans in three tranches with fixed interest rates of 12.85%, 12.45% and 13.27%, all maturing on December 9, 2016. Proceeds were used to refinance capital expenditure requirements including the purchase of machineries.

k. The amount represents P20,000 peso-denominated notes issued by Petron in 2010. 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. 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.

   Unamortized debt issue costs amounted to P74 and P109 as of December 31, 2015 and 2014, respectively.

l. The amount represents series of drawdowns by PIDC from the P15,140 loan facility agreement with creditor banks, to finance the TPLEX Project. The loan is payable in 24 quarterly installments commencing on the 51st month from the initial borrowing dates, inclusive of not more than four-year grace period. Final repayment date is 10 years after initial borrowing.

   The loan is subject to repricing on the 5th year from the date of initial drawdown.

Unamortized debt issue costs amounted to P127 and P85 as of December 31, 2015 and 2014, respectively.

m. The amount represents P12,300 and P1,500 drawn by SPI on September 30, 2013 and 2014, respectively, from the P13,800 ten-year term loan facility agreement with syndicate of banks.

   Pursuant to the Facility Agreement, the amount of the loan drawn in 2015 and 2014 will bear interest at the rate of 6.5446% and 6.3131%, respectively, as determined by the Facility Agent. Effective November 28, 2014, step-down interest rate is at 6.2921% and 6.0606% for 2015 and 2014 loans, respectively. The Facility Agreement has a final maturity date of September 2023.

   The proceeds of the loan were used for the acquisition of the 2 x 35 MW Co-Generation Coal Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures for the expansion of the capacity. The drawdown includes payable to BOC amounting to P3,103 and P3,451 as of December 31, 2015 and 2014, respectively (Note 34).

   Unamortized debt issue costs amounted to P178 and P221 as of December 31, 2015 and 2014, respectively.

n. The amount represents P14,500 Corporate Notes Facility entered into by AAIPC with various banks. Proceeds of the loan were used to finance the acquisition of the shares of stock of CMMTC. The loan is payable semi-annually until September 27, 2021. The drawdown includes payable to BOC amounting to P2,566 as of December 31, 2015 (Note 34).

   Unamortized debt issue costs amounted to P140 as of December 31, 2015.

o. The amount represents P11,500 Corporate Notes Facility with various banks, drawn by MTDME in 2012. Proceeds of the loan were used to refinance the Holding Company Facility Agreement entered into by AAIBV amounting to US$250 in which MTDME was a replacement borrower. The loan is payable semi-annually until 2022. The drawdown includes payable to BOC amounting to P1,338 as of December 31, 2015 (Note 34).

   Unamortized debt issue costs amounted to P116 as of December 31, 2015.

p. The amount represents the P8,700 loan drawn by CCEC in 2015, from the P31,000 Loan Facility with various banks. The loan is payable in 35 unequal consecutive quarterly installments. Proceeds of the loan were used to finance the design, construction and the operation and maintenance of the Stage 3 of Metro Manila Skyway Project. The drawdown includes payable to BOC amounting to P1,038 as of December 31, 2015 (Note 34).

   Unamortized debt issue costs amounted to P121 as of December 31, 2015.

q. The amount represents the P6,400 loan drawn by Vertex in 2015, from the P7,500 Loan Facility with various banks. The loan is payable in quarterly installments up to February 27, 2025. Proceeds of the loan were used to finance the ongoing construction of the NAIA Expressway Project. The drawdown includes payable to BOC amounting to P1,707 as of December 31, 2015 (Note 34).

   Unamortized debt issue costs amounted to P79 as of December 31, 2015.

r. The amount represents P5,000 loan drawn by Petron on October 13, 2015 from the term loan facility agreement signed and executed on October 7, 2015. The facility is amortized over seven years with a two-year grace period and is subject to a fixed rate of 5.4583% plus GRT.

   Unamortized debt issue costs amounted to P24 as of December 31, 2015.

s. 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 up to seven years from the issue date and Series B Notes amounting to P2,910 having a maturity of up to ten years from the issue date. The FXCNs 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 P23 and P27 as of December 31, 2015 and 2014, respectively.

t. The amount represents the P3,500 loan facility with local banks, entered into by SIDC in 2013. The proceeds of the loan were used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. Repayment period is within 32 unequal consecutive quarterly installments on each repayment date in accordance with the agreement beginning on the earlier of (i) the 27th month from initial drawdown date or (ii) the 3rd month from the date of receipt by SIDC of the financial completion certificate for the Project.

   Unamortized debt issue costs amounted to P31 and P38 as of December 31, 2015 and 2014, respectively.

u. The amount represents the P3,000 loan facility with local banks, which was fully drawn in 2013. The loan is payable within seven years in equal quarterly installments up to 2019. Proceeds of the loan were used to finance the modernization, development and maintenance of MNHPI.

v. The amount represents drawdown by SMCSLC in 2011, from a local bank, which was used for working capital requirements.

w. 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. SMFI fully paid the said corporate notes on their maturity date.

   Unamortized debt issue costs amounted to P9 as of December 31, 2014.

x. 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 34).

Unamortized debt issue costs amounted to P7 and P10 as of December 31, 2015 and 2014, respectively.

y. The amount represents series of drawdowns in 2014 and 2013, 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 34).

   Unamortized debt issue costs amounted to P12 and P14 as of December 31, 2015 and 2014, respectively.

z. 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 34).

   Unamortized debt issue costs amounted to P1 as of December 31, 2015 and 2014.

aa. 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).

bb. 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.

   On March 6, 2015, SMC Global made the final drawdown of US$200 for the financing of ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes.

   Unamortized debt issue costs amounted to P503 and P376 as of December 31, 2015 and 2014, respectively.

cc. The amount represents the US$550 loan drawn by Petron on July 29, 2015, from a US$550 refinancing facility which was signed and executed on July 20, 2015. 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 proceeds were used to pay in full the remaining outstanding balances of about US$206 and US$345 under the US$480 and US$485 term loan facility, respectively. On November 11, 2015, Petron completed the syndication of facility with 29 banks.

   Unamortized debt issue costs amounted to P706 as of December 31, 2015.

dd. The amount represents the US$340 loan facility agreement entered into by AAIBV with Standard Chartered Bank in September 17, 2014. Proceeds of the loan were used for payment of the subscription price for S3CTH shares subscribed by AAIBV and payment of the subscription price of CCEC shares provided to Philippine National Construction Corporation. The loan is payable lump sum on September 19, 2016 and bears an interest rate of the sum of 5.375% margin rate and LIBOR rate applicable to the loan payable at the end of each interest period.

   Unamortized debt issue costs amounted to P151 as of December 31, 2015.

ee. 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. On September 29, 2014, Petron completed the syndication of the facility, raising the facility amount to US$475. 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. In 2015, Petron made partial payments amounting to US$135.

    Unamortized debt issue costs amounted to P361 and P421 as of December 31, 2015 and 2014, respectively.

ff. 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 COF plus margin.

    Unamortized debt issue costs amounted to P20 and P33 as of December 31, 2015 and 2014, respectively.

gg. The amount represents the US$485 drawn from the loan facility signed and executed by Petron on October 31, 2012. The facility is amortized over five years with two-year grace period and is subject to a floating interest rate plus a fixed spread. The proceeds were used to finance the capital expenditure requirements of Refinery Master Plan Phase 2 (RMP-2) Project. Petron made partial payments in 2014 amounting to US$140. On July 29, 2015, Petron fully prepaid the remaining balance of US$345 using the proceeds from a US$550 refinancing facility.

    Unamortized debt issue costs amounted to P335 as of December 31, 2014.

hh. 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. 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. Petron made partial payments in previous years amounting to US$274. On July 29, 2015, Petron fully prepaid the remaining balance of the loan using the proceeds from a US$550 refinancing facility.

    Unamortized debt issue costs amounted to P148 as of December 31, 2014.

Long-term debt includes interest-bearing amounts payable to a related party amounting to P16,541 and P10,240 as of December 31, 2015 and 2014, respectively (Note 34).

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, 2015 and 2014.

The movements in debt issue costs are as follows:

	Note	**2015**	2014
Balance at beginning of year		**P3,807**	P3,919
Additions		**1,341**	1,093
Amortization	*31*	**(1,157)**	(764)
Reclassification, capitalized and others		**409**	(441)
Balance at end of year		**P4,400**	P3,807

Repayment Schedule
The annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2016	P37,849	P295	P37,554
2017	41,795	873	40,922
2018	137,356	1,813	135,543
2019	35,531	384	35,147
2020 and thereafter	120,246	1,035	119,211
Total	**P372,777**	**P4,400**	**P368,377**

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 41.

23. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	**2015**	2014
Retirement liabilities	*36*	**P11,668**	P7,970
Subscription deposits		**6,910**	-
Amounts owed to related parties	*34*	**6,222**	54
Obligation to ROP - service concession agreement	*4, 18, 35*	**2,456**	71
ARO	*4*	**1,839**	1,659
IRO	*4*	**683**	68
Cylinder deposits		**454**	442
Cash bonds		**382**	870
Concession liabilities		**105**	107
Redeemable preferred shares	*4*	**15**	15
Others		**1,827**	835
	41, 42	**P32,561**	P12,091

Redeemable Preferred Shares. These 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 ten-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.

Subscription Deposits. In 2015, Vega received P6,910 as a deposit for future stock subscription from a certain investor.

"Others" include amounts owed to a supplier for the purchase of equipment amounting to P1,487 as of December 31, 2015.

24. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2015	2014
Allowance for impairment losses on trade and other receivables and inventory	**P3,643**	P3,643
MCIT	**747**	486
NOLCO	**487**	1,408
Undistributed net earnings of foreign subsidiaries	**(828)**	(713)
Unrealized intercompany charges and others	**(2,937)**	2,007
	P1,112	P6,831

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2015**	2014
Deferred tax assets	*4*	**P16,441**	P14,651
Deferred tax liabilities		**(15,329)**	(7,820)
		P1,112	P6,831

As of December 31, 2015, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
2013	December 31, 2016	P800	P8
2014	December 31, 2017	398	341
2015	December 31, 2018	424	398
		P1,622	**P747**

The components of income tax expense are shown below:

	2015	2014	2013
Current	**P14,996**	P10,891	P11,712
Deferred	**1,948**	(607)	(8,012)
	P16,944	P10,284	P3,700

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2015	2014 As restated	2013 As restated
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**(2.82%)**	(3.10%)	(1.93%)
Equity in net losses (earnings) of associates and joint ventures	**0.25%**	(1.31%)	0.27%
Gain on sale of investments subject to final or capital gains tax	**(0.06%)**	(0.38%)	(22.25%)
Others, mainly income subject to different tax rates - net	**9.51%**	1.25%	0.65%
Effective income tax rate	**36.88%**	26.46%	6.74%

25. Equity

a. *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.

On June 9, 2015, during the annual stockholders meeting of the Parent Company, the stockholders approved the amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares. With the approval of the reclassification, the resulting distribution of the preferred shares of the Parent Company was 300,000,000 for Series "1" Preferred Shares and 1,910,000,000 for Series "2" Preferred Shares. The stockholders also approved the issuance of the Series "2" Preferred Shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares was approved by the SEC on July 14, 2015.

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 36,718 common stockholders as of December 31, 2015.

The movements in the number of issued and outstanding shares of common stock are as follows:

	Note	**2015**	2014
Issued and outstanding shares at beginning of year		**3,282,897,671**	3,282,756,743
Issuances during the year	*28*	**379,844**	140,928
Issued shares at end of year		**3,283,277,515**	3,282,897,671
Less treasury shares		**904,752,537**	904,752,537
Issued and outstanding shares at end of year		**2,378,524,978**	2,378,145,134

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 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.

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.

On December 8, 2010 and October 3, 2011, the Parent Company listed 873,173,353 and 97,333,000 Series “1” Preferred Shares worth P65,488 and P7,300, respectively.

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.

On April 14, 2015, the Parent Company reissued 279,406,667 Series “1” Preferred Shares in the name of certain subscribers at P75.00 per share. The Series “1” Preferred Shares became tradable at the PSE beginning June 10, 2015.

The Parent Company has 279,406,667 outstanding Series “1” Preferred Shares and has a total of three preferred stockholders as of December 31, 2015.

ii. Series “2” Preferred Shares

In September 2012, the Parent Company issued 1,067,000,000 Series “2” Preferred Shares at the issue price of P75.00 per share. The said Series “2” Preferred Shares worth P80,025 were listed at the PSE on September 28, 2012.

The Series “2” Preferred Shares were issued in three sub-series (Subseries”2-A”, Subseries “2-B” and Subseries “2-C”) and were 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%, 8.000% per annum for Subseries "2-A", "2-B" and "2-C", respectively.

On September 21, 2015, the Parent Company issued and listed in the PSE 446,667,000 Series "2" Preferred Shares in three sub-series (Subseries "2-D", Subseries "2-E" and Subseries "2-F") and are peso-denominated, perpetual, cumulative, non-participating and non-voting. Dividend rates are 5.9431%, 6.3255% and 6.8072% per annum for Subseries "2-D", "2-E" and "2-F", respectively.

The Parent Company received P33,500 from the issuance of the shares and used the proceeds from such issuance to redeem the Subseries "2-A" Preferred Shares.

On September 21, 2015, the Parent Company redeemed its 721,012,400 Series "2" Preferred Shares - Subseries "2-A" at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P54,076 to the holders of Subseries "2-A" Preferred Shares.

The Parent Company has 792,654,600 outstanding Series "2" Preferred Shares and has a total of 702 preferred stockholders as of December 31, 2015.

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:

	2015	2014	2013
Common	**P67,093**	P67,093	P67,166
Preferred	**72,408**	72,788	72,788
	P139,501	P139,881	P139,954

I. Common Shares

The movements in the number of common shares held in treasury are as follows:

	Note	**2015**	2014	2013
Number of shares at beginning of year		**904,752,537**	905,761,960	908,892,669
Cancellation of ESPP	*40*	**-**	68,150	3,410,250
Conversion of exchangeable bonds		**-**	(1,077,573)	(6,540,959)
Number of shares at end of year		**904,752,537**	904,752,537	905,761,960

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 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 SMC common shares held by 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.

5. As of December 31, 2015 and 2014 a total of 3,478,400 common shares under the ESPP, were cancelled and held in treasury (Note 40).

d. Unappropriated Retained Earnings

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 in 2015 and 2014 and P67,166 in 2013, respectively, representing the cost of common shares held in treasury.

The unappropriated retained earnings of the Group 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 P20,764, P23,858 and P1,015 in 2015, 2014 and 2013, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P23,925 and P4 in 2015 and 2013, respectively.

26. Sales

Sales consist of:

	2015	2014	2013
Goods	**P656,874**	P770,284	P745,413
Services	**16,773**	3,414	1,858
Others	**278**	25	32
	P673,925	P773,723	P747,303

27. Cost of Sales

Cost of sales consist of:

	Note	**2015**	2014	2013
Inventories		**P360,589**	P515,138	P498,098
Taxes and licenses		**44,794**	40,088	36,551
Freight, trucking and handling		**23,968**	11,653	10,300
Energy fees	*35*	**23,224**	30,776	31,269
Depreciation, amortization and impairment	*29*	**18,054**	15,541	14,096
Communications, light and water		**12,603**	8,933	5,978
Contracted services		**10,825**	2,479	2,210
Fuel and oil		**8,827**	11,834	10,448
Power purchase		**8,331**	6,046	3,929
Personnel	*30*	**7,295**	6,484	5,528
Tolling Fees		**7,029**	6,748	6,462
Repairs and maintenance		**3,496**	2,934	3,391
Rent	*4, 35*	**998**	690	661
Others		**2,890**	1,569	1,971
		P532,923	P660,913	P630,892

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2015	2014	2013
Selling	**P29,870**	P28,840	P29,892
Administrative	**32,449**	28,195	30,798
	P62,319	P57,035	P60,690

Selling expenses consist of:

	Note	**2015**	2014	2013
Personnel	*30*	**P7,716**	P7,330	P6,884
Freight, trucking and handling		**7,323**	7,194	7,020
Advertising and promotions		**5,370**	5,035	6,952
Depreciation, amortization and impairment	*29*	**3,305**	3,076	2,679
Rent	*4, 35*	**2,498**	2,824	2,398
Repairs and maintenance		**1,129**	1,071	1,266
Supplies		**639**	453	209
Taxes and licenses		**564**	621	634
Professional fees		**529**	562	499
Communications, light and water		**384**	451	470
Others		**413**	223	881
		P29,870	P28,840	P29,892

Administrative expenses consist of:

	Note	**2015**	2014	2013
Personnel	*30, 40*	**P14,469**	P13,773	P12,392
Depreciation, amortization and impairment	*29*	**4,528**	4,464	4,613
Professional fees		**3,275**	2,623	2,206
Taxes and licenses		**2,916**	2,060	1,712
Advertising and promotion		**1,685**	1,175	1,027
Impairment loss		**1,061**	1,093	4,849
Repairs and maintenance		**988**	782	776
Communications, light and water		**734**	840	916
Supplies		**522**	645	873
Rent	*4, 35*	**408**	159	288
Freight, trucking and handling		**264**	265	306
Research and development		**161**	134	113
Others		**1,438**	182	727
		P32,449	P28,195	P30,798

"Others" consist of entertainment and amusement, gas and oil, and other administrative expenses.

29. Depreciation, Amortization and Impairment

Depreciation, amortization and impairment are distributed as follows:

	Note	**2015**	2014	2013
Cost of sales:				
Property, plant and equipment	*7, 15*	**P13,265**	P13,210	P12,181
Deferred containers, biological assets and others	*17, 19*	**4,789**	2,331	1,915
	27	**18,054**	15,541	14,096
Selling and administrative expenses:				
Property, plant and equipment	*7, 15*	**4,830**	4,697	4,624
Deferred containers and others	*19*	**3,003**	2,843	2,668
	28	**7,833**	7,540	7,292
		P25,887	P23,081	P21,388

"Others" include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

30. Personnel Expenses

Personnel expenses consist of:

	Note	**2015**	2014	2013
Salaries and wages		**P14,488**	P13,291	P11,935
Retirement costs - net	*36*	**1,564**	1,191	1,362
Other employee benefits	*40*	**13,428**	13,105	11,507
		P29,480	P27,587	P24,804

Personnel expenses are distributed as follows:

	Note	**2015**	2014	2013
Cost of sales	*27*	**P7,295**	P6,484	P5,528
Selling expenses	*28*	**7,716**	7,330	6,884
Administrative expenses	*28*	**14,469**	13,773	12,392
		P29,480	P27,587	P24,804

31. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	**2015**	2014	2013
Interest expense		**P29,685**	P26,566	P27,191
Other financing charges	*12, 22*	**2,836**	3,144	3,779
		P32,521	P29,710	P30,970

Amortization of debt issue costs included in “Other financing charges” amounted to P1,157, P764 and P1,322 in 2015, 2014 and 2013, respectively (Note 22).

Interest expense on loans payable, long-term debt and finance lease liabilities is as follows:

	Note	**2015**	2014	2013
Loans payable	*20*	**P8,913**	P5,028	P6,114
Long-term debt	*22*	**10,559**	10,820	10,093
Finance lease liabilities	*35*	**10,213**	10,718	10,984
		P29,685	P26,566	P27,191

32. Interest Income

Interest income consists of:

	Note	**2015**	2014	2013
Interest from short-term investments, cash in banks and others	*9, 14*	**P3,754**	P3,530	P2,446
Interest on amounts owed by related parties	*34, 36*	**561**	482	1,093
		P4,315	P4,012	P3,539

33. Other Income (Charges)

Other income (charges) consists of:

	Note	**2015**	2014	2013
Construction revenue	*12, 18, 35*	**P11,003**	P8,735	P970
Gain on derivatives - net	*42*	**3,971**	7,513	2,448
Gain on remeasurement on step acquisition	*5*	**3,540**	-	-
PSALM monthly fees reduction		**1,859**	815	872
Gain on return of donated property (a)		**495**	-	-
Remeasurement of property dividends and AFS financial assets	*13*	**-**	-	4,863
Loss on redemption of exchangeable bonds (b)		**-**	-	(1,500)
Additional provision on impairment (c, d, e)	*15, 18, 19*	**(2,933)**	(242)	(1,501)
Construction costs	*12, 18, 35*	**(11,003)**	(8,735)	(970)
Loss on foreign exchange - net	*41*	**(12,081)**	(2,412)	(19,436)
Others (f)	*22*	**1,076**	633	(167)
		(P4,073)	P6,307	(P14,421)

a. *Donation to Philippine Foundation of the Blessed Mary Mother of Poor (Foundation)*

On January 11, 2011, SMPI signed a deed of donation (the “Deed of Donation”) in favor of the Foundation, a non-profit religious organization, to transfer a 33-hectare parcel of land owned by SMPI (the Montemaria Property), with a carrying amount of P141. The land title of the Montemaria Property was transferred in the name of the Foundation on April 28, 2011.

In accordance with the Deed of Donation, the Montemaria 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 was planned to consist of the 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 nonprofit activities and program 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 Montemaria Property will revert to SMPI.

On February 24, 2014, the Board of Trustees of the Foundation resolved to return the Montemaria Property to SMPI.

On October 2, 2015, SMPI and the Foundation signed a Deed of Rescission and Reconveyance of Property wherein the ownership over the Montemaria Property reverted back to SMPI. The title to the Donated Property was transferred back to SMPI on November 9, 2015. Accordingly, the Group recognized a gain amounting to P495, equivalent to the fair value of the Montemaria Property at the time of rescission of donation and reconveyance of property. The Montemaria Property is included as part of the additions to the "Investment property" account in the 2015 consolidated statement of financial position (Note 16).

b. On various dates in 2013, the Parent Company has repurchased the exchangeable 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.

c. *SMBB.* In 2015, the Group noted that fierce market competition resulted in the decline in the demand for its products in SMB's North China compared to previous sales forecasts. Consequently, operating losses were incurred. These factors are indications that non-current assets of SMB's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other tangible assets, may be impaired.

   The Group assessed the recoverable amounts of SMBB, the cash-generating unit to which these assets belong, and as the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of US$41.1 or P1,923, an impairment loss of US$21.6 or P1,011, was recognized as part of "Other Income (Charges)" account in the 2015 consolidated statement of income.

   The recoverable amount of the SMBB has been determined based on its value in use calculation. That calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 18 years, which is the remaining estimated useful life of the assets. Cash flows beyond the ten-year period are kept constant. Sales volume growth rate and pre-tax discount rate used for value in use calculations were 4.20% and 8.86%, respectively.

   Management determined the growth rate and gross contribution rate based on past experiences, future expected market trends and an intermediate holding company's import plan of beer brewed by the Group.

   As SMBB has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

d. *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 the consolidated statements of income in 2013.

e. In line with the Group's ongoing development of new products to cater to the evolving needs of its market, certain telecommunication equipment can no longer generate the expected cash inflow. The Group recognized a provision for impairment losses on the equipment amounting to P1,333.

f. "Others" consist of gain on redemption of Notes, 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.

34. 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	*37*	**2015**	**P1**	**P1**	**P5,816**	**P551**	On demand or less than 4 to 6 years;	Unsecured; no impairment
		2014	26	-	5,677	551	interest and non-interest bearing	
Retirement Plans	*10, 19, 36*	**2015**	**485**	**-**	**13,194**	**-**	On demand;	Unsecured;
		2014	216	-	12,686	-	interest bearing	no impairment
Associates	*10, 19, 21, 23*	**2015**	**1,940**	**119**	**452**	**28**	On demand;	Unsecured;
		2014	2,066	98	7,473	159	interest and non-interest bearing	no impairment
	20, 22	**2015**	**-**	**-**	**-**	**20,529**	Less than 1	Unsecured and
		2014	-	-	-	16,640	to 10 years; interest bearing	secured
JVC	*10,19, 21*	**2015**	**3**	**416**	**665**	**162**	On demand;	Unsecured;
		2014	-	83	674	1	non-interest bearing	no impairment
Shareholders in subsidiaries	*10, 21, 23*	**2015**	**222**	**77**	**108**	**2,763**	On demand;	Unsecured;
		2014	107	15	20	347	non-interest bearing	no impairment
Others	*10, 21, 23*	**2015**	**142**	**-**	**80**	**6,232**	On demand;	Unsecured;
		2014	92	-	6,931	46	non-interest bearing	no impairment
Total		**2015**	**P2,793**	**P613**	**P20,315**	**P30,265**		
Total		2014	P2,507	P196	P33,461	P17,744		

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 37).

c. The amounts owed to associates include interest bearing loans to BOC presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

d. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	**2015**	2014	2013
Short-term employee benefits		**P552**	P544	P489
Retirement benefits	*36*	**1**	(1)	(15)
Share-based payments	*40*	**-**	-	10
		P553	P543	P484

35. 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 Multi-purpose 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 IPPA 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 fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees for 2015, 2014 and 2013 amounted to P23,224, P30,776 and P31,269, respectively (Note 27). 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, 2016, January 25, 2016 and June 16, 2016, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2017.

