111142014001778

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	CS200803939
Company Name	TOP FRONTIER INVESTMENT HOLDINGS INC.
Industry Classification	Financial Holding Company Activities
Company Type	Stock Corporation

Document Information

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S. E. C. Registration Number

TOP FRONTIER INVESTMENT HOLDINGS, INC.

(Company's Full Name)

5th Floor ENZO Bldg. 399 Sen. Gil Puyat Ave., Makati City

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

Virgilio S. Jacinto
Contact Person

(632) 632-3000
Company Telephone Number

1	2		3	1		SEC Form 17- Q (3rd Quarter 2014)		0	7		0	9
Month			Day			FORM TYPE		Month			Day	

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2014**

2. SEC Identification Number **CS200803939**

3. BIR Tax Identification No. **006-990-128**

4. **TOP FRONTIER INVESTMENT HOLDINGS, INC.**
   Exact name of issuer as specified in its charter

5. **Philippines**
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

7. **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City** **1200**
   Address of issuer's principal office Postal Code

8. **(632) 632-3673**
   Issuer's telephone number, including area code

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

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding (as of September 30, 2014)
Common Shares	**332,886,167***

Net of the 157,310,033 common shares held in Treasury

Total Liabilities	**P897,409 million**

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [√] No [ ]

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

    Philippine Stock Exchange **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [√] No [ ]

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

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

PART II -- OTHER INFORMATION

There are no other information to be disclosed under this Part II which has not been previously reported by Top Frontier in a report under SEC Form 17-C.

SIGNATURES

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

Issuer **TOP FRONTIER INVESTMENT HOLDINGS, INC.**

Signature and Title **AURORA T. CALDERON**
Treasurer

Date November 14, 2014

Signature and Title **BELLA O. NAVARRA**
Chief Finance Officer

Date November 14, 2014

ANNEX "A"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2014 and December 31, 2013
(In Millions)

ASSETS

	2014 Unaudited	2013 Audited
Current Assets		
Cash and cash equivalents (Notes 7 and 8)	P 237,991	P 191,813
Trade and other receivables - net (Notes 3, 7 and 8)	138,052	165,585
Inventories	85,621	79,391
Current portion of biological assets - net	3,487	3,427
Prepaid expenses and other current assets (Notes 7 and 8)	45,308	37,738
	510,459	477,954
Assets held for sale	45,619	8,798
Total Current Assets	556,078	486,752
Noncurrent Assets		
Investments and advances - net	32,095	60,874
Available-for-sale financial assets (Notes 7 and 8)	6,422	6,168
Property, plant and equipment - net (Note 4)	442,422	425,972
Investment property - net	6,132	4,176
Biological assets - net of current portion	1,971	1,911
Goodwill - net	91,136	91,129
Other intangible assets - net	55,692	49,679
Deferred tax assets	18,329	15,793
Other noncurrent assets - net (Notes 3, 7 and 8)	42,961	50,100
Total Noncurrent Assets	697,160	705,802
	P 1,253,238	P 1,192,554

LIABILITIES AND EQUITY

	2014 Unaudited	2013 Audited
Current Liabilities		
Loans payable (Notes 3, 7 and 8)	P 157,427	P 143,740
Accounts payable and accrued expenses (Notes 3, 7 and 8)	169,402	128,071
Finance lease liabilities - current portion (Notes 7 and 8)	16,123	15,654
Income and other taxes payable	11,488	13,131
Dividends payable	803	2,761
Current maturities of long-term debt - net of debt issue costs (Notes 3, 7 and 8)	10,392	71,522
Total Current Liabilities	365,635	374,879
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 3, 7 and 8)	323,889	264,690
Deferred tax liabilities	12,817	11,591
Finance lease liabilities - net of current portion (Notes 7 and 8)	172,995	179,394
Other noncurrent liabilities (Notes 3, 7 and 8)	22,073	25,506
Total Noncurrent Liabilities	531,774	481,181
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	490	490
Capital stock - preferred	260	260
Additional paid-in capital	120,501	120,501
Revaluation increment	(230)	(228)
Reserve for retirement plan	911	913
Cumulative translation adjustments	576	241
Retained earnings:		
Appropriated	1,147	276
Unappropriated	48,411	45,392
Treasury stock	(76,780)	(76,780)
	95,286	91,065
Non-controlling Interests	260,543	245,429
Total Equity	355,829	336,494
	P 1,253,238	P 1,192,554