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). In 2015 and 2014, PEMC's market fees charged to SMEC, SPDC and SPPC amounted to P220 and P234, respectively.

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, 2016, 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, SMELC 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. 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 with the capacity fees based on the contracted capacity even if there is no associated energy taken during the month.

SMEC, SPPC and SPDC purchases power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements.

d. *Coal Supply Agreements*

SMEC and SPI, through its operations and maintenance service provider, 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 WESM and a related party. 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. 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 RA No. 9136 of the EPIRA 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.

On January 24, 2014, SMC Global through its subsidiary, APEC, entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the SMC Global under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations: i) 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 (fixed concession fee); ii) 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; iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, 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)*

DAMI’s 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, 2015.

SEPC’s coal mining 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, 2015, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons.

BERI’s 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, 2015.

Status of Operations

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.*

On January 26, 2015, DOE granted the request by DAMI, SEPC and BERI for further extension of the moratorium of their work commitments under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium is retrospectively effective from January 1, 2013 and is valid 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.

- **Fuel and Oil**

a. 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 November 1, 2013 to December 1, 2014 with automatic annual extension 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, 2015 and 2014 (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 EXTAP, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

b. 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**

a. 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 salient features of the Concession Agreement are presented below:

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. As of December 31, 2015, TADHC has yet to pay the OMPS, 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 (Notes 22 and 34).

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 2015 and 2014, 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.

b. 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 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 salient features of the Concession Agreement are presented below:

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 issued by the Department of Finance. The Performance Undertaking 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 financial close on the Performance Undertaking was achieved in February 2016, which rendered the contract in the construction of the MRT 7 Project effective.

c. Toll Road Concession Agreements

(i) SLEX

On February 1, 2006, SLTC executed the Supplemental Toll Operation Agreement (STOA) with MATES, Philippine National Construction Corporation (PNCC) and the ROP through the TRB. The STOA authorizes SLTC by virtue of a joint venture to carry out the rehabilitation, construction and expansion of the SLEX, comprising of: Toll Road (TR)1 (Alabang viaduct), TR2 (Filinvest to Calamba, Laguna), TR3 (Calamba, Laguna to Sto. Tomas, Batangas) and TR4 (Sto. Tomas, Batangas to Lucena City). The concession granted shall expire 30 years from February 1, 2006.

On December 14, 2010, the TRB issued the Toll Operations Certificate for Phase 1 of the SLEX i.e., TR1, TR2 and TR3, and approved the implementation of SLTC's initial toll rate, for the said Phase 1. The initial toll rate had been implemented on a staggered basis from January to March 2011, with full implementation starting April 1, 2011.

SLTC entered into a MOA on the Interoperability of the Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang Hari-SLEX Connector Road) and the SLEX (MOA on Interoperability) and an accompanying Addendum to the MOA on Interoperability, both on July 21, 2015, with Ayala Corporation (Ayala). Ayala is the concession holder of MCX while Muntinlupa Cavite Expressway, Inc. is the facility operator of MCX.

The MOA on Interoperability and the addendum provide the framework that will govern the interface and integration of the technical operations and toll operation systems between the MCX and the SLEX, to ensure seamless travel access into MCX and SLEX for road users.

(ii) 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. 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 salient features of the Concession Agreement are presented below:

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, 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 P0.2, 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.

(iii) Skyway

- Skyway Stages 1 and 2

  On June 10, 1994, PNCC, the franchise holder for the construction, O&M of the proposed Metro Manila Expressway, including any and all extensions, linkages or stretches thereof, such as the proposed Skyway, and PT Citra Lamtoro Gung Persada (PT Citra), as joint proponents, submitted to the ROP through the TRB, the Joint Investment Proposal covering not only the proposed Skyway but also the planned Metro Manila Tollways. The said proposal embodied, among others, that PT Citra in cooperation with PNCC committed itself to finance, design and construct the skyway in three stages, consisting of: (a) South Metro Manila Skyway (SMMS) as Stages 1 and 2; (b) North Metro Manila Skyway and the Central Metro Manila Skyway as Stage 3; and (c) Metro Manila Tollways as Stage 4. The Joint Investment Proposal was approved by the TRB on November 27, 1995 and the STOA was executed on the same date by and among CMMTC, PNCC and the ROP acting through the TRB.

  Under the STOA, the design and the construction of the SMMS and the financing thereof, shall be the primary and exclusive privilege, responsibility and obligation of CMMTC as investor. On the other hand, the O&M of the SMMS shall be the primary and exclusive privilege, responsibility and obligation of PNCC, through its wholly owned subsidiary, the PNCC Skyway Corporation (PSC).

  On July 18, 2007, the STOA was amended, to cover among others, the implementation of Stage 2 of the SMMS (Stage 2); the functional and financial integration of Stage 1 of the SMMS (Stage 1) and Stage 2 upon the completion of the construction of Stage 2; and the grant of right to CMMTC to nominate to the TRB a qualified party to perform the O&M of the Project Roads to replace PSC. CMMTC, PNCC and PSC then entered into a MOA for the successful and seamless turnover of the O&M responsibilities for the SMMS from PSC to SOMCO.

  The Project Roads shall be owned by the Philippine Government, without prejudice to the rights and entitlement of the Investor and the Operator under the STOA. The legal transfer of ownership of the Project Roads to the Philippine Government shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction. The toll revenues are shared or distributed among CMMTC, SOMCO for the O&M of the Project Roads, and PNCC.

  The 30-year franchise period for the Integrated Stage 1 and Stage 2 commenced on April 25, 2011.

Under the STOA, CMMTC may file an application to adjust the toll rates which shall be of two kinds, namely periodic and provisional adjustments. Periodic adjustments for the Integrated Stage 1 and Stage 2 may be applied for every year. CMMTC may file an application for provisional adjustment upon the occurrence of a force majeure event or significant currency devaluation. A currency devaluation shall be deemed "significant" if it results in a depreciation of the value of the Philippine peso relative to the US dollar by at least 10%. The applicable exchange rate shall be the exchange rate between the currencies in effect as of the date of approval of the prevailing preceding toll rate.

- Skyway Stage 3 Project

  On June 10, 1994, PNCC, the franchise holder for the construction, operation, and maintenance of the proposed Skyway and Metro Manila Tollways, including any and all extensions, linkages, or stretches thereof, and PT Citra, as joint proponents, submitted to the ROP, through the TRB, the Joint Investment Proposal covering the proposed Skyway and Metro Manila Tollways. The Joint Investment Proprosal embodied, among others, the commitment of PT Citra, in cooperation with PNCC, through their Business and Joint Venture Agreement (BJVA) dated August 30, 1995, to finance, design, and construct the Skyway in three stages, consisting of: (a) South Metro Manila Skyway (SMMS) as Stages 1 and 2; (b) North Metro Manila Skyway and the Central Metro Manila Skyway as Stage 3; and (c) Metro Manila Tollways as Stage 4. The Joint Investment Proposal was approved by the TRB on November 27, 1995, and was updated through the Updated Joint Investment Proposal for the construction of the Project Road dated May 3, 2011, which was also approved by the TRB. On September 6, 2012, PNCC and PT Citra executed a Restated Second Supplement to the Business and Joint Venture Agreement for the implementation of the Project Road through CCEC, their new joint venture company.

  The Stage 3 STOA was executed on July 8, 2013 by and among the ROP as the Grantor, acting by and through the TRB, PNCC, CCEC as the Investor, and Central Metro Manila Skyway Corporation (CMMSC) as the Operator, wherein CCEC was granted the primary and exclusive privilege, responsibility, and obligation to design and construct the Project Road, and to finance the same, while CMMSC was granted the primary and exclusive privilege, responsibility, and obligation to operate and maintain the Project Road.

  The Project Road shall be owned by the Philippine Government, without prejudice to the rights and the entitlements of the Investor and of the Operator under the Stage 3 STOA. The legal transfer of ownership of the Project Road to the Philippine Government shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof.

  The franchise period for the Project Road is 30 consecutive years commencing from the issuance of the Toll Operation Certificate (TOC) for the entire Project Road to the Investor and/or the Operator. As at December 31, 2015, CCEC is in the construction stage of the Project Road.

Under the Stage 3 STOA, CCEC may apply for two kinds of adjustments on the toll rate for the Project Road, namely: (a) periodic and (b) provisional. A periodic adjustment may be applied for every two years, while a provisional adjustment may be applied upon the occurrence of an event of Force Majeure.

CCEC and CMMSC shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Project Road.

(iv) TPLEX

PIDC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain and impose and collect tolls from the users of 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 four-lane expressway will have nine toll plazas from start to end.

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.

The concession period shall be for a term of 35 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 opened the first section of the TPLEX Project from Tarlac to Gerona. The Section 1B from Gerona to Rosales was opened to motorists on December 23, 2013. The 49-km stretch from Gerona to Carmen was fully operational on April 16, 2014. The 14-km stretch from Carmen to Urdaneta was fully operational starting March 17, 2015. On the other hand, the last section from Urdaneta to Rosario is targeted for completion by 2017.

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.

(v) STAR

On June 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 following are the components and related activities 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, Phase II of the STAR Project toll road. Accordingly, the concession period is until 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 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.

d. Port Concession Agreements

On November 19, 2009, MNHPI entered into a Contract for the Development, Operation and Maintenance of the Manila North Harbor (the "Contract") with the Philippine Ports Authority (PPA), a Government agency. Under the Contract, the PPA grants MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor (MNH) for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. In consideration, MNHPI shall remit a fixed fee every quarter and submit a performance security to the PPA.

In this regard, MNHPI shall provide services and development based on the operation and volume requirement of the port and shall be allowed to collect fees and charges, as approved by the PPA. The fees to be charged by MNHPI shall be in accordance with the price policy and rate setting mechanism adopted by PPA and the laws and regulations promulgated by the government. Upon the expiration of the Contract or in the event of its termination or cancellation prior to its expiration, all existing improvements, structures, building and facilities at MNH permanent, constructed by or belonging to MNHPI shall automatically become the property of the PPA without any obligation to reimburse therefore, except for port equipment purchased five years prior to expiration or termination of the Contract wherein the PPA has option to either purchase or lease the same from MNHPI.

On April 12, 2010, the PPA turned over the operations of the MNH to MNHPI. MNHPI recognized as concession assets all costs directly related to the Contract and development of the port.

On March 21, 2011, MNHPI and the PPA entered into a Clarificatory Agreement to the Contract related to the implementation of some terms and conditions to harmonize and be consistent with the date of the turnover, which was on April 12, 2010, and ensure fairness to both parties concerned as follows: (a) the fixed fee is exclusive of VAT; (b) the performance security shall be equivalent to 60% of the annual fixed fee, which shall be reckoned from April 12, 2010; (c) establishment of the Portworker's Retirement and Separation Fund (PRSF) shall be within one year from April 12, 2010; (d) all rentals within the area of management, operation, development and maintenance of MNHPI from April 12, 2010 and thereafter shall accrue to MNHPI; and (e) applicable terms and conditions of the Contract shall become operative on April 12, 2010.

- **Telecommunications**

Congressional Franchises and Licenses Issued by the National Telecommunications Commission (NTC)

- BellTel

On March 25, 1994, the Philippine Congress passed RA No. 7692 which granted a 25-year 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, 2018.

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, 2018.

- 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.

- TTPI

a. *Local Exchange Carrier (LEC)*

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 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, 2015.

b. *Tori Spectrum*

On September 21, 2012, Tori Spectrum was granted an extension of its congressional franchise through 2037, including appropriate licenses, which allows it to provide various types of domestic and international communication service to the public.

Tori Spectrum’s operations are regulated by the NTC. Consequently, certain service offering and rate settings are approved by the NTC. Tori Spectrum has various radio-based stations nationwide.

- CTI

On September 3, 2009, CTI was granted an extension of its congressional franchise for another 25 years.

On October 28, 1997, the NTC, under NTC Case No. 87-39, granted a Certificate of Public Convenience and Necessity (CPCN) to CTI, co-terminus with its Franchise, to construct, install and operate CMTS nationwide.

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.

The IPPA Agreements provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group's IPPA Agreements with PSALM, the Group's management has made a judgment that the IPPA Agreements are agreements 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 P182,946 and P179,193 as of December 31, 2015 and P188,133 and P186,304 as of December 31, 2014, 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 P10,213, P10,718, and P10,984, in 2015, 2014 and 2013, respectively (Note 31).

The future minimum lease payments for each of the following periods are as follows:

2015

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$250**	**P11,774**	**P11,981**	**P23,755**
More than one year and not later than five years	**1,072**	**50,446**	**51,334**	**101,780**
Later than five years	**1,119**	**52,643**	**53,617**	**106,260**
	2,441	**114,863**	**116,932**	**231,795**
Less: Future finance charges on finance lease liabilities	**383**	**18,032**	**34,570**	**52,602**
Present values of finance lease liabilities	**US$2,058**	**P96,831**	**P82,362**	**P179,193**

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

The present values of minimum lease payments for each of the following periods are as follows:

2015

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$197**	**P9,275**	**P7,272**	**P16,547**
More than one year and not later than five years	**768**	**36,132**	**25,606**	**61,738**
Later than five years	**1,093**	**51,424**	**49,484**	**100,908**
	US$2,058	**P96,831**	**P82,362**	**P179,193**

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

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 P96 and P22 as of December 31, 2015 and 2014, respectively (Notes 4 and 15).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2015

	Minimum Lease Payable	**Interest**	**Principal**
Within one year	**P27**	**P6**	**P21**
After one year but not more than two years	**28**	**5**	**23**
More than two years	**47**	**4**	**43**
	P102	**P15**	**P87**

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

- 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:

	2015	2014	2013
Within one year	**P4,511**	P4,317	P322
After one year but not more than five years	**7,722**	12,003	544
After five years	**14**	25	43
	P12,247	P16,345	P909

Rent income recognized in the consolidated statements of income amounted to P1,258, P1,672 and P1,428 in 2015, 2014 and 2013, 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:

	2015	2014	2013
Within one year	**P2,317**	P1,930	P1,684
After one year but not more than five years	**4,592**	3,946	4,052
More than five years	**11,080**	10,706	9,357
	P17,989	P16,582	P15,093

Rent expense recognized in the consolidated statements of income amounted to P3,904, P3,673 and P3,347 in 2015, 2014 and 2013, respectively (Notes 4, 27 and 28).

36. 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, 2015. 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	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Balance at beginning of year	**P25,444**	P29,235	**(P26,925)**	(P26,013)	**(P2,786)**	(P4,051)	**(P4,267)**	(P829)
Benefit asset of (obligation) newly-acquired and disposed subsidiaries	**20**	-	**(312)**	-	**-**	-	**(292)**	-
Recognized in profit or loss								
Service costs		-	**(1,333)**	(1,258)	**-**	-	**(1,333)**	(1,258)
Interest expense		-	**(1,198)**	(1,148)	**-**	-	**(1,198)**	(1,148)
Interest income	**1,102**	1,297	**-**	-	**-**	-	**1,102**	1,297
Interest on the effect of asset ceiling	**-**	-	**-**	-	**(114)**	(178)	**(114)**	(178)
Settlements	**-**	-	**(21)**	96	**-**	-	**(21)**	96
	1,102	1,297	**(2,552)**	(2,310)	**(114)**	(178)	**(1,564)**	(1,191)
Recognized in other comprehensive income								
Remeasurements:								
Actuarial (gains) losses arising from:								
Experience adjustments	**-**	-	**(922)**	(1,167)	**-**	-	**(922)**	(1,167)
Changes in financial assumptions	**-**	-	**435**	(166)	**-**	-	**435**	(166)
Changes in demographic assumptions	**-**	-	**395**	537	**-**	-	**395**	537
Return on plan asset excluding interest	**(5,399)**	(4,756)		-	**-**	-	**(5,399)**	(4,756)
Changes in the effect of asset ceiling		-		-	**962**	1,443	**962**	1,443
	(5,399)	(4,756)	**(92)**	(796)	**962**	1,443	**(4,529)**	(4,109)
Others								
Contributions	**1,830**	1,692	**-**	-	**-**	-	**1,830**	1,692
Benefits paid	**(1,601)**	(2,040)	**1,657**	2,145	**-**	-	**56**	105
Transfers from other plans	**-**	-	**-**	-	**-**	-	**-**	-
Transfers to other plans	**-**	-	**6**	-	**-**	-	**6**	-
Other adjustments	**14**	16	**162**	49	**-**	-	**176**	65
	243	(332)	**1,825**	2,194	**-**	-	**2,068**	1,862
Balance at end of year	**P21,410**	P25,444	**(P28,056)**	(P26,925)	**(P1,938)**	(P2,786)	**(P8,584)**	(P4,267)

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 P26, P31 and P63 in 2015, 2014 and 2013, respectively (Note 30).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P1,590, P1,222 and P1,425 in 2015, 2014 and 2013, respectively (Note 30).

As of December 31, 2015, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,175 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P91 and P11,668, respectively (Notes 21 and 23).

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).

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2015 and 2014.

The Group's plan assets consist of the following:

	In Percentages	
	2015	2014
Investments in marketable securities and shares of stock	**72.74**	70.11
Investments in pooled funds:		
Fixed income portfolio	**8.68**	7.47
Stock trading portfolio	**6.11**	5.78
Investments in real estate	**0.54**	0.49
Others	**11.93**	16.15

Investments in Marketable Securities

As of December 31, 2015, the plan assets include:

- 25,146,517 common shares and 32,511,970 Subseries "2-B", 2,666,700 Subseries "2-D", 4,000,000 Subseries "2-E" and 8,000,000 Subseries "2-F" Preferred Shares of the Parent Company with fair market value per share of P49.90, P77.40, P85.00, P76.00 and P79.90, respectively;

- 731,516,097 common shares and 290,470 preferred shares of Petron with fair market value per share of P6.99 and P1,070.00, respectively;

- 20,459,785 common shares of GSMI with fair market value per share of P12.28;

- 226,998 common shares and 300,000 preferred shares of SMPFC with fair market value per share of P129.00 and P1,029.00, 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 P67.60.

As of December 31, 2014, the plan assets include:

- 21,733,617 common shares and 6,661,840 Subseries "2-A" and 32,511,970 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.

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 losses on the investment in marketable securities of Top Frontier, Parent Company and its subsidiaries amounting to P3,183 and P3,993 in 2015 and 2014, respectively.

Dividend income from the investment in shares of stock of Parent Company and its subsidiaries amounted to P350, P365 and P713 in 2015, 2014 and 2013, respectively.

Investments in Shares of Stock

a. BOC

San Miguel Corporation Retirement Plan (SMCRP) has 39.94% equity interest in BOC representing 44,834,286 common shares, accounted for under the equity method amounting to P9,938 and P10,164 as of December 31, 2015 and 2014, respectively. SMCRP recognized its share in total comprehensive income (loss) of BOC amounting to (P226) and P1,093 in 2015 and 2014, respectively (Note 13).

b. PAHL

Petron Corporation Employees Retirement Plan (PCERP) has an investment in PAHL with a carrying amount of P1,472 and P1,553 equivalent to 53% and 54% equity interest as of December 31, 2015 and 2014, respectively.

PCERP recognized its share in net losses amounting to P81 and P107 in 2015 and 2014, respectively.

c. BPI

The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in BPI representing 4,708,494 preferred shares as of December 31, 2015 and 2014.

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 6% 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, 2015 and 2014.

Approximately 64% and 49% 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, 2015 and 2014, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties as of December 31, 2015 and 2014.

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 P2,329 to the Retirement Plans in 2016.

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	
	2015	2014
Discount rate	**4.11 - 9.00**	3.44 - 8.80
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 31.36 years and 1.5 to 27.78 years as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, 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			
	2015		2014	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P1,085)**	**P1,263**	(P1,108)	P1,281
Salary increase rate	**1,141**	**(1,002)**	1,138	(1,009)

The outstanding balances of the Group's receivables from the retirement plans are as follows:

a. Petron has advances to PCERP amounting to P6,597 and P6,263 as of December 31, 2015 and 2014, 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 2015 and 2014 (Note 32).

b. The Parent Company has advances to SMCRP amounting to P6,597 and P6,423 as of December 31, 2015 and 2014, 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 2015 and 2014 (Note 32).

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as of December 31, 2015 and 2014 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, 2015, 2014 and 2013.

37. Cash Dividends

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

	Date of Declaration	**Date of Record**	**Date of Payment**	**Dividend per Share**
Common				
	April 22, 2015	May 8, 2015	May 20, 2015	**P0.35**
	July 14, 2015	July 31, 2015	August 14, 2015	**0.35**
	September 17, 2015	October 9, 2015	November 4, 2015	**0.35**
	December 10, 2015	January 8, 2016	February 2, 2016	**0.35**
Preferred				
SMC2A	May 14, 2015	May 29, 2015	June 11, 2015	**1.40625**
	August 20, 2015	September 11, 2015	September 21, 2015	**1.40625**
SMC2B	May 14, 2015	May 29, 2015	June 11, 2015	**1.4296875**
	August 20, 2015	September 11, 2015	September 21, 2015	**1.4296875**
	November 10, 2015	December 17, 2015	December 29, 2015	**1.4296875**
SMC2C	May 14, 2015	May 29, 2015	June 11, 2015	**1.50**
	August 20, 2015	September 11, 2015	September 21, 2015	**1.50**
	November 10, 2015	December 17, 2015	December 29, 2015	**1.50**
SMC2D	November 10, 2015	December 17, 2015	December 29, 2015	**1.11433125**
SMC2E	November 10, 2015	December 17, 2015	December 29, 2015	**1.18603125**
SMC2F	November 10, 2015	December 17, 2015	December 29, 2015	**1.27635**
SMCP1	June 9, 2015	June 26, 2015	July 8, 2015	**1.0546**
	August 20, 2015	September 11, 2015	September 21, 2015	**1.0565625**
	November 10, 2015	December 17, 2015	December 29, 2015	**1.0565625**

	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common				
	April 10, 2014	April 29, 2014	May 16, 2014	P0.35
	June 10, 2014	June 27, 2014	July 21, 2014	0.35
	September 18, 2014	October 17, 2014	November 7, 2014	0.35
	December 11, 2014	January 7, 2015	February 2, 2015	0.35
Preferred				
SMC2A	May 12, 2014	June 13, 2014	June 27, 2014	1.40625
	May 12, 2014	September 11, 2014	September 26, 2014	1.40625
	November 10, 2014	November 28, 2014	December 23, 2014	1.40625
	November 10, 2014	February 27, 2015	March 25, 2015	1.40625
SMC2B	May 12, 2014	June 13, 2014	June 27, 2014	1.4296875
	May 12, 2014	September 11, 2014	September 26, 2014	1.4296875
	November 10, 2014	November 28, 2014	December 23, 2014	1.4296875
	November 10, 2014	February 27, 2015	March 25, 2015	1.4296875
SMC2C	May 12, 2014	June 13, 2014	June 27, 2014	1.50
	May 12, 2014	September 11, 2014	September 26, 2014	1.50
	November 10, 2014	November 28, 2014	December 23, 2014	1.50
	November 10, 2014	February 27, 2015	March 25, 2015	1.50

38. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	Note	**2015**	2014	2013
Income attributable to equity holders of the Parent Company		**P12,448**	P15,137	P38,517
Dividends on preferred shares for the year	*25, 37*	**(6,425)**	(6,106)	(6,106)
Net income attributable to common shareholders of the Parent Company (a)		**P6,023**	P9,031	P32,411
Weighted average number of common shares outstanding (in millions) - basic (b)		**2,378**	2,378	2,378
Effect of dilution - common	*40*	**7**	13	14
Weighted average number of common shares outstanding (in millions) - diluted (c)		**2,385**	2,391	2,392
Earnings per common share attributable to equity holders of the Parent Company				
Basic (a/b)		**P2.53**	P3.80	P13.63
Diluted (a/c)		**2.53**	3.78	13.55

39. 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):

	2015	2014	2013
Trade and other receivables - net	**P24,144**	P3,454	(P21,181)
Inventories	**21,854**	(3,918)	1,797
Prepaid expenses and other current assets	**(13,381)**	(13,930)	(2,604)
Accounts payable and accrued expenses	**(31,670)**	451	27,882
Income and other taxes payable and others	**(7,094)**	(909)	(10,899)
Changes in noncash current assets, certain current liabilities and others	**(P6,147)**	(P14,852)	(P5,005)

b. Acquisition of subsidiaries (Note 5)

	Note	**2015**	2014	2013
Cash and cash equivalents		**P23,183**	P1,022	P1,477
Trade and other receivables - net		**7,496**	86	2,450
Inventories		**508**	-	1,048
Prepaid expenses and other current assets		**4,020**	213	1,407
Property, plant and equipment - net		**4,969**	1,184	3,078
Other intangible assets - net		**83,886**	165	25,837
Deferred tax assets		**160**	9	144
Other noncurrent assets - net		**813**	2	72
Loans payable		**(2,345)**	-	(1,792)
Accounts payable and accrued expenses		**(21,093)**	(1,309)	(6,209)
Income and other taxes payable		**(726)**	(2)	(2)
Dividends payable		**(373)**	-	-
Long-term debt - net of debt issue costs		**(49,886)**	-	(8,069)
Deferred tax liabilities		**(5,165)**	-	(740)
Finance lease liabilities		**(75)**	-	-
Other noncurrent liabilities		**(12,872)**	-	(11,376)
Non-controlling interests		**(10,715)**	(32)	(3,351)
Net assets		**21,785**	1,338	3,974
Cash and cash equivalents		**(23,183)**	(1,022)	(1,477)
Goodwill in subsidiaries	*4, 5, 18*	**18,918**	7	1,572
Investment and advances		**(24,302)**	(21)	(3,569)
Equity reserve		**-**	-	12
Net cash flows		**(P6,782)**	P302	P512

40. 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 P54 and P109 as of December 31, 2015 and 2014, 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 P70 and P157 as of December 31, 2015 and 2014, 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, 2015 and 2014, 3,478,400 common shares under the ESPP, were cancelled and held in treasury (Note 25).

There were no shares offered under the ESPP in 2015 and 2014.

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 ten-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 2015 and 2014.

Options to purchase 6,801,369 shares and 13,278,578 shares in 2015 and 2014, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 6,477,209 shares and 382,278 shares in 2015 and 2014, 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 2nd year and the remaining option lot is fully vested on the 3rd 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:

		2015		2014	
	Note	**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		**9,410,620**	**P70.25**	9,716,435	P70.75
Exercised during the year	*25*	**(85,272)**	**60.01**	(101,241)	53.21
Expired during the year		**(3,595,930)**	**64.85**	(204,574)	102.54
Number of shares at end of year		**5,729,418**	**73.79**	9,410,620	70.25
Class "B"					
Number of shares at beginning of year		**3,867,958**	**67.30**	3,944,421	67.20
Exercised during the year	*25*	**(294,572)**	**74.88**	(39,687)	58.08
Expired during the year		**(2,501,435)**	**75.48**	(36,776)	66.25
Number of shares at end of year		**1,071,951**	**46.15**	3,867,958	67.30

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, 2015 and 2014, 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, 2015 and 2014.

Share-based payment charged to operations, included under “Administrative expenses - personnel expenses” account, amounted to P1 in 2015 and 2014 and P95 in 2013, respectively (Note 28).

41. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

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

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

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

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,933, P1,655 and P1,579 in 2015, 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, 2015	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	**P6,060**	**P29,399**	**P9,643**	**P23,426**	**P13,730**	**P58,854**	**P141,112**
Interest rate	**5.65% - 8.74899%**	**5.65% - 8.74899%**	**5.65% - 8.74899%**	**5.50% - 10.50%**	**4.9925% - 8.74899%**	**5.50% - 8.74899%**	
Foreign currency-denominated (expressed in Philippine peso)	**14,021**	**-**	**-**	**-**	**-**	**24,301**	**38,322**
Interest rate	**7% - 13.27%**	**-**	**-**	**-**	**-**	**4.875%**	
Floating Rate							
Philippine peso-denominated	**1,096**	**1,215**	**1,303**	**1,059**	**545**	**1,915**	**7,133**
Interest rate	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or 5,75%, whichever is higher**	**PDST-R + margin or 5.75%, whichever is higher**	
Foreign currency-denominated (expressed in Philippine peso)	**16,672**	**11,181**	**126,410**	**11,046**	**20,901**	**-**	**186,210**
Interest rate	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin,**		
	P37,849	**P41,795**	**P137,356**	**P35,531**	**P35,176**	**P85,070**	**P372,777**

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

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, 2015		December 31, 2014	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,766**	**P83,084**	US$2,761	P123,571
Trade and other receivables	**866**	**40,098**	900	40,264
Prepaid expenses and other current assets	**56**	**2,578**	26	1,150
Noncurrent receivables	**43**	**2,007**	184	8,199
	2,731	**127,767**	3,871	173,184
Liabilities				
Loans payable	**356**	**16,774**	808	36,109
Accounts payable and accrued expenses	**851**	**40,064**	1,220	54,576
Long-term debt (including current maturities)	**4,770**	**224,532**	4,378	195,790
Finance lease liabilities (including current portion)	**2,058**	**96,843**	2,218	99,169
Other noncurrent liabilities	**1**	**33**	713	31,912
	8,036	**378,246**	9,337	417,556
Net foreign currency-denominated monetary liabilities	**(US$5,305)**	**(P250,479)**	(US$5,466)	(P244,372)

The Group reported losses on foreign exchange - net amounting to P12,081, P2,412 and P19,436 in 2015, 2014 and 2013, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 33). 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, 2015	**47.060**
December 31, 2014	44.720
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.

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

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2014	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P2,242)	(P2,091)	P2,242	P2,091
Trade and other receivables	(261)	(821)	261	821
Prepaid expenses and other current assets	(26)	(18)	26	18
Noncurrent receivables	(166)	(135)	166	135
	(2,695)	(3,065)	2,695	3,065
Loans payable	454	675	(454)	(675)
Accounts payable and accrued expenses	494	1,069	(494)	(1,069)
Long-term debt (including current maturities)	4,292	3,091	(4,292)	(3,091)
Finance lease liabilities (including current portion)	2,218	1,552	(2,218)	(1,552)
Other noncurrent liabilities	637	522	(637)	(522)
	8,095	6,909	(8,095)	(6,909)
	P5,400	P3,844	(P5,400)	(P3,844)

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

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	129,238	129,238	129,238	-	-	-
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 exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

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

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

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

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

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

	Note	**2015**	2014
Cash and cash equivalents (excluding cash on hand)	*9*	**P178,581**	P255,786
Trade and other receivables - net	*10*	**100,727**	129,238
Option deposit	*12*	**-**	1,118
Derivative assets	*12*	**391**	360
Financial assets at FVPL	*12*	**147**	136
AFS financial assets	*12, 14*	**41,616**	41,890
Noncurrent receivables and deposits - net	*19*	**9,389**	14,967
Restricted cash	*12, 19*	**5,661**	2,659
		P336,512	P446,154

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

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

Financial and Other Risks Relating to Livestock

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

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

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

Capital Management

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

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

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

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

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

42. 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, 2015		December 31, 2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P180,758**	**P180,758**	P258,606	P258,606
Trade and other receivables - net	**100,727**	**100,727**	129,238	129,238
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)	**391**	**391**	360	360
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**147**	**147**	136	136
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**41,616**	**41,616**	41,890	41,890
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**9,389**	**9,389**	14,967	14,591
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**5,661**	**5,661**	2,659	2,659
Financial Liabilities				
Loans payable	**146,859**	**146,859**	180,059	180,059
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	**99,794**	**99,794**	121,371	121,371
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**2,581**	**2,581**	325	325
Long-term debt (including current maturities)	**368,377**	**392,690**	302,988	327,077
Finance lease liabilities (including current portion)	**179,280**	**179,280**	186,330	186,330
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**18,371**	**18,371**	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 2.4% to 4.6% and 2.5% to 4.3% as of December 31, 2015 and 2014, respectively. The discount rates used for foreign currency-denominated loans range from 0.4% to 9.1% and 0.2% to 2.1% as of December 31, 2015 and 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 Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Interest Rate Swap

As of December 31, 2015, the Group has outstanding interest rate swap with notional amount of US$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P632 as of December 31, 2015. The Group has no outstanding interest rate swap as of December 31, 2014.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,013 and US$1,673 as of December 31, 2015 and 2014, respectively, and with various maturities in 2016 and 2015. The net negative fair value of these currency forwards amounted to P202 as of December 31, 2015 while the fair value of currency forwards as of December 31, 2014 is minimal.

Currency Options

As of December 31, 2015 and 2014, the Group has outstanding currency options with an aggregate notional amount of US$565 and US$245, respectively, and with various maturities in 2016 and 2015. The net negative fair value of these currency options amounted to P1,232 and P140 as of December 31, 2015 and 2014, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2016 and 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 1,150 and 610 metric tons as of December 31, 2015 and 2014, respectively. The net negative fair value of these swaps amounted to P2 as of December 31, 2015 and 2014.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2016 and 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 10.9 and 6.6 million barrels as of December 31, 2015 and 2014, respectively. The positive (negative) fair value of these swaps amounted to (P39) and P1,398 as of December 31, 2015 and 2014, respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with notional quantity of 5,987 metric tons as of December 31, 2014. 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 December 31, 2014. As of December 31, 2015, the Group has no outstanding commodity options on the purchase of wheat.

As of December 31, 2015 and 2014, the Group has no outstanding commodity options on the purchase of soybean meals.

The Group has no outstanding 3-way options designated as hedge of forecasted purchases of crude oil as of December 31, 2015 and 2014.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

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$173 and US$152 as of December 31, 2015 and 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 P83 and P54 as of December 31, 2015 and 2014, respectively.

Embedded Currency Options
The total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$1 as of 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 P1 as of December 31, 2014.

The Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P3,971, P7,513 and P2,448 in 2015, 2014 and 2013, respectively (Note 33).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2015	2014
Balance at beginning of year	**P35**	P226
Net change in fair value of non-accounting hedges	**3,971**	7,513
	4,006	7,739
Less fair value of settled instruments	**6,196**	7,704
Balance at end of year	**(P2,190)**	P35

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, 2015			December 31, 2014		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P391**	**P391**	P -	P360	P360
Financial assets at FVPL	**-**	**147**	**147**	-	136	136
AFS financial assets	**407**	**41,209**	**41,616**	533	41,357	41,890
Financial Liabilities						
Derivative liabilities	**-**	**2,581**	**2,581**	-	325	325

The Group has no financial instruments valued based on Level 3 as of December 31, 2015 and 2014. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

43. Registration with the Board of Investments (BOI)

a. SMC Global

SEPC

On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investments 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 up to July 31, 2014, 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

SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. As of December 31, 2015, SMCPC and SCPC have pending requests with the BOI to move the start of commercial operations. The ITH incentives 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. For the subsequent years, BOI issued new Certificates of Authority dated March 6 and September 4, 2014 and June 9 and August 26, 2015 to SMCPC and February 6, 2015 and February 11, 2016 to SCPC, 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 consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives.

<u>GBGTC</u>
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 Investments Code, 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.

<u>SMFI</u>
SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Project) was registered with the BOI on a pioneer status as New Producer of Hogs on July 30, 2008 under Registration No. 2008-192. In accordance with the provisions of the Investments Code, the Sumilao Project was entitled to incentives which include, among others, ITH for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao Project ended in January 31, 2015. As of reporting date, SMFI is completing the requirements to avail of the two-year ITH bonus year.

c. Petron

<u>Benzene, Toluene and Propylene Recovery Units</u>
On October 20, 2005, Petron registered with the BOI under the Investments Code 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 ten-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 (1% 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.

<u>Fluidized Bed Catalytic Cracker (PetroFCC) Unit</u>
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 3% 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 3% 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 ten-year period from date of registration.

f. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.

g. Exemption from real property tax on production equipment or machinery.

h. Exemption from contractor's tax.

PetroFCC entitlement period ended in February 2013 and registration with BOI was cancelled on July 4, 2013.

70 MW Coal-Fired Power Plant (Limay, Bataan)
On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Investments Code. 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, but in no case earlier than the date of registration, 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 0% 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 is based on the formula of the ITH rate of exemption.

b. Minimum duty of 3% 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 3% duty imposed on the imported counterpart.

e. Exemption from real property tax on production equipment or machinery.

f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016.

<u>70 MW Solid Fuel-Fired Power Plant</u>
On February 14, 2013, Petron registered with the BOI as an expanded operator of a 70 MW Solid Fuel-Fired Power Plant on a pioneer status under the Investments Code. 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, but in no case earlier than the date of registration 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. 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 (M/V 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.

e. SLHBTC

In 2014, SLHBTC's registration with the BOI as an oil terminal for storage and bulk marketing of petroleum products was granted. With the registration, SLHBTC is entitled to the following incentives under the Downstream Oil Industry Deregulation Act (RA No. 8740, New Industry Participant with New Investment) from March 14, 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of the registration, and upon fulfillment of the terms enumerated below:

a. ITH. SLHBTC is entitled to ITH for five years without extension from December 2013 or actual start of operations, whichever is earlier, but in no case earlier than the date of registration. Only income directly attributable to the revenue generated from the registered project (Storage, and Bulk Marketing of 35,000,000 liters of petroleum products covered by Import Entry Declaration or sourced locally from new industry participants) pertaining to the capacity of the registered storage terminal shall be qualified for the ITH.

b. Additional Deduction from Taxable Income. SLHBTC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Minimum Duty of 3% and VAT on Imported Capital Equipment. Importation of brand new capital equipment, machinery and accompanying spare parts, shall be entitled to this incentive subject to the following conditions:

- they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;

- the equipment is reasonably needed and will be exclusively used in the registered activity; and

- prior BOI approval is obtained for the importation as endorsed by the DOE.

d. Tax Credit on Domestic Capital Equipment. This shall be granted on locally fabricated capital equipment equivalent to the difference between the tariff rate and the 3% duty imposed on the imported counterpart.

e. Importation of Consigned Equipment. SLHBTC is entitled for importation of consigned equipment for a period of five years from the date of registration subject to posting of the appropriate bond, provided that such consigned equipment shall be for the exclusive use of the registered activity.

f. Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse. SLHBTC is entitled to this exception upon compliance with the following requirements:

  - at least 70% of production is imported;

  - such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and

  - all such spare and supplies shall be used only on bonded manufacturing warehouse on the registered enterprise under such requirements as the Bureau of Customs may impose.

g. Exemption from Real Property Tax on Production Equipment or Machinery. Equipment and machineries shall refer to those reasonably needed in the operations of the registered enterprise and will be used exclusively in its registered activity. BOI Certification to the appropriate Local Government Unit will be issued stating therein the fact of the applicant's registration with the BOI.

h. Exemption from the Contractor's Tax. BOI certification to the BIR will be issued stating therein the fact of the applicant's registration with the BOI.

i. Employment of Foreign Nationals. This may be allowed in supervisory, technical or advisory positions for five years from date of registration. The President, General Manager and Treasurer of foreign-owned registered enterprise or their equivalent shall not be subject to the foregoing limitations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of 10 years from March 14, 2013 and/or actual start of commercial operations.

44. Event After the Reporting Date

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

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

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

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

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

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

45. 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, 2015, 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. In December 2015, SMB filed its seventh claim for refund with the CTA under case number 9223, for refund of overpayments for the period of January 1, 2014 to December 31, 2014. The said case is still undergoing trial.

- 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 royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular 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 on January 7, 2013, the BIR denied IBI's protest and reiterated its 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 was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA En Banc and the case was docketed as CTA EB Case No. 1417. The petition is pending before the CTA *En Banc*.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (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 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 No. 8813. The case has been submitted for decision.

- Tax Credit Certificates Cases

  In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its 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, 2015.

- 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. In December 2002, 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 (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. Petron filed with the RTC a Notice of Appeal to the CTA on January 23, 2013. The parties have filed their respective briefs. As of December 31, 2015, the appeal remained pending.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinment of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance No. 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 and implemented full relocation of their fuel storage facilities within six months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by Petron, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, Petron filed its submission in compliance with the November 25 Decision.

- 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.

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 amounted to P292. The cases were pending as of December 31, 2015.

- Dispute between SPPC and PSALM

SPPC and PSALM are parties to the IPPA Agreement (the "Ilijan IPPA Agreement") covering the appointment of SPPC as the independent power producer administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments, calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bonafide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court of Mandaluyong City. In its Complaint, SPPC requested the Court that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (the "TRO") be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the Court issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the Court issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. Currently pending for resolution of the Court are: 1) PSALM's Motion for Reconsideration of the Order granting the Preliminary Injunction; and 2) PSALM's Motion to Dismiss. The preliminary conference among the parties scheduled on February 18, 2016 was reset to April 14, 2016.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its Power Supply Agreement with the latter.

By virtue of the Preliminary Injunction issued by the Court, SPPC continues to be the IPPA for the Ilijan Power Plant.

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. *Commitments*

The outstanding purchase commitments of the Group amounted to P88,827 as of December 31, 2015.

Amount authorized but not yet disbursed for capital projects is approximately P87,610 as of December 31, 2015.

d. *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 P47.06 and P44.72 in 2015 and 2014, respectively, for consolidated statements of financial position accounts; and average rates of P45.50, P44.39 and P42.43 in 2015, 2014 and 2013, respectively, for income and expense accounts.

e. *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.

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 up to May 2016. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders. The case is still pending resolution with the Court as of December 31, 2015.

f. *Electric Power Industry Reform Act of 2001*

R.A 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.

g. 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.

ANNEX "C"

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

Branches: Subic · Cebu · Bacolod · Iloilo

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

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation (the "Company") and Subsidiaries (the "Group") as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, and have issued our report thereon dated March 17, 2016.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Company taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations
- Financial Ratios
- Supplementary Schedules of Annex 68-E

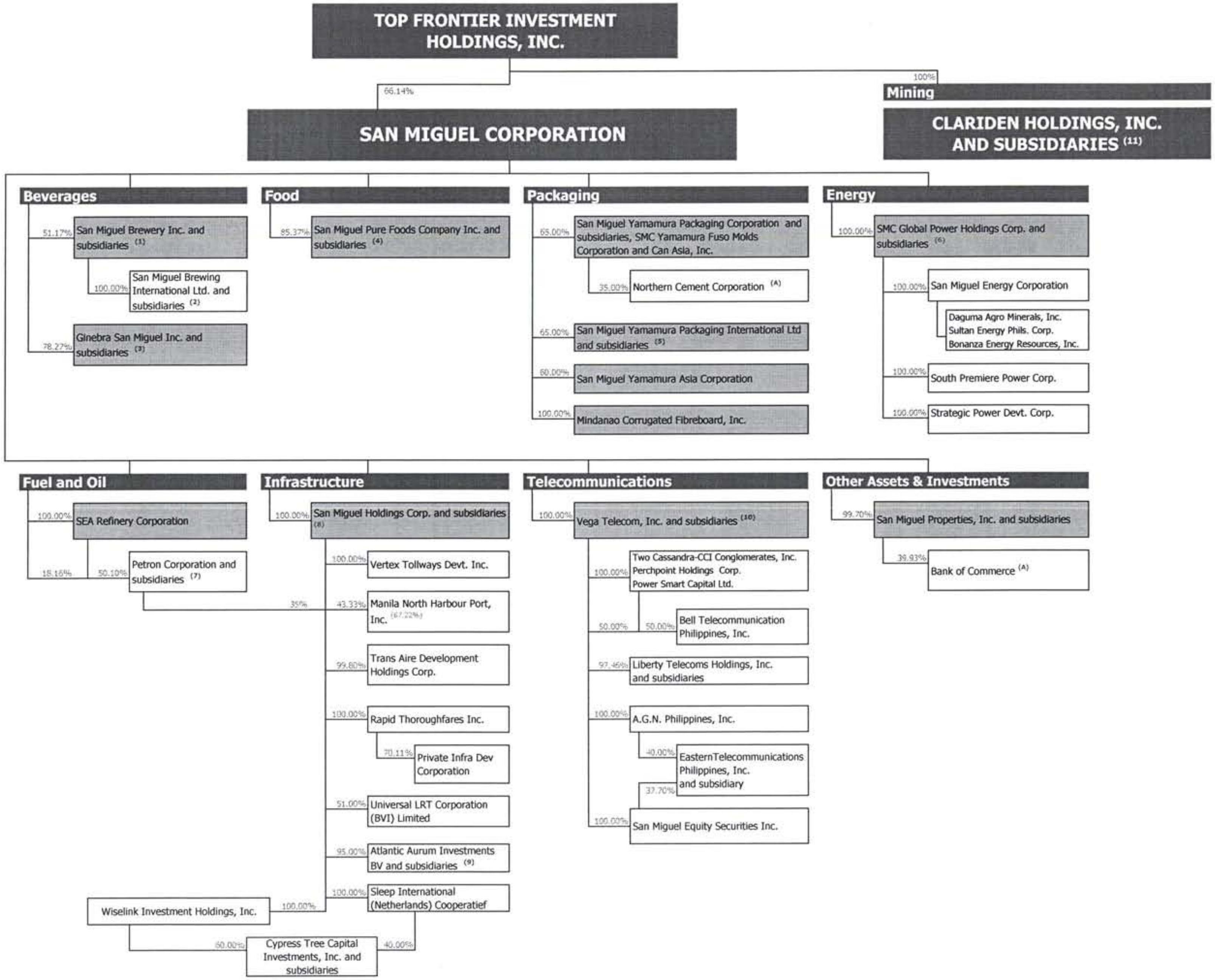
This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-4, Group A, valid until August 24, 2018
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2013
Issued May 9, 2013; valid until May 8, 2016
PTR No. 5321509MD
Issued January 4, 2016 at Makati City

March 17, 2016
Makati City, Metro Manila

SAN MIGUEL CORPORATION
GROUP STRUCTURE *



* The group structure includes the parent company, Top Frontier Investment Holdings, Inc., its co-subsidiary, Clariden Holdings, Inc. and its subsidiaries and San Miguel Corporation's major subsidiaries and associates.

Note:
(A) Associate

I. Subsidiaries

1. San Miguel Brewery Inc. subsidiaries also include Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary

2. San Miguel Brewing International Ltd. subsidiaries include San Miguel Brewery Hong Kong Limited and subsidiaries, PT Delta Djakarta Tbk and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited

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 and San Miguel Pure Foods International, Limited and subsidiaries (including San Miguel Pure Foods Investment (BVI) Limited and subsidiary and San Miguel Pure Foods (Vn) Co., Ltd. formerly 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. and subsidiary, SMC Power Generation Corp., 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. and subsidiaries including Petron Fuel International Sdn. 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 include Optimal Infrastructure Development, Inc., Terramino Holdings, Inc. and subsidiary and Alloy Manila Toll Expressways Inc.

9. Atlantic Aurum Investments B.V. subsidiaries include Stage 3 Connector Tollways Holding Corp. and subsidiary, Citra Central Expressway Corp., Atlantic Aurum Investments Philippines Corporation and subsidiary, Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. and subsidiaries, Manila Toll Expressway Systems Inc. and South Luzon Tollway Corporation

10. Vega Telecom Inc. subsidiaries also include CobaltPoint Telecom, Inc. (formerly Express Telecommunications Company, Inc.) and Trans Digital Excel Inc.

II. Co-Subsidiary

11. Clariden Holdings, Inc. subsidiaries include V.I.L. Mines, Incorporated, Asia-Alliance Mining Resources Corp., Prima Lumina Gold Mining Corp., Excelon Asia Holding Corporation, New Manila Properties Inc. and Philnico Holdings, Ltd. and subsidiaries including Pacific Nickel Philippines, Inc., Philnico Industrial Corporation and Philnico Processing Corp. (collectively the Philnico Group)

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

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

Branches: Subic · Cebu · Bacolod · Iloilo

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the separate financial statements of San Miguel Corporation (the "Company"), which comprise the separate statements of financial position as at December 31, 2015 and 2014, and the separate statements of income, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and have issued our report thereon dated March 17, 2016.

Our audits were made for the purpose of forming an opinion on the separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the separate financial statements. Such information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

R.G. MANABAT & CO.