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME*
For the Periods Ended September 30, 2014 and 2013
(In Millions, Except Per Share Data)

					For the Quarters Ended			
	2014 Unaudited		2013 Unaudited		**2014 Unaudited**		2013 Unaudited	
SALES (Note 2)	P	598,730	P	-	P	194,027	P	-
COST OF SALES		512,084		-		167,094		-
GROSS PROFIT		86,646		-		26,933		-
SELLING AND ADMINISTRATIVE EXPENSES		(40,142)		(25)		(13,012)		(24)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(24,378)		(2,088)		(7,949)		(740)
INTEREST INCOME		2,848		5		966		2
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES		1,009		-		632		-
GAIN ON SALE OF PROPERTY AND EQUIPMENT		218		-		155		-
OTHER INCOME (CHARGES) - Net		385		(894)		(4,602)		(42)
INCOME (LOSS) BEFORE INCOME TAX		26,586		(3,002)		3,123		(804)
INCOME TAX EXPENSE		6,235		74		639		74
NET INCOME (LOSS)	P	20,351	P	(3,076)	P	2,484	P	(878)
Net Income (Loss) Attributable to :								
Equity Holders of the Parent Company	P	3,890	P	(3,075)	P	(2,497)	P	(877)
Non-controlling Interests		16,461		(1)		4,981		(1)
	P	20,351	P	(3,076)	P	2,484	P	(878)
Basic/Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 5)	P	11.78	P	(7.90)	P	(7.57)	P	(2.33)

*The statement of income for the period ended September 30, 2014 consists of the consolidated accounts of Top Frontier Investment Holdings, Inc. (Top Frontier), San Miguel Corporation (SMC) and Clariden Holdings, Inc. (Clariden) while the statement of income for the period ended September 30, 2013 consists of the consolidated accounts of Top Frontier and Clariden. Top Frontier consolidated Clariden and SMC effective August 30 and October 17, 2013, respectively.

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *
For the Periods Ended September 30, 2014 and 2013
(In Millions)

					For the Quarters Ended			
		2014 Unaudited		2013 Unaudited		2014 Unaudited		2013 Unaudited
NET INCOME (LOSS)	P	20,351	P	(3,076)	P	2,484	P	(878)
OTHER COMPREHENSIVE INCOME (LOSS)								
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS								
EQUITY RESERVE FOR RETIREMENT PLAN		(3)		-		-		-
INCOME TAX BENEFIT		1		-		-		-
SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net		292		-		35		-
		290		-		35		-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS								
GAIN ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		684		-		1,053		-
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		166		(48,137)		249		(27,844)
		850		(48,137)		1,302		(27,844)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		1,140		(48,137)		1,337		(27,844)
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax	P	21,491	P	(51,213)	P	3,821	P	(28,722)
Attributable to:								
Equity Holders of the Parent Company	P	4,363	P	(51,212)	P	(2,060)	P	(28,721)
Non-controlling Interests		17,128		(1)		5,881		(1)
	P	21,491	P	(51,213)	P	3,821	P	(28,722)

*The statement of comprehensive income for the period ended September 30, 2014 consists of the consolidated accounts of Top Frontier Investment Holdings, Inc. (Top Frontier), San Miguel Corporation (SMC) and Clariden Holdings, Inc. (Clariden) while the statement of comprehensive income for the period ended September 30, 2013 consists of the consolidated accounts of Top Frontier and Clariden. Top Frontier consolidated Clariden and SMC effective August 30 and October 17, 2013, respectively.