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-4, Group A, valid until August 24, 2018
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2013
Issued May 9, 2013; valid until May 8, 2016
PTR No. 5321509MD
Issued January 4, 2016 at Makati City

March 17, 2016
Makati City, Metro Manila

SAN MIGUEL CORPORATION
No. 40 San Miguel Avenue, Mandaluyong City
RECONCILIATION OF RETAINED EARNINGS
FOR DIVIDEND DECLARATION
(In millions)

Unappropriated Retained Earnings, January 1, 2015	**P150,563**
Adjustments:	
(see adjustments in previous year's reconciliation)	**(70,034)**
Unappropriated Retained Earnings, as adjusted, January 1, 2015	**80,529**
Add: Net income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	**6,209**
Deferred tax asset	**(1,665)**
Net income actually earned during the period	**4,544**
	85,073
Add (Less):	
Dividend declarations during the period	**(8,325)**
Reclassification to unappropriated retained earnings	**3,310**
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, DECEMBER 31, 2015	**P80,058**

SAN MIGUEL CORPORATION AND SUBSIDIARIES

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✔		
PFRSs Practice Statement Management Commentary		✔		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✔		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✔		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✔
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✔
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✔
	Amendments to PFRS 1: Government Loans			✔
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✔
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✔
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✔
PFRS 2	Share-based Payment	✔		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✔		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✔		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'	✔		
PFRS 3 (Revised)	Business Combinations	✔		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration	✔		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements	✔		
PFRS 4	Insurance Contracts	✔		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✔		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✔		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal*			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 6	Exploration for and Evaluation of Mineral Resources	✔		
PFRS 7	Financial Instruments: Disclosures	✔		
	Amendments to PFRS 7: Transition	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✔		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✔		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✔		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✔		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*			
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts*			
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements*			
PFRS 8	Operating Segments	✔		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✔		
PFRS 9	Financial Instruments*			
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39*			
PFRS 9 (2014)	Financial Instruments*			
PFRS 10	Consolidated Financial Statements	✔		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✔		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✔
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception*			
PFRS 11	Joint Arrangements	✔		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✔		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations*			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✔		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✔		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✔
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception*			
PFRS 13	Fair Value Measurement	✔		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✔		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception	✔		
PFRS 14	Regulatory Deferral Accounts*			
PFRS 16	Leases*			
IFRS 15	Revenue from Contracts with Costumers*			
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✔		
	Amendment to PAS 1: Capital Disclosures	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✔		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✔		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✔		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✔		
	Amendments to PAS 1: Disclosure Initiative*			
PAS 2	Inventories	✔		
PAS 7	Statement of Cash Flows	✔		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✔		
PAS 10	Events after the Reporting Period	✔		
PAS 11	Construction Contracts	✔		
PAS 12	Income Taxes	✔		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✔		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment	✔		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)*			
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*			
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants*			
PAS 17	Leases	✔		
PAS 18	Revenue	✔		
PAS 19 (Amended)	Employee Benefits	✔		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✔		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone*			
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✔
PAS 21	The Effects of Changes in Foreign Exchange Rates	✔		
	Amendment: Net Investment in a Foreign Operation	✔		
PAS 23 (Revised)	Borrowing Costs	✔		
PAS 24 (Revised)	Related Party Disclosures	✔		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✔
PAS 27 (Amended)	Separate Financial Statements	✔		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✔
	Amendments to PAS 27: Equity Method in Separate Financial Statements *			
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✔		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception*			
PAS 29	Financial Reporting in Hyperinflationary Economies			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✔		
	Amendment to PAS 32: Classification of Rights Issues	✔		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✔		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions	✔		
PAS 33	Earnings per Share	✔		
PAS 34	Interim Financial Reporting	✔		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities	✔		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"*			
PAS 36	Impairment of Assets	✔		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✔		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔		
PAS 38	Intangible Assets	✔		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✔
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*			
PAS 39	Financial Instruments: Recognition and Measurement	✔		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✔		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✔		
	Amendments to PAS 39: The Fair Value Option	✔		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✔		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✔		
	Amendment to PAS 39: Eligible Hedged Items	✔		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✔		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)	✔		
PAS 41	Agriculture	✔		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants*			
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✔		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✔
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✔		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✔		
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✔
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✔
IFRIC 9	Reassessment of Embedded Derivatives	✔		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✔		
IFRIC 10	Interim Financial Reporting and Impairment	✔		
IFRIC 12	Service Concession Arrangements	✔		
IFRIC 13	Customer Loyalty Programmes	✔		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✔		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✔		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✔		
IFRIC 17	Distributions of Non-cash Assets to Owners	✔		
IFRIC 18	Transfers of Assets from Customers	✔		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✔		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	✔		
IFRIC 21	Levies	✔		
SIC-7	Introduction of the Euro			✔
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✔
SIC-15	Operating Leases - Incentives	✔		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✔
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✔		
SIC-29	Service Concession Arrangements: Disclosures.	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✔
SIC-32	Intangible Assets - Web Site Costs			✔
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts	✔		
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	✔		
PIC Q&A 2007-01-Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✔
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✔
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✔
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✔
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✔		
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✔
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern	✔		
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✔		
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✔		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan	✔		
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position	✔		
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✔		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✔		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✔		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	✔		
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?	✔		
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building	✔		
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✔
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✔		
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✔		

*These standards or amendments will become effective subsequent to December 31, 2015. The Group will adopt these new and amended standards on the respective effective dates.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of December 31, 2015 and 2014 for liquidity, solvency and profitability ratios and for the periods ending December 31, 2015 and 2014 for operating efficiency ratios.

	December 31	
	2015	2014
Liquidity:		
Current Ratio	**1.32**	1.50
Solvency:		
Debt to Equity Ratio	**2.24**	2.12
Asset to Equity Ratio	**3.24**	3.12
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**5.20%**	6.33%
Interest Rate Coverage Ratio	**3.35**	2.98
Operating Efficiency:		
Volume Growth	**10%**	3%
Revenue Growth	**(13%)**	4%
Operating Margin	**11.68%**	7.21%

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	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

SAN MIGUEL CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2015

A	- FINANCIAL ASSETS	
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	NOT APPLICABLE
C	- AMOUNTS RECEIVABLE/PAYABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D	- INTANGIBLE ASSETS - OTHER ASSETS	
E	- LONG-TERM DEBT	
F	- INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE*
G	- GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
H	- CAPITAL STOCK	

* Balance of account is less than 5% of total assets of the Group

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2015
(Amounts in Millions, except No. of Shares Data)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2015	Income Received and Accrued
Cash and cash equivalents	-	₱ 180,758	Not applicable	₱ 3,494
Trade and other receivables - net	-	100,727	Not applicable	638
Derivative assets	-	391	Not applicable	3,971 *
Financial assets at FVPL	-	147	Not applicable	11
Available for sale financial assets**	-	41,616	₱ 41,616	166
Noncurrent receivables and deposits - net	-	9,389	Not applicable	138
Restricted cash	-	5,661	Not applicable	33
		₱ 338,689	₱ 41,616	₱ 8,451

** This represents net marked-to-market gains/losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as of year-end.*

*** The number of shares or principal amounts of bonds and notes are presented in ATTACHMENT TO SCHEDULE A - AVAILABLE - FOR - SALE FINANCIAL ASSETS.*

See Notes 41 and 42 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - AVAILABLE FOR SALE FINANCIAL ASSETS
DECEMBER 31, 2015
(Amounts in Millions, Except No. of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes		Value Based on Market Quotation at December 31, 2015 (a)
San Miguel Corporation			
Alabang Country Club	7	P	19
Ansor International	3,334		-
Apo Golf & Country Club	3		-
Baguio Country Club	1		1
Bancom Group Inc	999,546		-
Calatagan Golf Club	1		-
Camp John Hay	2		1
Canlubang Golf Club	3		3
Capitol Hills Golf & Country Club	1		-
Carmen Red Ltd.	-		5,139
Casino Espanol de Manila	2		-
Cebu Country Club	1		5
Celebrity Sports Plaza	3		-
Club Filipino	8		1
Continental Potash	7,909		-
Evercrest Golf & Country Club	2		-
Export & Industry Bank	940,560,000		-
Green Valley Club - Baguio	1		-
Greenfield Tennis Club	3		-
Iloilo Golf Club	1		-
Inter island Broadcasting Corp	4,458,928		-
Landgolf Inc	2		-
Makati Executive Center	1		-
Makati Sports Club	11		4
Manila Bankers Life	250,000		1
Manila Electric Company	100,331		1
Manila Golf & Country Club	3		74
Manila Polo Club	2		24
Manila Southwoods Golf & Country Club	1		2
Medical Doctors Inc.	83,379		136
Merchant Investment	41,660		-
Metropolitan Club	2		-
Metropolitan Theater	198		-
Mimosa Golf & Country Club	3		2
Monserrat Trading	1,000		-
Motor Services	52,500		-
Naga Telephone Co.	220		-
Negros Occidental Golf Club	6		-
Norcem Philippines	80,000		-
Orchard Golf & Country Club	5		1
Pacific Club Corporate	1		-
Pantranco South Express	340,992		-
People's Press	1,500		-
Phil. Columbian Club	3		-
Phil. Dealing Sytem Holding Corp.	250,000		25
Phil. International Fair	500		-
Phil. Long Distance Telephone Company	230,594		2
Phil. Overseas Resources	10,000		-
Pilipino Telephone	600		-
Professional Services Inc	11,250		-
Puerto Azul Golf and Country Club	3		-
Quezon City Sports Club	1		-
Sta. Elena Properties	7		5
Sta. Elena Golf & Country Club	1		3
Sta. Lucia Realty Golf Club	2		1
Subic Bay Yacht Club	1		-
Tagaytay Highland Golf and Country Club	2		1
Tagaytay Midlands Country Club	1		-
The Country Club - Canlubang	2		-
Top Frontier Investment Holdings, Inc. - Common	2,561,031		173
Top Frontier Investment Holdings, Inc. - Preferred	1,904,540		35,424
Universal Leisure Club	1		-
Valle Verde Golf Club	53		20
Valley Golf Club Inc.	2		3
Victorias Country Club	1		-

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2015 (a)
Petron Corporation		
Government Security	-	P 71
Megaworld Bond	-	169
Aboitiz Power Bonds	-	29
Aboitiz Equity Ventures, Inc.	-	38
Ayala Bond	-	45
SM Investments Corporation Bond	-	53
PSALM	-	53
San Miguel International Limited		
Others	-	16
San Miguel Brewery Inc.		
Royal Orchid International Golf Club	1	2
Guangzhou Luhu Golf Club	1	-
HSBC Holdings	20,400	8
Pacific Club Kowloon	2	6
Hongkong Arts Centre Ltd.	1	-
The American Club Hong Kong	1	8
Hong Kong Football Club	1	6
Discovery Bay Golf Club	1	8
San Miguel Properties, Inc.		
Apo Golf & Country Club	1	1
Mimosa Golf & Country Club	4	2
Sta. Elena Golf & Country Club	1	3
Metro Club	1	-
Philippine Long Distance Telephone Company	41,850	1
Manila Electric Company	148,976	2
Italia Country Club	89	-
Riviera Golf Course and Country Club	1	3
Tagaytay Midlands Country Club	1	-
Pacific Central Properties, Inc.		
Corporate Investment Phils Inc	200,000	-
Herald Publications	410	-
San Miguel Paper Packaging Corp.		
Philippine Long Distance Telephone Company	5,200	-
Evercrest Golf & Country Club	1	-
Orchard Golf & Country Club	1	1
Apo Golf & Country Club	1	-
Anchor Insurance Brokerage Corporation		
Philippine Long Distance Telephone Company	50	-
Export & Industry Bank	766,000	-
San Miguel Yamamura Asia Corporation		
Manila Southwoods Golf & Country Club	1	-
Orchard Golf and Country Club	1	1
Evercrest Golf & Country Club	1	-
San Miguel Yamamura Packaging Corporation		
Canlubang Golf & Country Club	1	1
Manila Southwoods Golf and Country Club	1	2
Orchard Golf & Country Club	1	1
Puerto Azul Golf and Country Club	1	-
Manila Southwoods Golf and Country Club	1	-
Orchard Golf and Country Club	1	-
Philippine Long Distance Telephone Company	1,800	-
Riviera Golf Course and Country Club	1	-

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes		Value Based on Market Quotation at December 31, 2015 (a)
San Miguel Purefoods Company, Inc.			
Club Filipino	1	P	-
Makati Sports Club, Inc.	1		1
Philippine Long Distance Telephone Company	325		-
Valle Verde Country Club	1		-
Capitol Hills Golf and Country Club, Inc.	1		-
Alabang Country Club	1		3
Golf Club Bogor Raya	1		-
Manila Southwoods Golf & Country Club	1		1
Sta. Elena Golf & Country Club	1		3
Manila Electric Company	73,894		1
Tagaytay Highland Golf and Country Club	1		-
Club Filipino	1		-
Pilipino Telephone Corporation	11,100		-
Royal Tagaytay Country Club	1		-
Orchard Golf and Country Club	1		-
Philippine Long Distance Telephone Company	3,928		1
Makati Sports Club, Inc.	1		1
Vega Telecom Holdings, Inc.			
Makati Sports Club, Inc.	2		1
Manila Electric Company	2,831		-
Other Telecom Companies	1,022,888		3
Total Available - for - Sale Financial Assets		P	41,616

(a) If the principal amount of bonds and notes and value based on market quotation of investments is less than P500,000, the amount will show zero.

See Notes 4, 12, 14, 41 and 42 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Sea Refinery Corporation	₱ 33,198	₱ -	₱ (234)	₱ -	₱ 32,964	₱ 32,964	₱ -	₱ 32,964
San Miguel Holdings Corp. and Subsidiaries	16,109	7,209	(450)	-	22,868	16,176	6,692	22,868
San Miguel Corporation	12,960	2,366	(494)	-	14,832	14,832	-	14,832
Vega Telecom Inc. and Subsidiaries	24,794	9,128	(22,063)	-	11,859	3,940	7,919	11,859
San Miguel International Limited and Subsidiaries	5,072	274	(48)	-	5,298	5,298	-	5,298
San Miguel Properties, Inc. and Subsidiaries	2,318	804	(109)	-	3,013	2,798	215	3,013
San Miguel Brewery Inc. and Subsidiaries	1,256	6,119	(5,459)	-	1,916	1,916	-	1,916
Petron Corporation and Subsidiaries	1,135	16,367	(15,785)	-	1,717	1,696	21	1,717
San Miguel Yamamura Packaging Corp. and Subsidiaries	1,185	2,548	(2,516)	-	1,217	1,217	-	1,217
San Miguel Pure Foods Company, Inc. and Subsidiaries	1,024	5,931	(5,750)	-	1,205	1,205	-	1,205
Challenger Aero Air Corporation	2,052	1,373	(2,740)	-	685	685	-	685
San Miguel Beverages, Inc.	656	-	-	-	656	656	-	656
San Miguel Yamamura Asia Corporation	349	1,695	(1,411)	-	633	633	-	633
Ginebra San Miguel, Inc. and Subsidiaries	743	4,116	(4,236)	-	623	623	-	623
Advantage Properties Corporation	546	-	-	-	546	546	-	546
SMC Global Power Holdings Corp. and Subsidiaries	656	4,207	(4,398)	-	465	449	16	465
San Miguel Paper Packaging Corp.	430	2	-	-	432	12	420	432
San Miguel Campo Carne Corporation	398	-	-	-	398	398	-	398
Pacific Central Properties, Inc.	223	-	(3)	-	220	220	-	220
Others	1,925	2,278	(1,638)	-	2,565	2,394	171	2,565
	₱ 107,029	₱ 64,417	₱ (67,334)	₱ -	₱ 104,112	₱ 88,658	₱ 15,454	₱ 104,112

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Corporation	₱ 83,039	₱ 13,766	₱ (20,771)	₱ -	₱ 76,034	₱ 60,874	₱ 15,160	₱ 76,034
San Miguel International Limited and Subsidiaries	12,570	733	(37)	-	13,266	13,266	-	13,266
San Miguel Holdings Corp. and Subsidiaries	4,789	2,165	(388)	-	6,566	6,350	216	6,566
SMC Shipping and Lighterage Corporation and Subsidiaries	757	16,553	(15,478)	-	1,832	1,832	-	1,832
SMC Global Power Holdings Corp. and Subsidiaries	1,125	10,233	(9,674)	-	1,684	1,684	-	1,684
Petron Corporation and Subsidiaries	1,033	4,572	(4,583)	-	1,022	1,022	-	1,022
San Miguel Yamamura Packaging Corp. and Subsidiaries	997	5,316	(5,292)	-	1,021	959	62	1,021
San Miguel Yamamura Asia Corporation	501	2,080	(2,006)	-	575	568	7	575
SMITS, Inc. and a Subsidiary	364	1,483	(1,315)	-	532	517	15	532
Archen Technologies, Inc.	315	1,208	(1,189)		334	334	-	334
San Miguel Pure Foods Company, Inc. and Subsidiaries	134	115	(85)	-	164	163	1	164
San Miguel Properties, Inc. and Subsidiaries	218	598	(659)	-	157	157	-	157
Ginebra San Miguel, Inc. and Subsidiaries	256	155	(254)	-	157	157	-	157
San Miguel Brewery Inc. and Subsidiaries	149	569	(605)	-	113	110	3	113
Others	782	1,206	(1,333)	-	655	654	1	655
	₱ 107,029	₱ 60,755	₱ (63,669)	₱ -	₱ 104,112	₱ 88,647	₱ 15,465	₱ 104,112

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2015
(Amounts in Millions)

Part A - Goodwill and Other Intangible Assets

Description		Beginning Balance		Additions/ Acquisition of Subsidiaries		Disposal / Reclassed to other Accounts		Charged to Costs and Expenses		Currency Translation Adjustment		Ending Balance
Goodwill	P	41,211	P	18,918	P	-	P	(100)	P	(1,426)	P	58,603
Trademarks and Other Intangibles												
Cost:												
Trademarks and brand names	P	437	P	446	P	-	P	-	P	12	P	895
Licenses		7,251		18,490		(31)		-		(69)		25,641
Toll road concession rights		31,892		81,616		9		-		1,799		115,316
Port concession rights		-		10,974		-		-		-		10,974
Airport concession rights		2,319		1,056		-		-		-		3,375
Mining rights		1,885		-		-		-		-		1,885
Leasehold and land use rights		1,493		-		2		-		14		1,509
Power concession right		496		47		-		-		-		543
Other Intangibles		2,320		417		70		-		(84)		2,723
	P	48,093	P	113,046	P	50	P	-	P	1,672	P	162,861
Accumulated Amortization and Impairment Losses:												
Trademarks and brand names	P	194	P	-	P	-	P	14	P	11	P	219
Licenses		135		-		(15)		12		-		132
Toll road concession rights		594		15,994		-		2,556		259		19,403
Port concession rights		-		535		-		28		-		563
Airport concession rights		37		-		-		41		-		78
Leasehold and land use rights		523		-		-		32		2		557
Power concession right		15		-		-		21		-		36
Other Intangibles		1,481		-		190		284		(51)		1,904
	P	2,979	P	16,529	P	175	P	2,988	P	221	P	22,892
Net Book Value:	P	45,114	P	96,517	P	(125)	P	(2,988)	P	1,451	P	139,969

See Notes 4, 5, 18 and 39 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2015
(Amounts in Millions)

Part B - Other Noncurrent Assets

Description		Beginning Balance		Additions / Acquisition of Subsidiaries		Charged to Cost and Expenses		Other Changes/ Reclassifications/ (Disposal)		Currency Translation Adjustment		Ending Balance
Noncurrent receivables and deposits	P	14,967	P	706	P	(114)	P	(6,161)	P	(9)	P	9,389
Deferred containers expense - net of accumulated amortization		6,916		2,350		(1,385)		(848)		(19)		7,014
Advances to contractors and suppliers		-		-		-		3,939		-		3,939
Retirement assets		3,830		-		-		(655)		-		3,175
Noncurrent prepaid rent		2,989		32		(189)		(188)		(416)		2,228
Deposits on land for future development		1,433		113		-		-		-		1,546
Others - net		6,879		1,583		(1,233)		1,189		(61)		8,357
	P	37,014	P	4,784	P	(2,921)	P	(2,724)	P	(505)	P	35,648

See Notes 4, 5, 19, 34, 35, 36, 40, 41 and 42 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2015
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Amount Shown as Current	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Parent Company								
Foreign currency - denominated								
Floating	Standard Chartered Bank	-	69,837	69,837	LIBOR + margin	Bullet	1/3/6 months	July-15
Floating	Maybank International Labuan Branch	-	7,912	7,912	LIBOR + margin	Bullet	1/3/6 months	October-18
		-	77,749	77,749				
Floating	Australia and New Zealand Banking Group Limited	-	13,210	13,210	LIBOR + margin	Bullet	1/3/6 months	September-20
Fixed	DB Trustees (Hong Kong) Limited	-	24,044	24,044	4.875%	Bullet	Semi-annual	April-23
		-	115,003	115,003				
Subsidiaries								
Peso denominated:								
SM Brewery								
Fixed	Philippine Depository & Trust Corp.	-	2,992	2,992	6.05%	Bullet	Semi-annual	April-17
Fixed	Philippine Depository & Trust Corp.	-	9,947	9,947	5.930%	Bullet	Semi-annual	April-19
Fixed	Philippine Depository & Trust Corp.	-	6,950	6,950	6.60%	Bullet	Semi-annual	April-22
		-	19,889	19,889				
SM Brewery								
Fixed	Philippine Depository & Trust Corp.	-	12,365	12,365	5.500%	Bullet	Semi-annual	April-21
Fixed	Philippine Depository & Trust Corp.	-	2,516	2,516	6.00%	Bullet	Semi-annual	April-24
		-	14,881	14,881				
SLTC								
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	-	2,317	2,317	4.9925%	Bullet	Quarterly	May-20
	BDO Unibank Inc. - Tust and Investment Group as Trustee		2,400	2,400	5.5796%	Bullet	Quarterly	May-22
	BDO Unibank Inc. - Tust and Investment Group as Trustee		2,500	2,500	6.4872%	Bullet	Quarterly	May-25
		-	7,217	7,217				
SM Brewery								
Fixed	Philippine Depository & Trust Corp.	-	2,796	2,796	10.50%	Bullet	Semi-annual	April-19
SMC Global								
Fixed	DB Trustees (Hongkong) Limited	13,952	-	13,952	7.00%	Bullet	Semi-annual	January-16
SMPFC								
Fixed	Standard Chartered Bank	65	-	65	12.45% , 12.85% and 13.27%	Bullet	Quarterly	December-16
Petron								
Fixed	Deutsche Bank AG, Hongkong Branch	-	19,926	19,926	7.00%	Bullet	Semi-annual	November-17
PIDC								
Fixed	Banco De Oro Unibank, Inc. as Trustee	727	14,097	14,824	PDST-F + margin	Amortized	Quarterly	September-21
SPI								
Fixed	Philippine National Bank as Trustee	1,534	10,522	12,056	6.9291% and 6.0606%	Amortized	Quaterly	September-23
AAIPC								
Fixed	Philippine National Bank as Trustee	947	8,216	9,163	6.52%	Amortized	Semi-annual	September-21
MTDME								
Fixed	Standard Chartered Bank, Philippines Branch as Security Agent	254	8,422	8,676	8.74899%	Amortized	Semi-annual	March-22
CCEC								
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	-	8,579	8,579	6.9343%, 6.9983% and 7.5573%	Amortized	Quarterly	August-27
VERTEX								
Fixed	Philippine National Bank as Trustee	-	6,321	6,321	6.81768%, 6.8385% and 7.2374%	Amortized	Quarterly	February-25
Petron								
Fixed	UnionBank of the Philippines	-	4,976	4,976	5.4583% + GRT	Amortized (beginning January 2018)	Quarterly	October-22