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY*
For the Periods Ended September 30, 2014 and 2013
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Revaluation Increment	Reserve for Retirement Plan	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock	Total		
	Common	Preferred				Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated				
As of January 1, 2014 (Audited)	₱ 490	₱ 260	₱ 120,501	₱ (228)	₱ 913	₱ (1,121)	₱ 1,362	₱ 276	₱ 45,392	₱ (76,780)	₱ 91,065	₱ 245,429	₱ 336,494
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	168	-	-	-	-	168	516	684
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	195	-	-	-	195	97	292
Net gain on available-for-sale financial assets	-	-	-	-	-	-	112	-	-	-	112	54	166
Equity reserve for retirement plan	-	-	-	-	(2)	-	-	-	-	-	(2)	-	(2)
Other comprehensive income (loss)	-	-	-	-	(2)	168	307	-	-	-	473	667	1,140
Net income	-	-	-	-	-	-	-	-	3,890	-	3,890	16,461	20,351
Total comprehensive income (loss)	-	-	-	-	(2)	168	307	-	3,890	-	4,363	17,128	21,491
Net addition to non-controlling interests and others	-	-	-	(2)	-	279	(419)	-	-	-	(142)	13,331	13,189
Appropriations - net	-	-	-	-	-	-	-	871	(871)	-	-	-	-
Cash dividends:													
Common	-	-	-	-	-	-	-	-	-	-	-	(7,336)	(7,336)
Preferred	-	-	-	-	-	-	-	-	-	-	-	(8,009)	(8,009)
As of September 30, 2014 (Unaudited)	₱ 490	₱ 260	₱ 120,501	₱ (230)	₱ 911	₱ (674)	₱ 1,250	₱ 1,147	₱ 48,411	₱ (76,780)	₱ 95,286	₱ 260,543	₱ 355,829
As of January 1, 2013 (Audited)	₱ 490	₱ 260	₱ 92,500	₱ -	₱ -	₱ -	₱ 13,727	₱ -	₱ 35,497	₱ (12,899)	₱ 129,575	₱ -	₱ 129,575
Loss on available-for-sale financial assets	-	-	-	-	-	-	(48,137)	-	-	-	(48,137)	-	(48,137)
Net loss	-	-	-	-	-	-	-	-	(3,075)	-	(3,075)	(1)	(3,076)
Total comprehensive loss	-	-	-	-	-	-	(48,137)	-	(3,075)	-	(51,212)	(1)	(51,213)
Net addition to non-controlling interests and others	-	-	-	-	-	-	-	-	-	-	-	(667)	(667)
Cash dividends - Preferred (Note 6)	-	-	-	-	-	-	-	-	(266)	-	(266)	-	(266)
As of September 30, 2013 (Unaudited)	₱ 490	₱ 260	₱ 92,500	₱ -	₱ -	₱ -	₱ (34,410)	₱ -	₱ 32,156	₱ (12,899)	₱ 78,097	₱ (668)	₱ 77,429

*The statement of changes in equity for the period ended September 30, 2014 consists of the consolidated accounts of Top Frontier Investment Holdings, Inc. (Top Frontier), San Miguel Corporation (SMC) and Clariden Holdings, Inc. (Clariden) while the statement of changes in equity for the period ended September 30, 2013 consists of the consolidated accounts of Top Frontier and Clariden. Top Frontier consolidated Clariden and SMC effective August 30 and October 17, 2013, respectively.

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS*
For the Periods Ended September 30, 2014 and 2013
(In Millions)

	2014 Unaudited	2013 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	₱ 26,586	₱ (3,002)
Adjustments for:		
Depreciation, amortization, foreign exchange losses and others - net	18,702	1,989
Dividend income	(97)	(1,101)
Interest expense and other financing charges	24,378	2,088
Interest income	(2,848)	(5)
Equity in net earnings of associates and joint ventures	(1,009)	-
Gain on sale of property and equipment	(218)	-
Operating income before working capital changes	65,494	(31)
Changes in noncash current assets, certain current liabilities and others	(21,673)	(130)
Cash generated from (absorbed by) operations	43,821	(161)
Interest and other financing charges paid	(16,687)	(1,406)
Income taxes paid	(8,017)	(1)
Net cash flows provided by (used in) operating activities	19,117	(1,568)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	(247)	(276)
Additions to investments and advances	(2,146)	-
Additions to property, plant and equipment	(25,222)	-
Decrease in other noncurrent assets and others	(5,203)	(44)
Proceeds from sale of investments and property and equipment	31,958	-
Proceeds from the divestment of the equity interests in PAL and PAL Express and other related investments and advances - net	35,071	-
Interest received	2,863	4
Dividends received from an associate and available-for-sale financial assets	102	1,652
Net cash flows provided by investing activities	37,176	1,336
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	649,935	450
Long-term borrowings	68,930	-
Payments of:		
Short-term borrowings	(636,566)	-
Long-term borrowings	(74,423)	-
Payment of finance lease liabilities	(15,075)	-
Cash dividends paid	-	(266)
Dividends paid to non-controlling shareholders	(17,303)	-
Proceeds from issuance of undated subordinated capital securities	13,127	-
Decrease in non-controlling interests	(21)	-
Net cash flows provided by (used in) financing activities	(11,396)	184
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,281	(1)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,178	(49)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	191,813	203
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱ 237,991	₱ 154

*The statement of cash flows for the period ended September 30, 2014 consists of the consolidated accounts of Top Frontier Investment Holdings, Inc. (Top Frontier), San Miguel Corporation (SMC) and Clariden Holdings, Inc. (Clariden) while the statement of cash flows for the period ended September 30, 2013 consists of the consolidated accounts of Top Frontier and Clariden. Top Frontier consolidated Clariden and SMC effective August 30 and October 17, 2013, respectively.

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
September 30, 2014
(Amounts in Millions)

	Total	Current	Past Due 1 - 30 Days	Past Due 31 - 60 Days	Past Due Over 60 Days
Trade	₱ 60,783	₱ 49,628	₱ 4,500	₱ 1,462	₱ 5,193
Non-trade	71,319	39,140	5,465	4,509	22,205
Others	13,913	13,832	11	-	70
Total	146,015	₱ 102,600	₱ 9,976	₱ 5,971	₱ 27,468
Less allowance for impairment losses	7,963				
Net	₱ **138,052**				

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data)

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

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

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

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

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

Amendments to Standard and Interpretations Adopted in 2014

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

- Recoverable Amount Disclosures for Non-financial Assets *(Amendments to PAS 36, Impairment of Assets)*. The amendments clarify that the recoverable amount disclosure only applies to impaired assets (or cash-generating unit) and require additional disclosures to be made on fair value measurement on impaired assets when the recoverable amount is based on fair value less costs of disposal. The amendments harmonize the disclosure requirement for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32, Financial Instruments Presentation).* The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- Philippine Interpretation IFRIC 21, *Levies*. The interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date even if it has no realistic opportunity to avoid the triggering event. Other standards should be applied to determine whether the debit side is an asset or expense. Outflows within the scope of PAS 12, *Income Taxes*, fines and penalties and liabilities arising from emission trading schemes are explicitly excluded from the scope. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.

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

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

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

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

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

- Defined Benefit Plans: Employee Contributions *(Amendments to PAS 19, Employee Benefits).* The amendments apply to contributions from employees or third parties to the defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (i.e., employee contributions that are calculated according to a fixed percentage of salary). The amendments are required to be retrospectively applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations.

  - Definition relating to vesting condition *(Amendment to PFRS 2, Share-based Payment).* The amendment provided for the separate definitions of a 'performance condition' and a 'service condition' from the definition of a 'vesting condition' and thus made the description of each condition clearer. Performance condition and service condition are defined in order to clarify various issues, including the following: (a) a performance condition must contain a service condition; (b) a performance target must be met while the counterparty is rendering service; (c) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (d) a performance condition may be a market or non-market condition and; (e) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment is required to be prospectively applied to share-based payment transactions with a grant date on or after July 1, 2014.

- Accounting for contingent consideration in a business combination *(Amendment to PFRS 3, Business Combinations)*. The amendment clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9, *Financial Instruments.* The amendment is required to be prospectively applied to business combination for which the acquisition date is on or after July 1, 2014.

- Disclosures on the aggregation of operating segments *(Amendment to PFRS 8, Operating Segments*). The amendments explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (a) a brief description of the operating segments that have been aggregated; and (b) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The amendment is required to be retrospectively applied for annual periods beginning July 1, 2014.