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2015
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Amount Shown as Current	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Petron								
Fixed	Rizal Commercial Banking Corporation	32	3,401	3,433	6.3212% and 7.1827%	Amortized	Semi-annual	October-18 and October-21
SIDC								
Fixed	Philippine National Bank as Trustee	342	3,042	3,384	6.6583%	Amortized	Quarterly	July-23
MNHPI								
Fixed	Land Bank of th Philippines - Trust Banking Group as Trustee	600	1,650	2,250	5.65%	Amortized	Quarterly	May-19
SMCSLC								
Fixed	Security Bank Corporation	1,250	-	1,250	6.175%	Bullet	Quarterly	May-16
Fixed	Security Bank Corporation	250	-	250	6.145%	Bullet	Quarterly	May-16
		1,500	-	1,500				
SMYPC								
Floating	Bank of Commerce	872	2,371	3,243	PDST-F + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	October-19
TADHC								
Floating	Bank of Commerce	54	3,123	3,177	PDST-F + margin	Amortized	Quarterly	October-22
SMYPC								
Floating	Bank of Commerce	50	299	349	PDST-F + margin	Amortized	Quarterly	April-21
EPSBPI								
Floating	Development Bank of the Philippines	114	229	343	PDST-F + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	September-18
SMC Global								
Floating	Standard Chartered Bank (Hongkong) Limited	-	32,439	32,439	LIBOR + margin	Bullet	Quarterly	September-18
Petron								
Floating	Standard Chartered Bank (Hong Kong)	-	25,177	25,177	LIBOR + margin	Amortized	Every 1, 3 or 6 months	July-20
AAIBV								
Floating	Standard Chartered Bank	15,850	-	15,850	LIBOR + margin	Bullet	Every 1, 3 or 6 months	September-16
Petron								
Floating	Standard Chartered Bank (Hong Kong) Limited	33	15,606	15,639	LIBOR + margin	Amortized	Every 1, 3 or 6 months	May-19
Petron								
Floating	Malayan Banking Berhad	222	1,412	1,634	COF + margin	Amortized	Quarterly	July-19
Floating	CIMB Bank	406	1,229	1,635	COF + margin	Amortized	Quarterly	March-19
		628	2,641	3,269				
		37,554	215,820	253,374				
Total Long-term Debt		P 37,554	P 330,823	P 368,377				

See Notes 5, 22, 31, 34, 41 and 42 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
December 31, 2015

DESCRIPTION	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED	TREASURY SHARES	NUMBER OF SHARES OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS *	NUMBER OF SHARES HELD BY: AFFILIATES	NUMBER OF SHARES HELD BY: DIRECTORS, OFFICERS AND EMPLOYEES
ISSUED SHARES							
COMMON STOCK	3,790,000,000	3,283,277,515	904,752,537	2,378,524,978	134,641,564	16,395	12,480,975
SERIES "1" PREFERRED SHARES	300,000,000	279,406,667	-	279,406,667	-	-	
SERIES "2" PREFERRED SHARES	1,910,000,000	1,758,099,686	965,445,086	792,654,600		26,435,700	1,071,800
	6,000,000,000	5,320,783,868	1,870,197,623	3,450,586,245	134,641,564	26,452,095	13,552,775

* See Notes 25, 37, 38 and 40 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
DECEMBER 31, 2015
(Amounts in Millions)

					Past Due					
		Total		**Current**		**1 - 30 Days**		**31 - 60 Days**		**Over 60 Days**
Trade	₱	55,573	₱	42,829	₱	5,613	₱	1,440	₱	5,691
Non-trade		40,535		29,740		3,637		582		6,576
Others		14,544		14,544		-		-		-
Total		110,652	₱	87,113	₱	9,250	₱	2,022	₱	12,267
Less allowance for impairment losses		9,925								
Net	₱	**100,727**								

C. List of properties owned and leased by SMC

ANNEX "D"

SAN MIGUEL CORPORATION

2015

PRINCIPAL PROPERTIES

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
BEVERAGE BUSINESS							
1	**SAN MIGUEL BREWERY, INC.**						
	A. DOMESTIC						
	Breweries						
	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			
	Sales/Area Offices and Warehouses						
	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, Cabanatuan City, Nueva Ecija	Owned	Good			
	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	76,733.25	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	30,461.31	May 31, 2018	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			
	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	66,755.96	October 15, 2017	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	393,112.05	April 30, 2016	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	Maysilo, Malabon	Open Space-Rented	Good	100,000.00	September 30, 2016	Renewable upon mutual agreement of both parties
	Greater Manila Area North	#8002 Industrial Road, Gov. Pascual Ave. Portrero, Malabon	Open Space-Rented	Good	193,223.03	July 31, 2018	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 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. Villa Bota, Gumaca, Quezon	Owned	Good			
	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, Bacoor, Cavite	Owned	Good			
	South Luzon Area	T. de Castro St., Zone 8, Bulan, Sorsogon	Owned	Good			
	South Luzon Area	Matungao, Tugbo, Masbate City	Owned	Good			
	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	174,196.43	March 31, 2017	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	Pila S.O. - Brgy. Bulilan Norte, National Highway, Pila, Laguna	Warehouse-Rented	Good	267,857.14	September 30, 2017	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, 2016	Renewable upon mutual agreement of both parties
	Negros	Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental	Owned	Good			
	Negros	Muelle Loney St., Brgy. Legaspi, Iloilo City	Owned	Good			
	Negros	National Hi-way, Brgy. 4, Himamaylan City, Negros	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	66,982.50	December 31, 2019	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	Burgos Extension, Sta. Fe, Brgy. Granada, Bacolod City Warehouse	Warehouse-Rented	Good	30,000.00	April 30, 2016	Renewable upon mutual agreement of both parties
	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			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	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	87,191.73	May 31, 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			
	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, Zamboanga del Norte	Owned	Good			
	Mindanao	Butuan Region Office - Fort Poyohan, Molave St., Butuan City, Agusan del Norte	Land & Land Improvement-Rented	Good	104,986.99	May 31, 2020	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
	Terminal						
	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
	Investment Properties	Brgy. Estefania, Bacolod City T-343646	Owned	Good			
		No. 31 Rosario St., Brgy. Granada, Bacolod City	Owned	Good			
		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			
		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			

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	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			
	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			
	Lot 4348-L-1-B Barrio of San Rafael & San Roque	Owned	Good			
	Lot 4348-L-1-B-17 Barrio of San Rafael & San Roque	Owned	Good			
	Lot 6 Blk. 5, Bo. Of Pob. 2nd Municipality of Tarlac	Owned	Good			
	Lot 6-B, Bo. Of Pob. 2nd Municipality of Tarlac	Owned	Good			
	71-B-3-B-4 Barrio Suizo Municipality of Tarlac	Owned	Good			
Head Office						
Office Space	40 San Miguel Ave., Mandaluyong City	Owned	Good			
B. INTERNATIONAL						
Breweries						
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 Territories, Hong Kong	Building-Owned; Land-Rented	Good	HKD 183,697.00	2047	No renewal options
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			
Sales/Area Offices and Warehouses						
San Miguel Brewery Hong Kong Limited	9th 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 804, Underground Parking, Huamei Garden, Shantou City	Owned	Good			
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 5,000.00	April 30, 2016	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 3,092.00	November 30, 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 .

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Shenzhen Sales Office	Unit 3004, No. 6007 Shennan Road, Futian District, Shenzhen City, China	Office Space-Rented	Good	RMB 6,000.00	September 30, 2016	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	Continuing unless terminated and agreed by both parties	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	December 31, 2015	Renewable upon mutual agreement of both parties
	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 31,2016	Renewable upon mutual agreement of both parties
	San Miguel Company Ltd. Taiwan Branch-Taichung	No. 159 Shuwang Rd., Dali District, Taichung City, Taiwan (ROC)	Office Space-Rented	Good	NT$39,000.00	January 14, 2016	Renewable upon mutual agreement of both parties
	San Miguel China Investment Company Limited	Room 701, Tower 1, Xiaoyun Center, Xiaguangli, No. 15 Chaoyang District, Beijing China 100026	Office Space-Rented	Good	RMB 23,000.00	September 23, 2017	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	28-14D, 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	6-3-302, Bai Hua Western District, Xing Tai City, Hebei Province, China	Office Space-Rented	Good	RMB 1,500.00	December 31, 2015	Renewable upon 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	Continuing unless terminated and agreed by both parties	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	Continuing unless terminated and agreed by both parties	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	Continuing unless terminated and agreed by both parties	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	Continuing unless terminated and agreed by both parties	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	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	San Miguel Brewery Vietnam Limited						
	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

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Ho Chi Minh Sales Office	180 Nguyen Van Troi Street , Ward 8, Phu Nhuan District, HCM City	Office Space-Rented	Good	VND 201,729,990.00	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	310 Thong Nhat Street, Nha Trang Khanh Hoa	Office Space-Rented	Good	VND20,000,000.00	February 18, 2018	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, 2016	Renewable upon mutual agreement of both parties
	Power Plant						
	San Miguel Baoding Utility	Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China	Owned	Good			
	Investment Properties						
	Guangzhou San Miguel Brewery	Room 302, Haitao Building, Marine Fisheries Pier, North Binhai Avenue, Haikou City	Owned	Good			
		1th-4th Floor, Xianda Building, Shuichan Pier, North Binhai Avenue, Haikou City	Owned	Good			
2	**GINEBRA SAN MIGUEL, INC.**						
	I. NORTH LUZON						
	Alcohol Depot #1	Brgy. Namonitan, Sto. Tomas (Damortis), La Union	Owned	Good			
	Alcohol Depot #2	Brgy. Namonitan, Sto. Tomas (Damortis), La Union	Owned	Good			
	Plant (Land, Buildings and Machineries)	San Fermin, Cauayan, Isabela	Owned	Good			
	Plant (Land, Buildings and Machineries)	Tebag West, Sta. Barbara, Pangasinan	Owned	Good			
	Warehouse	Tebag West, Sta. Barbara, Pangasinan	Owned	Good			
	Warehouse (Kerwin Pua) 1	Don Jose Canciller St., Cauayan City, Isabela	Rented	Good	215,220.00	December 31, 2015	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract.
	Warehouse (Kerwin Pua) 3	Don Jose Canciller St., Cauayan City, Isabela	Rented	Good	133,620.00	August 31, 2016	
	Territory Office	Lee Bldg., Nat'l. Hiway, Brgy. Carlatan, San Fernando City, La Union.	Rented	Good	17,368.00	December 31, 2015	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract.
	Sales Office	San Fermin, Cauayan, Isabela	Owned	Good			
	Land	Libsong East, Lingayen, Pangasinan	Owned	Good			
	Land	Sta. Rita, Olongapo City, Zambales	Owned	Good			
	II. CENTRAL LUZON						
	Warehouse and Sales Office	Sitio Torres, Brgy. Sta. Cruz, Porac, Pampanga	Rented	Good	275,250.00	December 31, 2015	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract.
	III. GMA/NCR						
	Division Office	3rd and 6th Floors SMPC Bldg., St. Francis Ave., Ortigas Centre, Mandaluyong 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
Office Space	5th Floor SMPC Bldg., St. Francis Ave., Ortigas Centre, Mandaluyong City	Rented	Good	751,820.00	August 31, 2017	Renewable after expiration upon mutual written agreement of the Lessee and Lessor.
Warehouse and Sales Office	Warehouse 5B, A. Correa St. Extension, Paco, Manila	Rented	Good	534,897.00	June 30, 2016	Renewable after expiration upon mutual written agreement of the Lessee and Lessor.
Warehouse & Sales Office	80 Marcos Highway, Brgy. Mayamot, Antipolo City	Rented	Good	700,000.00	Continuing unless terminated and agreed by both parties	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract.
IV. SOUTH LUZON						
Plant (Land, Buildings and Machineries)	Silangan Industrial Estate, Brgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good			
Warehouse	Silangan Industrial Estate, Brgy Pittland, Terelay Phase, Cabuyao, Laguna	Owned	Good			
Warehouse and Sales Office	Bgy. Lawa, Calamba City, Laguna	Rented	Good	475,200.00	February 29, 2016	Renewal at discretion of the Lessee under the terms and conditions as may be mutually agreeable to both parties.
Chiller Storage	107 North Main Avenue, LTI, Brgy. Binan, Binan Laguna	Rented	Good	P50.00/pallet per day (based on actual volume)	March 14, 2016	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract.
Freezer Storage	107 North Main Avenue, LTI, Binan Laguna	Rented	Good	P50.00/pallet per day (based on actual volume)	March 14, 2016	
Alcohol Depot (Tanks 1, 2, 3)	BBTI, Bauan, Batangas	Rented	Good	500,000.00	September 30, 2016	Renewable by GSMI at terms and conditions mutually acceptable to the parties herein, by providing IDMC its written intention to renew the agreement at least thirty (30) days prior to expiration of its Term.
Alcohol Depot (Tanks 5 & 7)	BBTI, Bauan, Batangas	Rented	Good	600,000.00	September 30, 2016	
Warehouse	Sitio Pulang Lupa, Makiling, Calamba, Laguna	Owned	Good			
Land	Sitio Pulang Lupa, Makiling, Calamba, Laguna	Rented	Good	1,543,500.00	December 31, 2020	Subject to renewal or extension upon expiration of such period on such terms and conditions as may mutually be agreed upon between the parties.
Warehouse	Ha. Mitra, Brgy. Paulog, Ligao City	Owned	Good			
Tolling Plant Site (East Pacific Star Bottlers Phils., Inc.)	Ha. Mitra, Brgy. Paulog, Ligao City	Owned	Good			
Warehouse Extension (East Pacific Star Bottlers Phils., Inc.)	Ha. Mitra, Brgy. Paulog, Ligao City	Owned	Good			
Office	PTI Building, Brgy. Cruzada, Legazpi City	Rented	Good	10,000.00	Continuing unless terminated and agreed by both parties	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract
Plant (Land, Buildings and Machineries)	Brgy. Gulang-gulang, Lucena City	Owned	Need to Rehabiltate			
Alcohol Depot (Land and Depot)	Brgy. Cotta, Lucena 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
Office	1080 Doña Aurora Boulevard, Gulang Gulang, Lucena City	Rented	Good	20,000.00	November 30, 2017	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract.
Land	Barrio Tabangao, Batangas City	Owned	Good			
Sales Office	Tahao Road, Gogon, Legaspi	Rented	Good	330,000.00- 75,000 cases and below 310,000.00- 75,001 to 110,000 cases 290,000.00- above 110,000 cases	September 16, 2016	Renewable upon mutual agreement of the parties under such terms and conditions and should parties continue their relations without a written renewal, they shall continue to be governed by the provisions except as to the term, which shall subsist from month to month
Plant (Buildings and Machineries)	Km. 503, Hacienda Mitra, Paulog, Ligao City, Albay	Owned	Good			
Tabangao Alcohol Depot	National Hi-way, Brgy. Tabangao, Aplaya, Batangas City	Owned	Good			
IV. VISAYAS						
Alcohol Depot	Ouano, Mandaue City	Owned	Good			
Warehouse (K & I)	Mandaue Port, J. Cenniza St., Looc, Mandaue City	Owned	Good			
Plant (Land, Buildings and Machineries), Alcohol Depot	Subangdaku, Mandaue City, Cebu	Owned	Good			
Land and Machineries	Brgy. Calumangan, Bago City, Negros Occidental	Owned	Good			
Sales Office	Km. 13.5, Brgy. Taloc, Bago City, Negros Occidental	Owned	Good			
Plant (Land, Deepwell, Machineries and Buildings)	Km. 13.5, Brgy. Taloc, Bago City, Negros Occidental	Owned	Good			
Land (Relocation Site)	Brgy. Calumangan, Bago City, Negros Occidental	Owned	Good			
V. MINDANAO						
Warehouse & Sales Office	Brgy. Talomo, Ulas, Davao City	Owned	Good			
Territory Office	Unit 118, LYL Apartment, Kimwa Compound, Brgy Baloy, Cagayan De Oro City	Rented	Good	14,286.00	December 31, 2016	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract.
Territory Office	Amethyl Compound, BF Arao Avenue, Tiguma, Pagadian City	Rented	Good	8,500.00	Continuing unless terminated and agreed by both parties	Renewable at such terms and conditions mutually acceptable to both Lessee and Lessor or Extended without having executed a written renewal but on a month to month basis under the same contract. Contract for the period January to Dec 2015 is for notarization while for 2016 still in process with same rental fee
FOOD BUSINESS						
Admin Office						
Pasig Office - San Miguel Pure Foods Company Inc.	17F, 18F, 21F, 22F, 23F JMT Corporate Condominium Building, ADB Avenue, Ortigas Center, Pasig City	Owned	Good			
Iloilo Office - Agro Industrial Cluster	Milleza St., Iloilo City	Owned	Good			
General Santos Office - Agro Industrial Cluster	Putingbato, Calumpang, General Santos 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
	Admin Office and Feedmill/Processing Plant/Product Development Laboratory/Warehouse						
	Bataan Office and Feedmill - Feeds	Mindanao Avenue, Corner 10th Ave. BEZ, Mariveles, Bataan	Owned	Good			
	Depok Office and Processing Plant - PT San Miguel Purefoods Indonesia	Jl. Raya Bogor Km. 37 Sukamaju, Cilodong, Depok, Indonesia	Owned	Good			
	Pasig Office and Product Development Laboratory - SMFI-Corporate	SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig City	Owned	Good			
	Tarlac Office, Feedmill and Warehouse - Feeds	Luisita Industrial Park, San Miguel,Tarlac City	Owned	Good			
	Farm/Hatchery						
	Isabela Cattle Farm - Monterey Meats	3305 San Luis, Cauayan, Isabela	Owned	Good			
	South Cotabato Cattle Farm - Monterey Meats	Bo. Matin-ao, Polomolok, South Cotabato	Owned	Good			
	Bataan Farm - Poultry	Brgy. General Lim, Orion, Bataan	Owned	Good			
	Bulacan Hog Farm - Monterey Meats	Brgy. Magmarale, San Miguel,Bulacan	Owned	Good			
	Bukidnon Hog Farm - Monterey Meats	San Vicente, Sumilao, Bukidnon	Owned	Good			
	Calamba Hatchery - Poultry	Brgy Licheria, Calamba City	Owned	Good			
	Bukidnon Hatchery - Poultry	Kapitan Bayong,Impasug-ong, Bukidnon	Owned	Good			
	Flourmill/Feedmill						
	Bulacan Feedmill - Feeds	Brgy., Magmarale, San Miguel, Bulacan	Owned	Good			
	Pangasinan Feedmill - Feeds	Brgy. Bued, Binalonan, Pangasinan	Owned	Good			
	Bukidnon Feedmill - Feeds	Impalutao,Impasug-ong,Bukidnon	Owned	Good			
	Isabela Feedmill and Post Harvest Facility - Feeds	Bo. Soyung, Echague, Isabela	Owned	Good			
	Mabini Flourmill - San Miguel Mills, Inc.	Brgy. Bulacan, Mabini, Batangas	Owned	Good			
	Tabangao Flourmill - San Miguel Mills, Inc.	Brgy. Tabangao, Batangas City	Owned	Good			
	Grain Terminal						
	Mabini Bulk Grain Handling Terminal (Golden Bay) - San Miguel Mills, Inc. (GBGTC)	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas	Owned	Good			
	Land						
	Mabini Land - San Miguel Pure Foods Company Inc.	Brgy. Bulacan, Mabini, Batangas	Owned	Good			
	Pasig Land - San Miguel Mills, Inc. (GAC)	San Miguel Ave., Corner Tektite Road, Pasig City	Owned	Good			
	Processing Plant						
	Laguna Ice Cream Plant - Magnolia (GFDCC)	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good			
	Cavite Meat Plant - Monterey Meats	Governor's Drive Bo. Langkaan 1, Dasmarinas Cavite	Owned	Good			
	Cavite Meat Plant - Purefoods Hormel Company, Inc.	Bo. De Fuego, Brgy. San Francisco, Gen. Trias, Cavite	Owned	Good			
	Cavite Magnolia Plant - Magnolia, Inc.	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite	Owned	Good			
	Binh Duong Processing Plant - San Miguel Purefoods (VN) Co., Ltd.	An Tay, Ben Cat, Binh Duong, Vietnam	Owned	Good			
	Davao Poultry Processing Plant - Poultry	Brgy. Sirawan, Toril Davao City	Owned	Good			
	Processing Plant and Cold Storage						
	Cebu Poultry Processing Plant and Cold Storage - Poultry	Riverside, Canduman, Mandaue City	Owned	Good			
	Warehouse						
	General Santos Warehouse - Feeds	San Miguel Purefoods Compound, Rivera St., Calumpang, General Santos 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
Quezon City Warehouse - Purefoods Hormel Company, Inc.	Regalado Ave., Fairview, Quezon City	Owned	Good			
Others (Drying Plant/R&D Laboratory/Vetmed Office)						
Bulacan Vetmed Office - Monterey Meats	Brgy. Guyong, Sta. Maria, Bulacan	Owned	Good			
Laguna Research and Development Laboratory - Agro Industrial Cluster	Brgy. Mabacan, Calauan, Laguna	Owned	Good			
Pampanga Drying Plant - Feeds	SMC Complex, Quebiawan, San Fernando, Pampanga	Owned	Good			
Admin Office						
Pasig Office - Shared Services Center	10th floor, Raffles Corporate Centre, Don F. Ortigas Jr. Rd., Ortigas Center, San Antonio, Pasig City	Rented	Good	541,996.32 (Jan to Sept) 569,096.14 (Oct to Dec)	9-Oct-2016	Contract may be renewed for another period of 5 years, under such terms and conditions as may be agreed upon by the parties
Pasig Office - San Miguel Foods, Inc. - Corporate	20F JMT Corp. Cond. ADB Avenue, Ortigas Center, Pasig City	Rented	Good	330,732.89	31-Dec-2018	Renewable by written agreement of the parties under such terms and conditions mutually acceptable to them
Pampanga Office - San Miguel Integrated Sales	2nd F Rickshaw Arcade, Greenfield Square, Km.76, MacArthur Highway, Sindalan, San Fernando City, Pampanga	Rented	Good	28,675.13	Continuing unless terminated and agreed by both parties	Mutually agreed upon between the parties
Cebu Office - San Miguel Integrated Sales	2nd Floor Planters Bldg., West Office, SMC Shipping & Lighterage Comp, Ouano Wharf, Mandaue City	Rented	Good			
Negros Oriental Office - Agro Industrial Cluster	2nd Floor THS Bldg., Real St., Dumaguete City, Negros Oriental	Rented	Good	11,353.57	31-Aug-2018	Renewable every 3 years
Pasig Office - San Miguel Foods, Inc. - Corporate	6F JMT Corp. Cond. ADB Avenue, Ortigas Center, Pasig City	Rented	Good	384,081.96	31-Mar-2020	Subject to renewal upon agreement of the parties
Ho Chi Minh Office - San Miguel Purefoods (VN) Co., Ltd.	6F Mekong Tower, 235-241 Ward 13, Tan Binh, Ho Chi Minh City	Rented	Good	VND 51,108,000.00 (Jan) VND 153,864,000.00 (Feb to Apr) VND 156,600,000.00 (May to Jul) VND 107,590,909.00 (Aug to Oct) VND 71,722,800.00 (Nov and Dec)	31-Jul-2020	Renewable every 5 years
Batangas Office - Poultry	Bo San Roque, Sto Tomas, Batangas	Rented	Good	7,000.00	31-Oct-2017	Renewable every 3 years
Bacolod Office - Feeds	Brgy. Banago, Bacolod City	Rented	Good	42,842.80	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Laguna Office - Poultry	Denson Whse, Brgy. Halang, Calamba City	Rented	Good	68,024.95	1-Aug-2016	Renewable
Zamboanga Office - Poultry	Don Alfonso Marquez Subd., MCLL Highway Tetuan Zamboanga City	Rented	Good	28,000.00	31-Dec-2015	Renewable every year
Cagayan de Oro Office - San Miguel Integrated Sales	Door #5 Banyan Place, Alwana Business Park, Cugman, Cagayan de Oro City	Rented	Good	29,282.00 (Jan to Sept) 32,210.20 (Oct to Dec)	13-Oct-2016	Mutually be agreed upon between the parties
Zamboanga Office - Agro Industrial Cluster	Door 2, Nuño Bldg., Guiwan Highway, Zamboanga City	Rented	Good	12,979.88	Continuing unless terminated and agreed by both parties	Renewable every year
Bohol Office - Agro Industrial Cluster	Eastern Poblacion, Alburquerque, Bohol	Rented	Good	6,428.57	Continuing unless terminated and agreed by both parties	Renewable every year

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Bali Office - PT San Miguel Purefoods Indonesia	Jl.Baypass Ngurah Rai Gang Wijaya No.4 Bali	Rented	Good	IDR 958,000.00	19-Oct-2016	Renewable upon consent of both parties
	Medan Office - PT San Miguel Purefoods Indonesia	Jl.Kenanga Raya No.34D Kel.Tanjung Sari Kec.Medan Selayang	Rented	Good	IDR 1,333,000.00	17-Jun-2016	Renewable upon consent of both parties
	Surabaya Office - PT San Miguel Purefoods Indonesia	Perumahan Citra Harmoni Block C4 No. 15 Sidodadi Taman Sidoarjo Jawa Timur	Rented	Good	IDR 2,833,000.00	30-Apr-2016	Renewable upon consent of both parties
	Dumaguete Office - Poultry	Real street, Dumaguete City	Rented	Good	11,353.57	31-Aug-2018	Renewable every 3 years
	Bacolod Office - San Miguel Integrated Sales	William Lines Warehouse, Magsaysay, Araneta St., Singcang, Bacolod City	Rented	Good	18,000.00	31-Dec-2015	Mutually agreed upon between the parties
	Iloilo Office - San Miguel Integrated Sales	YK Marine Bldg., Iloilo Fishing Port Complex, Brgy. Tanza, Bay-bay, Iloilo City	Rented	Good	18,665.52	Continuing unless terminated and agreed by both parties	Renewable every year
	Davao Office - Agro Industrial Cluster, Poultry, San Miguel Integrated Sales	2nd Flr ARC Building, Corner Lakandula-Dacudao Sts., Agdao Davao City	Rented	Good	219,108.94	Continuing unless terminated and agreed by both parties (AIC,	Renewable every year (AIC) Not for renewal in 2016 (Poultry) Mutually be agreed upon between the
	Laguna Office - Agro Industrial Cluster, Poultry	3rd and 4th floors, Dencris Bldg, Halang, Calamba City of Laguna	Rented	Good	764,604.04	31-May-2016 (AIC) 1-May-2016 (Poultry-Live Operations) 1-Mar-2017 (Poultry-Logistics)	Renewable every year (AIC) Renewable (Poultry)
	Davao Office - Poultry, San Miguel Integrated Sales	3rd Floor Alpha Bldg., Lanang Business Park, Lanang, Davao City	Rented	Good	61,084.65	31-Aug-2020	Renewable every 5 years (Poultry) Mutually be agreed upon between the parties (SMIS)
	Cagayan de Oro Office - Agro Industrial Cluster, Poultry	3rd Floor HBL Bldg. Gusa National Highway, Cagayan de Oro City	Rented	Good	249,393.84	Continuing unless terminated and agreed by both parties (AIC) 30-Jun-2017 (Poultry)	Renewable every 3 years
	Cebu Office - Agro Industrial Cluster, Poultry, Great Food Solutions, San Miguel Integrated Sales	6th and 7thFlr., Clotilde Bldg., Casuntingan, Mandaue City, Cebu	Rented	Good	356,795.46	30-Sep-2016 (AIC) 31-Jul-2017 (Poultry) 30-Jun-2017 (GFS) 30-Jun-2017 (SMIS)	Renewable every 2 years (AIC, Poultry) Mutually agreed upon between the parties (GFS, SMIS)
	Bacolod Office - Agro Industrial Cluster, Poultry	Door 3&4 VCY Center, Hilado Ext. Capitol Shopping, Bacolod City	Rented	Good	90,602.68	15-Jul-2018	Renewable every year (AIC) Renewable every 3 years (Poultry)
	Bukidnon Office - Agro Industrial Cluster, Poultry	Gellor Bldg, Propia St. , Malaybalay	Rented	Good	154,026.00	Continuing unless terminated and agreed by both parties (AIC)	Renewable every year (AIC) Renewable every 2 years (Poultry)
	Pampanga Office - Agro Industrial Cluster, Poultry	RRK Blgd., Jose Abad Santos Ave., Dolores, City of San Fernando, Pampanga	Rented	Good	282,000.00	Continuing unless terminated and agreed by both parties (AIC)	Renewable every year (AIC) Not for renewal in 2016 (Poultry)
	Admin Office and Blast Freezing Facility/Cold Storage/Holding Room/Laboratory/Processing Plant/Warehouse						
	Bandung Office and Cold Storage - PT San Miguel Purefoods Indonesia	3rd Flr Jl. Soekarno Hatta No. 606, Bandung	Rented	Good	IDR 4,200,000.00 (OFC) IDR 2,500,000.00 (CS)	1-Jan-2016	Renewable upon consent of both parties
	Valenzuela Office and Cold Storage - Poultry	No. 1787 East Service Rd. Lawang Bato, NLEX Valenzuela City	Rented	Good	25,714.29 (OFC) 2,406,661.19 (CS)	30-Jun-2017	Renewable every 3 years
	Zambales Office and Holding Room - Poultry	Mangan-Vaca, Subic, Zambales	Rented	Good	4,464.29 (OFC) 80,600.00 (HR)	31-Dec-2015	Not for renewal in 2016
	Yogyakarta Office and Warehouse - PT San Miguel Purefoods Indonesia	Jln.Cangkringan Km.5 Purwomartani Kalasan Jogyakarta	Rented	Good	IDR 16,000,000.00 (OFC) IDR 16,000,000.00 (WH)	23-Mar-2016	Renewable upon consent of both parties
	Palembang Office and Warehouse - PT San Miguel Purefoods Indonesia	Komplek Gedung BLK (Balai Latihan Kerja) Jl.Residen Amaludin Sako Kenten Kelurahan Sukamaju, Palembang	Rented	Good	IDR 4,500,000.00 (OFC) IDR 4,500,000.00 (WH)	31-Jan-2016	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
Makassar Office and Warehouse - PT San Miguel Purefoods Indonesia	Prima Coldstorage, Jl.Kima 10 T3/C3 Kawasan Industri Makassar	Rented	Good	IDR 2,256,000.00 (OFC) IDR 2,256,000.00 (WH)	17-Nov-2016	Renewable upon consent of both parties
Pangasinan Office, Cold Storage and Laboratory - Poultry	GTL Compound, San Vicente, San Jacinto, Pangasinan, 2431	Rented	Good	22,321.43 (OFC) 1,195,537.27 (CS) 26,321.56 (LAB)	31-Dec-2015 (OFC) 30-Sep-2017 (CS & LAB)	Renewable
Ormoc Office and Blast Freezing Facility - Poultry, Agro Industrial Cluster	Doors 1 and 4, 2nd Flr., Tan Bldg., Lilia Avenue, Cogon, Ormoc City	Rented	Good	19,230.00 (AIC, Poultry OFC) 3,013.89 (Poultry BFF)	1-Jan-2018 (Poultry OFC, BFF) 31-Dec-2018 (AIC OFC)	Renewable every 3 years
Camarines Sur Office and Processing Plant - Agro Industrial Cluster, Poultry	Sta. Rita Industrial Estate, Sagurong, Pili, Camarines Sur	Rented	Good	91,000.00 (OFC) 634,082.28 (PP)	Continuing unless terminated and agreed by both parties (AIC, Poultry OFC) 31-Dec-2018 (Poultry PP)	Renewable every year (AIC OFC) Renewable annually (Poultry OFC) Renewable every 5 years (Poultry PP)
Butuan Office, Dressing Plant and Cold Storage - Agro Industrial Cluster, Poultry	Km 9 Tag-ibo Butu-an City	Rented	Good	12,492.86 (AIC, Poultry OFC) 84,292.22 (PP) 247,477.12 (CS)	Continuing unless terminated and agreed by both parties (AIC OFC) 31-Mar-2018 (Poultry OFC) 31-Dec-2016 (Poultry PP & CS)	Renewable every year (AIC OFC) Renewable every 3 years (Poultry OFC, PP, CS)
Misamis Occidental Office, Dressing Plant and Cold Storage Agro Industrial Cluster, Poultry	Mailen, Clarin, Misamis Occidental	Rented	Good	21,440.00 (AIC, Poultry OFC) 93,937.78 (Poultry PP) 204,021.78 (Poultry CS)	Continuing unless terminated and agreed by both parties (AIC OFC) 31-Dec-2015 (Poultry OFC) 31-Dec-2017 (Poultry PP) 31-Dec-2016 (Poultry CS)	Renewable every year (AIC OFC) Renewable every 3 years (Poultry OFC, PP, CS)
Cold Storage						
Pampanga Cold Storage - Monterey Meats	888 Quezon Rd, Brgy. San Isidro, San Simon, Pampanga	Rented	Good	2,630,699.68	31-Dec-2018	Renewable upon mutual agreement of both parties
Iloilo Cold Storage - Poultry	Barangay Tungay, Sta. Barbara, Iloilo City	Rented	Good	776,826.62	31-Dec-2017	Renewable every 3 years
Negros Oriental Cold Storage - Monterey Meats	Bolocboloc Sibulan Negros Oriental	Rented	Good	10,000.00	1-Jun-2018	Contract is renewable with mutual agreement
Leyte Cold Storage - Poultry	Brgy. Antipolo, Albuera, Leyte	Rented	Good	249,325.89	31-Aug-2020	Renewable every 5 years
Davao Cold Storage - Poultry	Daliao, Toril Davao City	Rented	Good	291,373.30	28-Feb-2016	Renewable every 3 years
Pampanga Cold Storage - Monterey Meats	Gloria I, Sindalan, San Fernando, Pampanga	Rented	Good	921,595.45	15-Sep-2018	Renewable
Cebu Cold Storage - Monterey Meats	Hernan Cortes St., Tipolo, Mandaue City	Rented	Good	172,940.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Surabaya Cold Storage - PT San Miguel Purefoods Indonesia	Jl. Beringin Bendo Kawasan Industri Ragam II Kav. 8 RT 06/08 Taman Sepayang, Surabaya	Rented	Good	IDR 27,500,000.00	24-Dec-2016	Renewable upon consent of both parties
Medan Cold Storage - PT San Miguel Purefoods Indonesia	Jl.KL.Yos Sudarso Km.8,8 No.88 Kelurahan Mabar Kecamatan Medan Deli Medan	Rented	Good	IDR 16,082,000.00	Continuing unless terminated and agreed by both parties	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
Navotas Cold Storage - Poultry	Lapu-Lapu Ave. and C3 Road cor. Northbay Blvd., Navotas City	Rented	Good	1,372,334.16	30-Sep-2017	Renewable every 3 years
Bali Cold Storage - PT San Miguel Purefoods Indonesia	Oke Transport, Jl.Raya Pemogan No.222 Denpasar Bali	Rented	Good	IDR 5,914,000.00	Continuing unless terminated and agreed by both parties	Renewable upon consent of both parties
Mandaue Cold Storage - Poultry	PC Suico St., Tabok, Mandaue City	Rented	Good	139,283.17	31-Dec-2016	Renewable every 2 years
Palawan Cold Storage - Poultry	Puerto Princesa, Palawan	Rented	Good	65,000.00	1-Jan-2018	Renewable every 3 years
Batangas Cold Storage - Poultry	San Roque, Sto Tomas, Batangas	Rented	Good	288,035.71	31-Jul-2016	Renewable every 3 years
Negros Occidental Cold Storage - Poultry	Singko de Noviembre St., Silay City, Negros Occidental	Rented	Good	349,577.55	31-Dec-2016	Renewable every 3 years
Rizal Cold Storage - Poultry	Sumulong Highway, Brgy. Mambugan, Antipolo, Rizal	Rented	Good	2,482,761.36	30-Jun-2017	Renewable every 3 years
El Salvador, Misamis Oriental Cold Storage - Monterey Meats	Upper Linabo, Barangay Cogon, El Salvador City, Misamis Oriental	Rented	Good	421,575.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Cavite Cold Storage - Magnolia, Inc., Monterey Meats, Poultry	Anabu Hills Industrial Estate, Anabu 1-c, Imus Cavite	Rented	Good	5,503,084.54	Continuing unless terminated and agreed by both parties	Renewable every year (Magnolia) Renewable by mutual agreement of the parties under such terms & conditions as
Camarines Sur Cold Storage - Monterey Meats, Poultry	Brgy. Caroyroyan, Pili, Camarines Sur	Rented	Good	272,189.62	Continuing unless terminated and agreed by both parties (Meats) 30-Sep-2017 (Poultry)	Renewable upon mutual agreement of both parties (Meats) Renewable every 2 years (Poultry)
Iloilo Cold Storage - Monterey Meats, Poultry	Brgy. Sambag Jaro Iloilo City	Rented	Good	1,151,303.41	31-Dec-2015 (Meats) 31-May-2018 (Poultry)	Renewable by mutual agreement of the parties under such terms & conditions as they may agreed upon (Meats) Renewable every 3 years (Poultry)
Cebu Cold Storage - Monterey Meats, Poultry	F.E. Zuellig Ave., North Reclamation Area, Mandaue City	Rented	Good	165,412.74	31-Jul-2018	Renewable upon mutual agreement of both parties (Meats) Renewable every 3 years (Poultry)
Tagoloan, Misamis Oriental Cold Storage - Monterey Meats, Poultry	Phividec Industrial Estate, Sugbongcogon, Tagoloan, Misamis Oriental	Rented	Good	183,854.11	28-Feb-2016	Renewable by mutual agreement of the parties under such terms and conditions as they may agreed upon (Meats) Renewable every 3 years (Poultry)
Davao Cold Storage - Monterey Meats, Poultry	Purok 15, Panungtungan, Tibungco, Davao City	Rented	Good	194,219.99	Continuing unless terminated and agreed by both parties (Meats) 31-May-2018 (Poultry)	Renewable upon mutual agreement of both parties (Meats) Renewable every 3 years (Poultry)
Toril, Davao Cold Storage - Monterey Meats, Poultry	Sitio Lower Bunugao, Brgy. Bungao, Toril, Davao City	Rented	Good	99,217.69	30-Sep-2016 (AIC) 28-Feb-2016 (Poultry)	Renewable by mutual agreement (AIC) Renewable every 3 years (Poultry)
Cold Storage and Blast Freezing Facility/Holding Room/Laboratory/Warehouse						
Cebu Cold Storage and Blast Freezing Facility - Poultry	Brgy. Pangdan, Naga City, Cebu	Rented	Good	1,290,315.98 (CS) 73,714.29 (BFF)	31-Dec-2016	Renewable every 1.5 years
Bulacan Cold Storage and Holding Room - Poultry	#95 Landicho St., Brgy. Balasing, Sta. Maria, Bulacan	Rented	Good	54,391.58 (CS) 46,742.25 (HR)	31-May-2016	Renewable every 3 years
Bulacan Cold Storage and Holding Room - Poultry	111 Pulong Gubat, Balagtas Bulacan	Rented	Good	135,342.00 (CS) 107,222.00 (HR)	31-Dec-2016	Renewable every 2 years
Pampanga Cold Storage and Holding Room - Poultry	Brgy. San Isidro, San Simon, Pampanga	Rented	Good	478,357.00 (CS) 262,782.00 (HR)	7-Jul-2019	Renewable every 5 years

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
La Union Cold Storage and Laboratory - Poultry	Brgy. Rabon, Rosario, La Union 2506 and Brgy. Mabilao, San Fabian, Pangasinan 2433	Rented	Good	1,025,434.19 (CS) 23,091.35 (LAB)	30-Sep-2017 (CS) 31-Dec-2018 (LAB)	Renewable
Bulacan Cold Storage, Holding Room and Laboratory - Monterey Meats, Poultry	Brgy. Caysio, Sta. Maria, Bulacan	Rented	Good	775,210.94 (Meats, Poultry CS) 308,644.83 (Poultry HR)	31-Jul-2016 (Meats, Poultry CS & Poultry HR)	Renewal of the contract shall commence 6 months before the expiry date (Meats CS)
Feedmill						
Cagayan de Oro Feedmill - Feeds	MITIMCO Cmpd.,Baloy,Cagayan De Oro City	Rented	Good	777,515.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of the parties
Foreshore						
Bulk Grain Handling Terminal (Golden Bay) Foreshore - San Miguel Mills, Inc. (GBGTC)	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas	Rented	Good	13,965.50	30-Jun-2025	Lease may be renewed for another 25 years at the option of the Party of the First Part (DENR)
Mabini Foreshore - San Miguel Mills, Inc.	Brgy. Bulacan, Mabini, Batangas	Rented	Good	2,412.16	Continuing unless terminated and agreed by both parties	Lease may be renewed for another 25 years at the option of the Party of the First Part (DENR)
Tabangao Foreshore - San Miguel Mills, Inc.	Brgy. Tabangao, Batangas City	Rented	Good	14,166.67	22-Aug-2024	Lease may be renewed for another 25 years at the option of the Party of the First Part (DENR)
Holding Room/Laboratory						
Tarlac Holding Room and Laboratory - Poultry	Brgy. San Nicolas Balas, Concepcion, Tarlac 2316	Rented	Good	1,988,736.51 (HR) 35,791.67 (LAB)	15-Sep-2018	Renewable every 5 years
Bataan Holding Room and Laboratory - Poultry	Brgy. Tumalo, Hermosa, Bataan	Rented	Good	736,659.25 (HR) 28,687.63 (LAB)	31-Jan-2018	Renewable every 3 years
Nueva Ecija Holding Room and Laboratory - Poultry	Km104, Brgy Tabuating, San Leonardo, Nueva Ecija	Rented	Good	921,836.70 (HR) 24,110.57 (LAB)	8-Mar-2018	Renewable every 3 years
Land						
Bulk Grain Handling Terminal (Golden Bay) LAND ONLY - San Miguel Mills, Inc. (GBGTC)	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas	Owned	Good			
Pangasinan Feedmill LAND ONLY - Feeds	Brgy. Bued, Binalonan, Pangasinan	Rented	Good	264,975.82	Continuing unless terminated and agreed by both parties	Renewable every year
Bataan Farm LAND ONLY - Poultry	Brgy. General Lim, Orion, Bataan	Owned	Good			
Bataan Feedmill LAND ONLY - Feeds	Mindanao Avenue, Corner 10th Ave. BEZ, Mariveles, Bataan	Rented	Good	1,037,280.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Pasig Office LAND ONLY - San Miguel Foods, Inc. - Corporate	SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig City	Owned	Good			
Laguna Ice Cream Plant LAND ONLY - Magnolia (GFDCC)	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good			
Mini Outlet						
Ciomas Mini Outlet - PT San Miguel Purefoods Indonesia	Jl,Taman Pagelaran No.20 Padasuka Ciomas, Bogor	Rented	Good	IDR 1,166,000.00	1-Apr-2016	Renewable upon consent of both parties
Pasar Citeureup Mini Outlet - PT San Miguel Purefoods Indonesia	Jl.Lebak Pasar 2 Blok A5 No.29 Pasar Citeureup Bogor, Jawa Barat	Rented	Good	IDR 1,125,000.00	10-Aug-2016	Renewable upon consent of both parties
Pasar Cibinong Mini Outlet - PT San Miguel Purefoods Indonesia	Jl.Raya Bogor Kelurahan Cirimekar Cibinong Pasar Blok B No.165 Cibinong	Rented	Good	IDR 1,416,000.00	30-Sep-2016	Renewable upon consent of both parties
Pondok Gede Mini Outlet - PT San Miguel Purefoods Indonesia	Kompleks pertokoan Dirgantara 1 Rt.01 Rw.09 Jl.Pondok Gede Raya No.30 Lubang Buaya	Rented	Good	IDR 833,000.00	20-Nov-2016	Renewable upon consent of both parties
Pasar Bantar Gebang Mini Outlet - PT San Miguel Purefoods Indonesia	Pasar Bantargebang Blok C No.15, Jl.Raya Narogong Km.11 Pangkalan 2 Ciketing Sumur Batu, Bantargebang Bekasi	Rented	Good	IDR 750,000.00	1-Jun-2016	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
Pasar Cibubur Mini Outlet - PT San Miguel Purefoods Indonesia	Pasar Cibubur Blok AL B1 Bks 043 Jakarta Timur	Rented	Good	IDR 666,000.00	4-Mar-2016	Renewable upon consent of both parties
Cileungsi Mini Outlet - PT San Miguel Purefoods Indonesia	Pasar Cileungsi Blok A1 No.61	Rented	Good	IDR 1,208,000.00	17-Nov-2016	Renewable upon consent of both parties
Pasar Parung Mini Outlet - PT San Miguel Purefoods Indonesia	Pasar Parung Blok B No.23, Bogor	Rented	Good	IDR 1,250,000.00	9-Oct-2016	Renewable upon consent of both parties
Processing Plant						
Batangas Dressing Plant - Poultry	Brgy Aya, San Jose, Batangas	Rented	Good	74,886.53	31-Dec-2016	Renewable every 2 years
Lipa Dressing Plant - Poultry	Brgy Kayumanggi, Lipa City	Rented	Good	861,209.08	28-Feb-2017	Renewable every 3 years
Quezon Processing Plant - Poultry	Brgy Lagalag, Tiaong, Quezon	Rented	Good	759,305.00	31-May-2018	Renewable every 3 years
Puerto Princesa Dressing Plant - Poultry	Brgy Tagburos, Puerto Princesa City	Rented	Good	20,000.00	31-Dec-2016	Renewable every year
Albay Processing Plant - Poultry	Brgy. Anislag, Daraga, Albay	Rented	Good	112,332.00	Continuing unless terminated and agreed by both parties	Renewable every 5 years
Zamboanga Dressing Plant - Poultry	Brgy. Boalan, MCLL Highway, Zamboanga City	Rented	Good	451,124.54	31-Dec-2017	Renewable every 3 years
Lucena Processing Plant - Poultry	Brgy. Bocohan, Lucena City	Rented	Good	1,334,782.73	30-Jun-2018	Renewable every 3 years
South Cotabato Dressing Plant - Poultry	Polomolok, South Cotabato	Rented	Good	121,900.75	31-Dec-2016	Renewable every 3 years
South Cotabato Meat Packing Plant - Monterey Meats	Purol 3, Brgy. Glamang, Polomolok, South Cotabato	Rented	Good	269,106.02	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Davao Processing Plant - Poultry	Sirawan Toril, Davao City	Rented	Good	127,789.76	31-Mar-2016	Renewable every year
Batangas Dressing Plant - Poultry	Tanauan City, Batangas	Rented	Good	44,064.00	30-Sep-2016	Renewable every year
Davao Dressing Plant - Poultry	Tugbok Dist., Calinan Davao City	Rented	Good	294,699.43	31-Dec-2017	Renewable every 3 years
Processing Plant and Cold Storage/Warehouse						
La Union Meat Plant and Cold Storage - Monterey Meats	Bgry. Lubing, San Juan, La Union	Rented	Good	229,187.50 (PP) 161,589.29 (CS)	15-Jun-2016	Renewable
Isabela Processing Plant and Cold Storage - Poultry	Garit Sur, Echegue Isabela	Rented	Good	34,174.11 (PP) 565,536.00 (CS)	31-Dec-2016 (PP) 15-Mar-2018 (CS)	Renewable every 3 years
Misamis Oriental Processing Plant and Cold Storage - Poultry	IP4 El Salvador, Misamis Oriental	Rented	Good	266,741.11 (PP) 1,134,624.80 (CS)	4-Mar-2018 (PP) 31-Dec-2018 (CS)	Renewable every 5 years
Misamis Oriental Dressing Plant and Cold Storage - Poultry	Mohon Tagoloan Misamis Oriental	Rented	Good	104,069.76 (PP) 254,898.44 (CS)	31-Dec-2016 (PP) 31-Aug-2018 (CS)	Renewable every 3 years
Bohol Processing Plant, Cold Storage and Warehouse - Poultry	Eastern Poblacion, Alburquerque, Bohol	Rented	Good	6,428.57 (PP) 10,625.00 (CS) 9,174.80 (WH)	30-Jun-2018	Renewable every 3 years
Isabela Processing Plant and Cold Storage - Meats, Poultry	Purok 5, Rizal, Santiago City, Isabela	Rented	Good	4,464.29 (Poultry PP) 306,720.30 (Meats, Poultry CS)	30-Nov-2016 (Meats CS) 30-Sep-2017 (Poultry CS and PP)	Renewable upon mutual agreement of both parties (Meats CS) Renewable every 3 years (Poultry CS and PP)
Sales Office						
Rizal Office - Magnolia, Inc.	# 88 Garnet Bario Mambugan, Antipolo, Rizal	Rented	Good	7,653.06	1-Feb-2018	Renewable upon mutual agreement of both parties
Bulacan Office - Feeds	#382 mc. Arthur hi-way, Tuktukan, Guiguinto,Bulacan	Rented	Good	60,647.32	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Selling Station						
Mega-Q Mart Selling Station - Monterey Meats	732 EDSA corner Ermin Garcia Street, Quezon City	Rented	Good	33,482.14	14-Aug-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
	Batangas Selling Station - Monterey Meats	Brgy. Quilo quilo North, Padre Garcia, Batangas	Rented	Good	48,363.10	31-Dec-2016	Renewable upon mutual agreement of both parties
	Pampanga Selling Station - Monterey Meats	Sta.Barbara, Bacolor, Pampanga	Rented	Good	155,073.33	Continuing unless terminated and agreed by both parties	Renewable every year
	Warehouse						
	Bataan Warehouse - Feeds	10th Avenue, FAB, Mariveles, Bataan	Rented	Good	2,025,000.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Tagbilaran Feeds Warehouse - Poultry	19B San Jose St., Cogon Dist., Tagbilaran City	Rented	Good	7,391.92	31-Dec-2016	Renewable every year
	AFSI-Managed Warehouses - Feeds	1st Industrial Park Zamboanga City Special Economic Zone Authority Sitio San Ramon, Brgy. Talisayan, Zamboanga City	Rented	Good	301,291.20	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Manila Warehouse - Feeds	2nd St. Baseco Compound, Port Area, Manila	Rented	Good	431,658.94	Continuing unless terminated and agreed by both parties	Renewable every year
	Maybunga Warehouse - San Miguel Integrated Sales	403 F. Legaspi Street, Maybunga, Pasig City	Rented	Good	4,048,446.15	30-Jun-2017	Annually based on evaluation and endorsement of operations
	Pangasinan Warehouse - Feeds	835 Brgy. Babasit Manaoag, Pangasinan	Rented	Good	168,000.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Mandaluyong Warehouse - Feeds	979 C. Castaneda Street, Mandaluyong City Metro Manila	Rented	Good	300,000.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Bukidnon Warehouse - Feeds	Bangcud, Malaybalay City, Bukidnon	Rented	Good	115,000.00	Continuing unless terminated and agreed by both parties	Renewable every year
	LSL Multi-Serve-Managed Warehouses - Feeds	Bay 6 Everland Agri Corp., Km. 12, Sasa, Davao City, Old Airport Rd., Sasa, Davao City and Km. 9, Sasa, Davao City	Rented	Good	850,500.00	31-Dec-2015	Renewable every year
	Mandaue Warehouse - Poultry	BDC Bldg., Floremer Subd., AS Fortuna St., Banilad, Mandaue City	Rented	Good	4,166.67	31-Dec-2015	Not for renewal in 2016
	Pangasinan Warehouse - Feeds	Brgy. Cablong, Mc Arthur H-way, Pozzorubio, Pangasinan	Rented	Good	113,400.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Iloilo Warehouse - Feeds	Brgy. Loboc, Lapaz, Iloilo City	Rented	Good	381,158.40	Continuing unless terminated and agreed by both parties	Renewable every year
	Iloilo Warehouse - Feeds	Brgy. Pavia, Iloilo	Rented	Good	446,430.00	31-Dec-2015	Renewable every year
	Isabela Warehouse - Feeds	Brgy. Victoria, Alicia, Isabela	Rented	Good	75,600.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Isabela Warehouse - Feeds	Bugallon Norte,Ramon Isabela	Rented	Good	63,775.51	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Pangasinan Warehouse - Feeds	Carmay East, Rosales, Pangasinan	Rented	Good	330,610.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Pangasinan Warehouse - Feeds	Carmen East, Rosales, Pangasinan	Rented	Good	649,739.06	15-Dec-2016	Renewable every year

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Tarlac Warehouse - Feeds	Cristo Rey, Capas, Tarlac	Rented	Good	294,030.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Isabela Warehouse - Feeds	Del Pilar, Alicia, Isabela	Rented	Good	882,000.00	Continuing unless terminated and agreed by both parties	Renewable every year
	MMIJOE-Managed Warehouses - Feeds	Diversion Rd., Buhangin, Davao City, Km 10, Sasa, Davao City and Gensan Drive, Koronadal City	Rented	Good	924,577.71	31-Dec-2015	Renewable every year
	Maybunga Warehouse - San Miguel Mills, Inc.	Jose Ong Street, Maybunga, Pasig City	Rented	Good	316,845.00 (Jan to Jun) 348,529.50 (Jul to Dec)	14-Jun-2016	Renewable upon mutual written agreement of the parties
	Tarlac Warehouse - Feeds	Mabini, Moncada, Tarlac	Rented	Good	252,725.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Laguna Warehouse - Feeds	Maharlika Highway, Calamba Laguna	Rented	Good	97,184.00	31-Jul-2017	Renewable every 3 years
	Laguna Warehouse - Feeds	Malitlit, Sta. Rosa City Laguna	Rented	Good	1,016,960.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Isabela Warehouse - Feeds	Marabulig I, Cauyan City Isabela	Rented	Good	76,530.61	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Bataan Warehouse - Feeds	MGC Compound, Luzon Avenue, Brgy. Mariveles, Bataan	Rented	Good	2,535,454.77	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Iloilo Warehouse - Feeds	Muelle Looney, Iloiilo City	Rented	Good	295,680.00	Continuing unless terminated and agreed by both parties	Renewable every 2 years
	Pangasinan Warehouse - Feeds	Nancayasan, Urdaneta, Pangasinan	Rented	Good	227,520.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Isabela Warehouse - Feeds	Nungnungan II, Cauyan City Isabela	Rented	Good	123,214.29	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	SMSCL-Managed Warehouses - Feeds	Ouano Wharf, Looc, Mandaue City, Cebu	Rented	Good	20,079,399.33	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	La Union Warehouse - Feeds	Pagdaraoan, San Fernando, La Union	Rented	Good	117,857.14	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Camarines Sur Warehouse - Feeds	Pongol Balogo Pasacao Camarines Sur	Rented	Good	439,285.71	Continuing unless terminated and agreed by both parties	Renewable every year
	San Fernando Warehouse - Feeds	Port Area, San Fernando Port, Poro Point Special Economic and Freeport Zone	Rented	Good	127,609.71	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Isabela Warehouse - Feeds	Prenza Highway, Cauayan City, Isabela	Rented	Good	423,359.82	1-Mar-2016	Renewable upon mutual agreement of both parties
	Bacolod Warehouse - Feeds	Reclamation Area, Banago, Bacolod City	Rented	Good	165,894.40	Continuing unless terminated and agreed by both parties	Renewable every year

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Negros Oriental Warehouse - Poultry	Sac-Sac. Bacong, Negros Oriental. 6216	Rented	Good	85,058.53	30-Sep-2016	Renewable every year
	Isabela Warehouse - Feeds	San Fermin,Cauayan City, Isabela	Rented	Good	323,952.68	1-Mar-2016	Renewable upon mutual agreement of both parties
	Batangas Warehouse - San Miguel Mills, Inc.	San Jose, Batangas	Rented	Good	100,000.00	31-Mar-2016	Renewable upon mutual agreement of the parties
	Camarines Sur Warehouse - Feeds	Santiago, Pili, Camarines Sur	Rented	Good	400,017.86	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Bulacan Warehouse - San Miguel Mills, Inc.	Sta. Rita, Guiguinto, Bulacan	Rented	Good	70,072.64	31-May-2018	Renewable upon mutual agreement of the parties
	La Union Warehouse - Feeds	Sta.Rita East, Agoo, La Union	Rented	Good	112,410.00	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	South Cotabato Warehouse - Poultry	Tumbler, Polomolok South Cotabato	Rented	Good	226,113.29	10-Mar-2017	Renewable every 3 years
	Pangasinan Warehouse - Feeds	Urdaneta, Pangasinan	Rented	Good	359,988.66	Continuing unless terminated and agreed by both parties	Renewable every 6 months
	Isabela Warehouse - Feeds	Victoria, Alicia, Isabela	Rented	Good	73,260.00	1-Aug-2016	Renewable upon mutual agreement of both parties
	Tacloban Warehouse - Poultry, Monterey Meats	Brgy 99 Diit, Maharlika Highway, Tacloban City	Rented	Good	359,811.49	30-Sep-2017 (Poultry) 30-Oct-2017 (Meats)	Renewable every 2 years (Poultry) Renewable upon mutual agreement on both parties under their agreed terms and conditions (Meats)
	Others (Blast Freezing Facility/Depot/Slaughterhouse)						
	Parañaque Blast Freezing Facility - Purefoods Hormel Company, Inc.	Sta. Aqueda Ave., Pascor Drive, Parañaque City	Rented	Good	3,668,100.83	31-Jan-2017	Renewable by mutual agreement of the parties under such terms and conditions as they may agreed upon
	Depok Depot - PT San Miguel Purefoods Indonesia	Jl. Raya Bogor Km. 35 Sukamaju, Cilodong, Depok, Indonesia	Rented	Good	IDR 1,083,000.00	1-Dec-2016	Renewable upon consent of both parties
	Misamis Oriental Slaughterhouse - Monterey Meats	Sta. Ana, Tagoloan, Misamis Oriental	Rented	Good	13,000.00	9-Oct-2016	Renewed upon the expiry of its contract term for the like period(s) under the same terms and conditions, except as may be otherwise agreed by the parties in writing
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						
	Land	Canlubang Industrial Estate, Canlubang, Laguna	Owned	Good			
	SMYPC Cebu Beverage Packaging Plant, SMYPC Cebu Glass Plant and SMYPC MCLP Mandaue Plant						
	Land	SMC Mandaue Complex, Hi-way, Tipolo, Mandaue City, Cebu	Owned	Good			
	SMYPC Cebu Beverage Packaging						
	Warehouse	SMC Wharf, Tipolo, Mandaue City, Cebu	Owned	Good			
	SMYPC Cebu Glass Plant, SMYPC Cebu Beverage Packaging Plant and SMYPC Leasing Operation						
	Warehouse	Quano Wharf, Mandaue City	Owned	Good			
	SMYPC Cebu Glass Plant						
	Warehouse	H Cortes St., Mandaue City	Rented	Good	400,200.00	April 30, 2016	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
	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, San Fernando City	Owned	Good			
	SMYPC Manila Glass Plant						
	Land	Muelle dela Industria St., Binondo Manila	Owned	Good			
	Warehouse	No. 35 Calle Malusak,San Pablo, Malolos City, Bulacan	Rented	Good	234,000.00	December 31, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	No. 35 Calle Malusak,San Pablo, Malolos City, Bulacan	Rented	Good	150,000.00	March 31, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	No.10 T. Santiago St. Plastic City Compound, Canumay, Valenzuela City	Rented	Good	56,700.00	December 31, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	No.10 T. Santiago St. Plastic City Compound, Canumay, Valenzuela City	Rented	Good	56,700.00	December 31, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	No.10 T. Santiago St. Plastic City Compound, Canumay, Valenzuela City	Rented	Good	56,700.00	March 31, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	Sitio Torres, Sta Cuz, Porac, Pampanga	Rented	Good	125,550.00	December 31, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	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	# 32 T. Santiago Street, Canumay, Valenzuela City	Rented	Good	179,457.60	February 28, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	# 33 T. Santiago Street, Canumay, Valenzuela City	Rented	Good	170,520.00	August 15, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	# 34 T. Santiago Street, Canumay, Valenzuela City	Rented	Good	72,800.00	July 01, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	Tomas Claudio Street, Pandacan, Manila	Rented	Good	294,000.00	November 05, 2019	Renewable for a period in accordance with the mutual written agreement of both parties
2	**SAN MIGUEL YAMAMURA ASIA CORPORATION**						
	Land	Km 27, Aguinaldo Highway, Imus, Cavite	Owned	Good			
	Land & Warehouse	Canlubang Industrial Estate, Canlubang, Laguna	Owned	Good			
	Warehouse	Printwell Compound,Mamplasan, Biñan, Laguna	Rented	Good	1,843,800.00	October 31, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	FTI Warehouse, Sunyu Compound, Veterans Center, Taguig, Rizal	Rented	Good	719,400.00	April 30, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
3	**SMC YAMAMURA FUSO MOLDS CORPORATION**	Governor Dr., Bo. De Fuego, Bgy. 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
4	**SAN MIGUEL PAPER PACKAGING CORPORATION**	Dr. A Santos Avenue, Sucat, Parañaque City	Owned	Closed			
5	**MINDANAO CORRUGATED FIBREBOARD, INC.**						
	Land	Km 12 Sasa, Davao City	Owned	Good			
	Warehouse	Casinglot, Tagoloan, Misamis Oriental	Rented	Good	202,755.00	March 31, 2016	Renewable for a period in accordance with the mutual written agreement of both parties
6	**CAN ASIA, INC.**						
	Land	Bgy. San Francisco de Malabon, Gen. Trias, 4107 Cavite	Owned	Good			
	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			
8	**ZHAOQING SAN MIGUEL YAMAMURA GLASS COMPANY LTD.**	12 North Avenue, Housha St., Zhaoqing City Guangdong Province, PRC 526020	Land Use Rights	Good			
9	**FOSHAN SAN MIGUEL YAMAMURA PACKAGING COMPANY LTD.**	3 Dongdi Road, Junan Township, Guangdong Province, PRC	Land Use Rights	Good			
10	**SAN MIGUEL YAMAMURA HAIPHONG GLASS COMPANY LTD.**	17-A Ngo Quyen St., Ngo Quyen District, Haiphong City, Vietnam	Land Use Rights	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 Use Rights	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 Lease Rights	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, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia	Owned	Good			
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**						
	Terminals and Depots						
	Depot	J.P.de Carreon St. Punta Aparri, Cagayan	Rented Except Building & Facilities	Good	11,103.09	December 31, 2021	Renewable at the option of the lessor
	Depot	PFDA CMPD., Navotas, M.M.	Rented Except Building & Facilities	Good	1,021,407.38	December 31, 2039	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
	Depot	Parola, Brgy. Maunlad, Puerto Princesa City, Palawan	Rented Except Building & Facilities	Good	19,671.51	November 30, 2020	Rafols lot (1,249 sqm); Renewable at the option of the lessee; monthly rental of P19,671.51 per month as of December 1, 2015 with 7% escalation per year
	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	Poro Pt.,San Fernado, La Union	Rented Except Building & Facilities	Good	42,103.26	November 30, 2018	Renewable upon mutual agreement of both parties
	Depot	Gen. Trias, Rosario, Cavite	Rented Except Building & Facilities	Good	236,270.14	December 31, 2017	Renewable at the option of the lessee
	Depot	Tandayag, Amlan, Negros Oriental	Rented Except Building & Facilities	Good	11,478.06	November 30, 2018	Renewable at the option of the lessee
	Depot	Bo. San Patricio, Bacolod City, Negros Occidental	Land-Partially Owned and Rented; Building & Facilities-Owned	Good	193,073.31	August 31, 2018 December 15, 2022	Renewable at the option of the lessee
	Depot	Candanay Sur, Siquijor	Owned	Good			
	Depot	Lapuz, Iloilo City	Land-Partially Owned and Rented; Building & Facilities-Owned	Good	567,985.33	August 31, 2018	Renewable upon mutual agreement of both parties
	Depot	LIDE, Isabel, Leyte	Rented Including Building & Facilities	Good	211,365.00	Yearly renewal	Renewable upon mutual agreement of both parties
	Depot	MEPZ, Lapu- lapu City	Rented Except Building & Facilities	Good	688,530.00	March 22, 2017 December 31, 2015	Renewable upon mutual agreement of both parties
	Depot	Bo. Linao, Ormoc City, Leyte	Rented Except Building & Facilities	Good	28,189.70	August 31, 2018 May 31, 2025	Renewable upon mutual agreement of both parties
	Depot	Sitio Pook, Brgy. Culasi, Roxas, City	Land-Partially Owned and Rented; Building & Facilities-Owned	Good	56,741.00	August 31, 2016 December 31, 2038	Renewable upon mutual agreement of both parties
	Depot	Anibong, Tacloban City	Rented Except Building & Facilities	Good	13,165.69	August 31, 2018	Renewable at the option of the lessee
	Depot	Graham Ave., Tagbiliran, Bohol	Rented Except Building & Facilities	Good	4,037.33	August 31, 2018	Renewable at the option of the lessee
	Depot	Km. 9, Bo. Pampanga, Davao City	Rented Except Building & Facilities	Good	139,314.01	August 31, 2018	Renewable at the option of the lessee
	Depot	Purok Cabu, Bawing, General Santos City	Rented Except Building & Facilities	Good	257,961.73	September 01, 2035	Renewable at the option of the lessee
	Depot	Bo. Tomas Cabili, 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 & Facilities	Good	31,292.80	December 16, 2019	Renewable upon mutual agreement of both parties
	Depot	Talisay, Nasipit, Agusan del Norte	Rented Except Building & 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 & Facilities	Good	12,036.42	August 31, 2018	Renewable at the option of the lessee
	Depot	Tagoloan, Misamis Oriental - 48,700 sqm	Land-Partially Owned and Rented; Building & Facilities-Owned	Good	139,276.08	December 31, 2020	Renewable at the option of the lessee
	Depot	Bgy. Campo Islam, Lower Calarian, Zamboanga City	Rented Except Building & 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

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Depot (Gasul - San Fernando)	San Fernando, Pampanga	Rented Except Building & Facilities	Good	8,543.46	August 31, 2018	Renewable at the option of the lessee
	Sales Office	Sixteen Enterprises Compound, Brgy. Masipit, Calapan City, Oriental Mindoro	Rented	Good	22,000.00	June 30, 2016	Renewable upon mutual agreement of both parties
	Sales Office	Liboro St., Brgy. Pag-Asa, San Jose, Occidental Mindoro	Rented	Good	9,743.48	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	38,509.58	August 31, 2018	Renewable at the option of the lessee. There is an annual 2% increase every September.
	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, 2018	Renewable at the option of the lessee
	Terminal	Looc, Mandaue City, Cebu	Land-Partially Owned and Rented; Building & Facilities-Owned	Good	523,144.13	August 31, 2018 March 31, 2028 January 1, 2038	Renewable at the option of the lessee
	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
	Airport Installations	Laguindingan, Misamis Oriental CAAP- 4000 sq m.	Rented Except Building & Facilities	Good	200,000.00	March 31, 2040	Renewable upon mutual agreement of both parties
	Airport Installations	Davao Airport	Rented Except Building & Facilities	Good	32,262.50	May 31, 2028	Renewable upon mutual agreement of both parties
	Airport Installations	Iloilo Airport, Cabatuan, Iloilo City	Rented Except Building & Facilities	Good	17,625.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Airport Installations	Laoag Airport Installation, Laoag Airport, Brgy. Araniw, Laoag City	Rented Except Building & Facilities	Good	3,180.00	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	465,485.36	December 31, 2035	Renewable at the option of the lessee
2	**PETRON MALAYSIA REFINING & MARKETING BHD**						
	Refinery						
	Port Dickson Refinery	Lot 2646 - Lot 2648, Port Dickson, Negeri Sembilan	Owned	Good			
	Terminals and Depots						
	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 Butterworth, Penang	Owned	Good			
	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 01, 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 RM10.96 per square meters per year from 1st November 2013 until 31st Dec 2015 and shall be increased by 10% on 1st January 2016 and after every three (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 7425.42	June 2051	An option for renewal for a period of 30 years

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Westport JV	Terminal Bersama Sdn Bhd, Jeti Petrokimia, Pelabuhan Barat, 49290 Pulau Indah, Selangor	Rented	Good	MYR 54,994.50	Aug 2024	Renewable upon expiry of lease term
4	**PETRON OIL (M) SDN BHD**						
	Tawau Terminal	Jalan Tg Batu Laut, 91000 Tawau, SABAH	Rented Except Building & Facilities	Good	MYR .125	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 2016	An option for renewal for a period of 30 years
POWER BUSINESS							
1	**SAN MIGUEL ENERGY CORPORATION**						
	1000 MW Sual Coal-Fired Thermal Power Plant	Brgy. Pangascasan, Sual, Pangasinan	IPPA with PSALM	Good			
2	**SOUTH PREMIERE POWER CORP.**						
	1200 MW Ilijan Natural Gas Combined Cycle Power Plant	Brgy. Ilijan, Batangas City, Batangas	IPPA with PSALM	Good			
3	**STRATEGIC POWER DEVT. CORP.**						
	345 MW San Roque Multi-Purpose Hydroelectric Power Plant	Brgy. San Roque, San Manuel, Pangasinan	IPPA with PSALM	Good			
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	Owned	On-going construction of power plant			
	Ash Dump Facility	Barangay Lamao, Limay, Bataan	Owned	On-going construction of power plant			
7	**LIMAY PREMIERE POWER CORP.**						
	2 X 150 MW Coal-Fired Power Plant	Barangay Lamao, Limay, Bataan	Owned	On-going construction of power plant			
8	**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 St.Barangay Loma, Binan, Laguna	Owned	Good			
	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			

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	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			
	Office and Parking Space	No. 40 San Miguel Avenue, Ortigas Center, Mandaluyong City	Owned	Good			
	Office and Parking Space	El Magnifico Bldg., Bo. San Antonio, Pasig City	Owned	Good			
	NOTE: Bell Telecommunication Philippines, Inc. has around 26 cell sites throughout Metro Manila under lease agreement with external parties.						
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. Evangilista 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, Manila	Owned	Good			
	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
	NOTE: Eastern Telecommunications Philippines, Inc. has around 152 technical offices throughout the country under lease agreement with external 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, Calaminiugan, Cagayan Valley	Owned	Good			
	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, Manila	Owned	Good			
	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	December 31, 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			
	NOTE: Dominer Pointe, Inc. has around 122 cell sites throughout the country under lease agreement with external parties.						

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
5	**SOMETE LOGISTICS AND DEVELOPMENT CORP.**						
	Office	Suite 402, Prestige Tower, F. Ortigas Jr. Road, Ortigas Center, Pasig City	Rented	Good	6,696.43	December 31, 2015	Renewable upon mutual agreement of both parties
	Cell Site	Dr. A. Santos Avenue, Barangay San Antonio, Paranaque City	Owned	Good			
	NOTE: Somete Logistics and Development Corp. has around 25 cell sites throughout Metro Manila under lease agreement with external parties.						
6	**WI-TRIBE TELECOMS, INC.**						
	Land	Km.29 Citcumferencial Rd., San Roque, Antipolo, Rizal	Owned	Good			
	Land	171 Alcantara Compd., Banlat Rd.,Tandang Sora, QC	Owned	Good			
	Land	2298 P. Tamo Ext., Makati City	Owned	Good			
	Land	Balatong B, Pulilan, Bulacan	Owned	Good			
	Land	Barangay Barinayan (Bo. Kaybagal), Talisay, Batangas	Owned	Good			
	Land	Blumentritt, Murcia, Negros Occidental	Owned	Good			
	Land	Brgy. Badio, Numancia, Aklan	Owned	Good			
	Land	Brgy. Bongbong, Valencia, Negros Oriental	Owned	Good			
	Land	Brgy. Kablon, Tupi, South Cotabato	Owned	Good			
	Land	Brgy. Kisante, Makilala, North Cotabato	Owned	Good			
	Land	Brgy. Langtad, Argao, Cebu	Owned	Good			
	Land	Brgy. Poblacion, Calamba, Misamis Occidental	Owned	Good			
	Land	Brgy. Pungtod, Oslob, Cebu	Owned	Good			
	Land	Brgy. Tamburong, Jordan, Guimaras Islang, Iloilo	Owned	Good			
	Land	Brgy. Tayud, Consolacion, Cebu	Owned	Good			
	Land	Brgy. Tropo, Macasandig, Cagayan de Oro City	Owned	Good			
	Land	Brgy. Tuburab, Mawab, Davao del Norte	Owned	Good			
	Land	Bukagan Hill, Brgy. Malaubang, Ozamis City	Owned	Good			
	Land	Carapay, Brgy. Maybo, Boac, Marinduque	Owned	Good			
	Land	Galler Subd., Brgy. 141 Zone 12, Caloocan City	Owned	Good			
	Land	Imoc Hill, San Pablo City	Owned	Good			
	Land	Kalaklan Ridge, Upper Mabayuan, Olongapo City	Owned	Good			
	Land	Manga Hill, Sta. Filomena, Iligan City	Owned	Good			
	Land	Matina Pangi, Talomo, Matina, Davao City	Owned	Good			
	Land	Moscow St., Enverga University Ville, Lucena City	Owned	Good			
	Land	Orchids St., South Green Heights, Muntinlupa City	Owned	Good			
	Land	Paltao, Pulilan, Bulacan	Owned	Good			
	Land	San Carlos Heights, Brgy. Quiot, Pardo, Cebu City	Owned	Good			
	Land	St. Joseph St., Lagao, General Santos City	Owned	Good			
	Condominium Units	Century Citadel Inn, P Burgos St., Makati City	Owned	Good			
	Condominium Units	Eisenhower Bldg., 7 Annapolis St., Green Hills, San Juan, M.M.	Owned	Good			
	Condominium Units	Rufino Tower, Ayala Ave., cor Rufino St., Makati City	Owned	Good			
	Cellsite	Meralco Ave., Pasig City	Owned	Good			
	Cellsite	St. Francis Ave., Ortigas Center, Mandaluyong City	Owned	Good			
	Cellsite	Ugong, Pasig City	Owned	Good			
	Building/Backbone/Data Center	Km 29 Circumferencial Rd. San Roque, Antipolo City	Owned	Good			
	Building/Data Center	2298 Technology Center Pasong Tamo Ext., Makati City	Owned	Good			
	Building	Balatong B, Pulilan, Bulacan	Owned	Good			
	Building - Hubsite	Century Citadel Inn, P Burgos St., Makati City	Owned	Good			
	Building - Hubsite	Eisenhower Bldg., 7 Annapolis St., Green Hills, San Juan, M.M.	Owned	Good			
	Building - Hubsite	Rufino Tower, Ayala Ave., cor Rufino St., Makati City	Owned	Good			
	Building/Backbone	Barangay Barinayan (Bo. Kaybagal), Talisay, Batangas	Owned	Good			
	Building/Backbone	Brgy. Badio, Numancia, Aklan	Owned	Good			
	Building/Backbone	Brgy. Bongbong, Valencia, Negros Oriental	Owned	Good			
	Building/Backbone	Brgy. Kisante, Makilala, North Cotabato	Owned	Good			

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Building/Backbone	Brgy. Poblacion, Calamba, Misamis Occidental	Owned	Good			
	Building/Backbone	Brgy. Pungtod, Oslob, Cebu	Owned	Good			
	Building/Backbone	Bukagan Hill, Brgy. Malaubang, Ozamis City	Owned	Good			
	Building/Backbone	Carapay, Brgy. Maybo, Boac, Marinduque	Owned	Good			
	Building/Backbone	Imoc Hill, San Pablo City	Owned	Good			
	Building/Backbone	Manga Hill, Sta. Filomena, Iligan City	Owned	Good			
	Building/Backbone	Paltao, Pulilan, Bulacan	Owned	Good			
	Building/Backbone	St. Joseph St., Lagao, General Santos City	Owned	Good			
	Building/Backbone	Upper Passi, Upi, Maguindanao	Owned	Good			
	Building/Backbone	Brgy. Bonbon, Babag, Cebu City	Rented	Good	5,760.00	May 31, 2020	Renewable upon mutual agreement of both parties
	Building/Backbone	Mabalakid Hill, Baluyan, Bolton, Malalag, Davao del Sur	Rented	Good	1,216.67	June 24, 2020	Renewable upon mutual agreement of both parties
	Building/Backbone	Sacobia Dev. Authority, Brgy. Lape, Bamban, Tarlac	Rented	Good	7,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Building/Backbone	Upper Locuban, Palpalan, Pagadian City	Rented	Good	1,597.20	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Building/Backbone/Hub Site	171 Alcantara Compd., Banlat Rd.,Tandang Sora, QC	Owned	Good			
	Building/Backbone/Hub Site	Brgy. Langtad, Argao, Cebu	Owned	Good			
	Building/Backbone/Hub Site	Matina Pangi, Talomo, Matina, Davao City	Owned	Good			
	Building/Backbone/Hub Site	Moscow St., Enverga University Ville, Lucena City	Owned	Good			
	Building/Backbone/Hub Site	Orchids St., South Green Heights, Muntinlupa City	Owned	Good			
	Building/Backbone/Hub Site	San Carlos Heights, Brgy. Quiot, Pardo, Cebu City	Owned	Good			
	Building/Backbone/Hub site	Brgy. Lawa-an, Roxas City	Rented	Good	10,000.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Building/Backbone/Hub Site	Mt. Sto. Tomas, Brgy. Guisset, Tuba, Benguet	Rented	Good	6,000.00	August 21, 2016	Renewable upon mutual agreement of both parties
	Building/HubSite	Blumentritt, Murcia, Negros Occidental	Owned	Good			
	Building/HubSite	Brgy. Tamburong, Jordan, Guimaras Islang, Iloilo	Owned	Good			
	Building/HubSite	Brgy. Tropo, Macasandig, Cagayan de Oro City	Owned	Good			
	Building/HubSite	Galler Subd., Brgy. 141 Zone 12, Caloocan City	Owned	Good			
	Building/HubSite	Lily Hill, CDC, Mabalacat, Pampanga	Rented	Good			
	Building/Node	Brgy. Tayud, Consolacion, Cebu	Owned	Good			
	Building/Spur	Brgy. Kablon, Tupi, South Cotabato	Owned	Good			
	Building/Spur	Brgy. Tuburab, Mawab, Davao del Norte	Owned	Good			
	Building/Spur	Kalaklan Ridge, Upper Mabayuan, Olongapo City	Owned	Good			
	Building/Backbone	Mt. Banoy, Brgy. Talumpoc, Batangas	Rented	Good	8,890.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	NOTE: wi-Tribe Telecoms, Inc. has around 381 cell sites throughout the country under lease agreement with external parties.						
7	**HI-FREQUENCY TELECOMMUNICATION, INC.**						
	NOTE: Hi-Frequency Telecommunication, Inc. has around 34 cell sites throughout Metro Manila under lease agreement with external parties.						
8	**COBALTPOINT TELECOM, INC.**						
	Land	Lot 8 Blk 16 Eagle St., Francisville Subd, Antipolo City	Owned	Good			
	Land	Lot 9 Blk 16 Eagle St., Francisville Subd, Antipolo City	Owned	Good			
	Land	Lot 10 Blk 16 Eagle St., Francisville Subd, Antipolo City	Owned	Good			
	Land	National Road, Brgy. Lahug, Cebu City	Owned	Good			
	Land	Cugman, Cagayan De Oro City	Owned	Good			
	Land	Coral St Westborough Subdivision, Paranaque City	Owned	Good			
	Land	Road Lot 1, Capitol Ridge Executive Subd, Batasan Hills	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	Bo Pasong Camachile, Gen Trias, Cavite	Owned	Good			
	Land	Loma De Gato, Marilao, Bulacan	Owned	Good			
	Land	Carpa Vill Subd, Sabang, Baliuag, Bulacan	Owned	Good			
	Land	Bo Balintawak, Lipa City, Batangas	Owned	Good			
	Land	Lot 28 A, Brgy San Rafael, Tarlac City	Owned	Good			
	Land	Lot 28 B-1 Brgy San Rafael, Tarlac City	Owned	Good			
	Land	Lot 15 Blk 11 Margarita St, Bo Mayapa, Calamba	Owned	Good			
	Land	Mendoza St, Brgy Iruhin, Mt Sungay, Tagaytay City	Owned	Good			
	Land	Bck Drive, Bo Sambat Ibaba, Batangas City	Owned	Good			
	Land	Fleur De Lis St, South Greenheights	Owned	Good			
	Land	Matina Hills, Davao City	Owned	Good			
	Land	Lot 141 Blk 1 Quirino Hills, Baguio City	Owned	Good			
	Land	1st St., Lakeside Park Subd, San Lucas, San Pablo, Laguna	Owned	Good			
	Land	L11 B3 Phase II Filinvest Homes, Binan, Laguna	Owned	Good			
	Land	Wawa, Moonwalk, Bo. La Huerta, Paranaque City	Owned	Good			
	Land	Yakal Ave., Mountainview Subd, Brgy. Duran, Tanauan	Owned	Good			
	Land	Brgy. Calero, Calapan, Mindoro	Owned	Good			
	Land	Brgy. Kasuntingan, Mandaue City	Owned	Good			
	Land	L9 B33 Francisco Vill Pulong Sta. Cruz, Sta. Rosa, Laguna	Owned	Good			
	Land	Tanqui, San Fernando, La Union	Owned	Good			
	Land	P Florentino Cor Baco St., Quezon City	Owned	Good			
	Land	Road Lot 4 Salina Realty Subd, Tejero, Rosario, Cavite	Owned	Good			
	Land	Deparo Villa Tres Marias Subd, Bagumbong, Caloocan	Owned	Good			
	Land	Bo Mangino, Gapan, Nueva Ecija	Owned	Good			
	Land	Samput, Paniqui, Tarlac	Owned	Good			
	Land	Labac, Cuenca, Batangas	Owned	Good			
	Land	Bo. Banay-Banay I, San Jose, Batangas	Owned	Good			
	Land	San Jose, Batangas	Owned	Good			
	Luisa D. Rivera (Land)	Camachiles, Mabalacat, Pampanga	Rented	Good	35,377.30	April 30, 2017	Renewable every year
	Octagon Industrial Development Corp., (Parcel Deck of Bldg.)	Octagon Center, San Miguel Avenue, Ortigas Center, Pasig City	Rented	Good	31,907.40	October 31, 2016	Renewable every year
	The Family Clinic, Inc. (Parcel of Land)	1452 A. Lacson Street, Sta. Cruz, Manila	Rented	Good	25,000.00	November 30, 2016	Renewable every year
	Geraldine Sabanal-Nota (Land)	Mikhaela's Diner, Ground Floor Descartin Bldg., Tomas Saco St., Macasandig, Cagayan De Oro City	Rented	Good	18,000.00	April 21, 2016	Renewable every year
INFRASTRUCTURE BUSINESS							
1	**SAN MIGUEL HOLDINGS CORP.**						
	Office Space	Wing A and B - 11/F San Miguel Properties Centre St. Francis St., Mandaluyong City	Owned	Good			
	Office Space	20/F San Miguel Properties Centre St. Francis St., Mandaluyong City	Owned	Good			
	Office Space - 83 sq meters	No. 40 San Miguel Avenue, Ortigas Center, Mandaluyong City	Owned	Good			
2	**VERTEX TOLLWAYS DEVT. INC.**						
	Office Space	No. 40 San Miguel Ave., Mandaluyong City	Owned	Good			
	PMO Office	DMCI Field Office Macapagal Blvd. Brgy. Tambo Paranaque City	Provided by DPWH	Good			
3	**TERRAMINO HOLDINGS, INC AND ASSETVALUES HOLDING COMPANY, INC.**						
	Office Space	Suite 2402 Discovery Suites, 25 ADB Avenue, Ortigas Center, Pasig City	Rented by Gerodias Suchianco Estrella Law Firm (Service Provider)	Good			

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
4	**UNIVERSAL LRT CORPORATION (BVI) LIMITED**						
	Office Space	4th Floor, Pacific Star Bldg. Low Rise, Makati Avenue	Rented	Good	7,027.68	Continuing unless terminated and agreed by both parties	Subject to renewal or extension as mutually agreed between the parties
5	**TRANS AIRE DEVELOPMENT HOLDINGS, CORP.**						
	Stall 1, 2, 3	Caticlan, Malay, Aklan	Rented	Good	20,000.00 each	Sep. 30, 2016	Subject to renewal or extension as mutually agreed between the parties
	Stall 4	Caticlan, Malay, Aklan	Rented	Good	10,000.00	Sep. 30, 2016	Subject to renewal or extension as mutually agreed between the parties
	Stockroom 2, 3, 4	Caticlan, Malay, Aklan	Rented	Good	28,000.00	Continuing unless terminated and agreed by both parties	Subject to renewal or extension as mutually agreed between the parties
	AVSEC Barracks	Caticlan, Malay, Aklan	Rented	Good	9,000.00	Dec. 15, 2015	Subject to renewal or extension as mutually agreed between the parties
	Lot for TADHC Office Gen Set	Caticlan, Malay, Aklan	Rented	Good	1,000.00	Apr. 30, 2016	Subject to renewal or extension as mutually agreed between the parties
	Stockroom	Caticlan, Malay, Aklan	Rented	Good	15,000.00	July 31, 2016	Subject to renewal or extension as mutually agreed between the parties
	Airport Staff House	Caticlan, Malay, Aklan	Rented	Good	25,000.00	July 02, 2016	Subject to renewal or extension as mutually agreed between the parties
	ROW Office	Caticlan, Malay, Aklan	Rented	Good	170,000.00	October 31, 2016	Subject to renewal or extension as mutually agreed between the parties
	Jethandler Office	Caticlan, Malay, Aklan	Rented	Good	80,000.00	November 01, 2016	Subject to renewal or extension as mutually agreed between the parties
	Stall 5 (Stockroom - Business Development) and Stall 6 (Security Office)	Caticlan, Malay, Aklan	Rented	Good	50,000.00	September 30, 2017	Subject to renewal or extension as mutually agreed between the parties
	Lot space	Caticlan, Malay, Aklan	Rented	Good	4,166.67	August 31, 2016	Subject to renewal or extension as mutually agreed between the parties
	Tabon Staff House	Caticlan, Malay, Aklan	Rented	Good	25,000.00	February 07, 2016	Subject to renewal or extension as mutually agreed between the parties
	Office Space	Wing B 2/F San Miguel Building, 40 San Miguel Ave. Mandaluyong City	Owned	Good			
6	**RAPID THOROUGHFARES, INC.**						
	Land	Emilio Vergara Highway Corner Mabini Street Extension, Sta. Arcadia, Cabanatuan, Nueva Ecija	Owned	Good			
	Land	Maharlika Highway, Malipampang, San Ildefonso, Bulacan	Owned	Good			
7	**PRIVATE INFRA DEV CORPORATION**						
	Head Office	Unit 06 UG Pioneer Highlands Condo Tower 2 Pioneer cor Madison Sts, Mandaluyong City	Owned	Good			
	Site Office (TOC Building-O&M)	TOC Building Brgy San Pascual, Tarlac City	Owned	Good			
	Site Office Space (ROW/Legal Services)	Del Prado Compound, Alexander St. Poblacion, Urdaneta City, Pangasinan	Rented	Good	DPWH Legal Services Staff - Php 50,000.00	December 31, 2016	Subject to renewal or extension as mutually agreed between the parties
		MacArthur Highway, Bued, Binalonan, Pangasinan	Rented	Good	ROW Sec 2 & 3A - 11,000.00	April 30, 2016	
	Site Office Space (Security)	Brgy. Baligi, Laoac, Pangasinan	Rented	Good	2,500.00	April 30, 2016	Subject to renewal or extension as mutually agreed between the parties
		Brgy. Amagbagan, Pozzurobio Pangasinan	Rented	Good	3,000.00	April 30, 2016	
		Brgy. Nancolobasan, Urdaneta, Pangasinan	Rented	Good	3,000.00	December 31, 2015 (For renewal)	

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Site Office Space (Construction)	Innovative Building No. 3 Perez St. Urdaneta, Pangasinan	Rented	Good	39,060.60	February 1, 2016 (For renewal)	Subject to renewal or extension as mutually agreed between the parties
		Manila North Road, Barangay Bued, Binalonan Pangasinan	Rented	Good	Octagon for Core Office - 50,000.00	July 31, 2016	Subject to renewal or extension as mutually agreed between the parties
			Rented	Good	Ruperto's Annex for IC Office - 60,000.00	July 31, 2016	
			Rented	Good	Villa Office Space for Engineer's Staff House - 210,000.00	July 15, 2016	
8	**OPTIMAL INFRASTRUCTURE DEVELOPMENT, INC.**						
	Land	Manila Harbour Centre, Barangay 128 Zone 10 (Isla de Balut/Vitas), Tondo District, City of Manila	Owned	Good			
9	**SLEEP INTERNATIONAL (NETHERLANDS) COOPERATIEF U.A.**						
	Office Space	Prins Bernhardplein 200, 1097 JB Amsterdam	Owned by the Service Provider	Good			
10	**WISELINK INVESTMENT HOLDINGS, INC.**						
	Office Space	40 San Miguel Avenue, Bgry. Wack-Wack Mandaluyong City	Owned	Good			
11	**ATLANTIC AURUM INVESTMENTS B.V.**						
	Office Space	Peperstraat 9, 5211 KM 's Hertogenbosch, The Netherlands	Owned by the Service Provider	Good			
12	**STAGE 3 CONNECTOR TOLLWAYS HOLDINGS CORPORATION**						
	Office Space	40 San Miguel Avenue, Mandaluyong City	Owned	Good			
13	**CITRA CENTRAL EXPRESSWAY CORP**						
	Office Space	4F Toll Operations Complex, Dona Soledad Ave., Better Living Subd., Paranaque City	Owned by ROP (Citra Metro Manila Tollways Corporation Concession Rights)	Good			
14	**CITRA METRO MANILA TOLLWAYS CORPORATION**						
	Office Space	21st to 24th Floors One Magnificent Mile-CITRA Building, San Miguel Avenue, Ortigas Center 1605, Pasig City	Owned	Good			
	Office Space	3/F Toll Operations Building, Doña Soledad Avenue, Brgy Don Bosco, Parañaque City	Owned	Good			
15	**SKYWAY O&M CORPORATION**						
	Office Space	1st and 2nd Floor, TOB Dona Soledad Avenue, Bicutan, Paranaque City	Owned	Good			
16	**MTD BAHRAIN HOLDING COMPANY W.L.L**						
	Office Space	Trust Tower, 2nd Floor, Building 125, Road 1702, Block 317 Manama - Kingdom of Bahrain	Rented	Good	BHD 385.00	April 30, 2016	Subject to renewal or extension as mutually agreed between the parties
17	**ALLOY MANILA TOLL EXPRESSWAYS INC.**						
	Office Space	GF Operations and Control Center, Km.44 South Luzon Expressway, Sitio Latian, Brgy. Mapagong, Calamba City, Laguna	Owned by ROP (South Luzon Tollway Corporation Concession Rights)	Good			
	Land	Km.44 Sitio Latian, Brgy. Mapagong, Calamba City, Laguna	Owned	Good			
18	**JETHANDLER ASIA SERVICES, INC.**						
	Office Space	Boracay International (Godofredo P. Ramos) Airport, Caticlan Malay, Aklan	Rented	Good	40,000.00	September 01, 2017	Subject to renewal or extension as mutually agreed between the parties

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
19	**MANILA TOLL EXPRESSWAY SYSTEMS, INC.**						
	Office Space	GF Operations and Control Center, Km.44 South Luzon Expressway, Sitio Latian, Brgy. Mapagong, Calamba City, Laguna	Owned by ROP (South Luzon Tollway Corporation Concession Rights)	Good			
20	**SMC INFRAVENTURES INC.**						
	Office Space	40 San Miguel Avenue, Mandaluyong City	Owned	Good			
21	**SOUTH LUZON TOLLWAYS CORPORATION**						
	LAND	Lot 3122-C, Sitio Latian, Brgy Mapagong, Calamba, Laguna	Owned	Good			
22	**CITRA INTERCITY TOLLWAYS, INC.**						
	Office Space	4F Toll Operations Complex, Dona Soledad Ave., Better Living Subd., Paranaque City	Owned by ROP (Citra Metro Manila Tollways Corporation Concession Rights)	Good			
23	**STAR INFRASTRUCTURE DEVELOPMENT CORPORATION**						
	Land	Brgy. Lapu Lapu Ibaan Batangas	Owned	Good			
24	**MANILA NORTH HARBOUR PORT, INC.**						
	Office Space / Operational Area 52.5 hectare	Manila North Harbor, Tondo, Manila	Owned	Good			
OTHERS							
1	**SAN MIGUEL CORPORATION**						
	Iligan Coconut Oil Mill	Sta.Filomena, Iligan City	Owned	Good			
	Land and Warehouse	A. Del Rosario Ave, Brgy. Tipolo, Mandaue City	Owned	Good			
	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			
	Land	Looc Ouano, Mandaue City	Owned	Good			
	Warehouse Only	SMC Complex, Quebiawan, San Fernando, Pampanga	Owned	Good			
2	**PROPERTIES BUSINESS**						
	San Miguel Properties, Inc.						
	Bel Aldea Subdivision	Brgy. San Francisco, Gen. Trias, Cavite	Owned	Good			
	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	Along Commerce Avenue Corner Asean Drive And Jakarta Lane, Filinvest Corporate City, Barangay Alabang, Muntinlupa City	Owned	Good			
	Land	Brgy. Canlubang and Majada, Calamba City, Laguna	Owned	Good			
	Land	Bo. de Fuego, Gen. Trias, Cavite	Owned	Good			
	Land	Barrio Sinaliw Munti, Alfonso, 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
	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	Cagay Road, Barangay Asid, Masbate City	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			
	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			
	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.						
	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 corner Estacion St., Brgy. Pio del Pilar, Makati City	Owned	Good			
	Silang Resources, Inc.						
	Land	Barangays San Vicente, San Miguel, Biluso And Lucsuhin, Silang, 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
	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	National Road, Brgy. Tambler, General Santos City	Owned	Good			
	Sta. Cruz Resource Management, Inc.						
	Land and Building	54 & 50 Hydra St., Bel Air 3, Makati City	Owned	Good			
	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. 38 Gen. Delgado Street, San Antonio Village, Pasig City	Owned	Good			
	First Monte Sierra Realty Corporation						
	Land	Brgy. San Antonio, Basco, Batanes	Owned	Good			
	El Vertice Realty Corp.						
	Land and Building	4912 Pasay Road, Dasmariñas Village, Makati City	Owned	Good			
	Estima Realty Corp.						
	Land and Building	4914 Pasay Road, Dasmariñas Village, Makati City	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			
	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 & Cabcaben, Municipality of Mariveles, Province of Bataan	Owned	Good			
	Land	B4 Lot 9 North Harbour, City of Manila	Owned	Good			
	Land	San Juan, Batangas	Owned	Good			

	Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal/Options
	Building (Admin Buildings, Warehouses, Terminals, Parking Shed, Loading Bay)	Ouano Wharf, Looc, Manduae City	Owned	Good			
	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.

D. List of Public Issuances of the SMC Group (Equity and Debt) (2014-2016) Registered with the SEC.

San Miguel Corporation & Subsidiaries
SECURITIES ISSUANCES
For the period from 2014 to 2016

#	Issuer	Type of Issuance	Year of Issuance	Details of Issuance	Remarks
1	San Miguel Corporation	Preferred Shares	2015	446,667,000 Preferred Shares consisting of Subseries 2-D, 2-E, and 2-F @ Php75.00 per share on an aggregate offer price of Php33,500,025,000.00	Equity
2		Preferred Shares	2016	Shelf Registration of 975,571,800 Series 2 Preferred Shares. First Tranche: 400,000,000 preferred shares consisting of Subseries 2-G, 2-H, and 2-I @ Php75.00 per share or an aggregate offer price of Php30,000,000,000.00.	Equity
3	San Miguel Brewery, Inc.	Corporate Bonds	2014	Php15,000,000,000.00 fixed rate bonds consisting of Series G, 5.50% interest p.a.; due 2021 Series H, 6.00% interest p.a.; due 2024	No recourse to SMC as parent company and no cross default provision that can trigger a default in the debt instruments of SMC.
4	San Miguel Purefoods Company Inc.	Preferred Shares	2014	15,000,000 Perpetual Preferred Shares , Series 2	Equity

				@Php1,000.00 per share with an aggregate offer price of Php15,000,000,000.00	
5	SMC Global Power Holdings, Corp.	Corporate Bonds	2016	Php15,000,000,000 fixed rate bonds consisting of: Series A, 4.3458% interest p.a.; due 2021 Series B, 4.7575% interest p.a.; due 2023 Series C, 5.1792% interest p.a.; due 2026	No recourse to SMC as parent company and no cross default provision that can trigger a default in the debt instruments of SMC.
6	Petron Corporation	Corporate Bonds	2016	Shelf Registration of Php40,000,000,000.00 fixed rate bond. First Tranche: Php20,000,000,000.00 fixed rate bonds consisting of: Series A, 4.0032% interest p.a.; due 2021 Series B, 4.5219% interest p.a.; due 2023	No recourse to SMC as parent company and no cross default provision that can trigger a default in the debt instruments of SMC.
7		Preferred Shares	2014	10,000,000 Perpetual Preferred Shares Series 2 @ Php1,000.00 per share or an aggregate offer price of Php10,000,000,000.00.	Equity

8	South Luzon Tollways Corporation	Corporate Bonds	2015	Php7,300,000,000.00 fixed rate bonds consisting of Series A, 4.9925% p.a. interest; due 2020 Series B, 5.5796% p.a. interest p.a.; due 2022 Series C Bonds, 6.4872% interest p.a.; due 2025	No recourse to SMC as parent company and no cross default provision that can trigger a default in the debt instruments of SMC.

Except as disclosed in Appendix D of this Prospectus, there are no other debt instrument issued by the subsidiaries of the Company which contains provisions allowing recourse to the Company nor has cross-default provisions that can result in a default by the Company under its own existing debt obligations. However, there are existing debt instruments issued by the Company (which are either issued to specific lender or syndicate of lenders or issued outside the Philippines) containing various covenants and a cross-default clause that can result in a default by the Company under such debt instrument if a material subsidiary is declared in default under the relevant debt instrument issued by such material subsidiary. Such cross-default clause is subject to monetary thresholds and cure periods as agreed with the relevant lenders and to compliance with procedural requirements before the Company can be declared in default under such debt instruments.