- Short-term receivables and payables *(Amendment to PFRS 13, Fair Value Measurement)* clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of the discounting is immaterial. The amendment is required to be applied for annual periods beginning July 1, 2014.

- Key management personnel *(Amendment to PAS 24, Related Parties)*. The amendment clarifies that a management entity—an entity that provides key management personnel services—is a related party subject to the related party disclosures. In addition, an entity that uses management entity is required to disclose the expenses incurred for management services. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.

- Scope exceptions for joint ventures *(Amendment to PFRS 3)*. The amendment clarifies that: (a) joint arrangements are outside the scope of PFRS 3, not just joint ventures and; (b) the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.

- Scope paragraph 52 (portfolio exception) *(Amendment to PFRS 13)*. The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.

- Restatement of accumulated depreciation (amortization) on revaluation *(Amendment to PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets*). The amendments clarify the requirements of the revaluation model in PAS 16 and PAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset. PAS 16 and PAS 38 have been amended to clarify that, at the date of revaluation: (a) The gross carrying amount: (i) is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset – e.g., restated in proportion to the change in the carrying amount or by reference to observable market data; and (ii) the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; and (b) the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset. The amendments are required to be retrospectively applied for annual periods beginning July 1, 2014.

- Clarifying the interrelationship of PFRS 3 and PAS 40, *Investment Property*, when classifying property as investment property or owner-occupied property. The amendment clarifies that the description of ancillary services in PAS 40 differentiates between investment property and owner-occupied property. PFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16 and PAS 38)*. The amendments are the following: (a) The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when: (i) revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated'; or (ii) when the intangible asset is expressed as a measure of revenue; and (b) The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset – e.g. changes in sales volumes and prices. The amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.

- Accounting for Acquisitions of Interests in Joint Operations *(Amendments to PFRS 11, Joint Arrangements*). The amendments require: (a) business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business; (b) Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control; (c) The additional interest acquired will be measured at fair value; and (d) The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is a key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination. The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

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

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

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

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

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

2. Segment Information

Operating Segments

The reporting format of the Group’s operating segments is determined based on the 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, telecommunications and mining.

The beverage segment produces and markets alcoholic and nonalcoholic beverages.

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

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

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

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

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

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

The mining segment is engaged in exploration, development and commercial utilization of nickel, cobalt, chrome, iron, gold and other mineral deposits.

Inter-segment Transactions

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

Financial information about reportable segments are as follows:

	For the Period Ended September 30, 2014										For the Period Ended September 30, 2013
	Beverage	Food	Packaging	Energy	Fuel and Oil	Infrastructure	Telecommu-nications	Mining and Others	Eliminations	Consolidated	Mining and Others
Sales											
External sales	**P66,706**	**P74,407**	**P14,379**	**P60,793**	**P374,429**	**P6,293**	**P1,121**	**P602**	**P -**	**P598,730**	P -
Inter-segment sales	**205**	**8**	**2,885**	**4,723**	**5,111**	**-**	**-**	**4,253**	**(17,185)**	**-**	-
Total sales	**P66,911**	**P74,415**	**P17,264**	**P65,516**	**P379,540**	**P6,293**	**P1,121**	**P4,855**	**(P17,185)**	**P598,730**	-
Result											
Segment result	**P15,394**	**P4,327**	**P1,576**	**P21,877**	**P6,903**	**(P355)**	**(P197)**	**(P3,602)**	**P581**	**P46,504**	(P25)

3. **Related Party Disclosures**

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

The following are the transactions with related parties and the outstanding balances as of September 30, 2014 and December 31, 2013:

	Reporting Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Shareholders of	**September 30, 2014**	**P -**	**P -**	**P -**	**P9,449**	On demand;	Unsecured;
the Parent	December 31, 2013	-	-	-	9,156	Interest bearing	No impairment
Company	**September 30, 2014**	-	-	-	**221**	On demand;	Unsecured;
	December 31, 2013	-	-	-	221	Non-interest bearing	No impairment
Retirement	**September 30, 2014**	**14**	**-**	**12,641**	**-**	On demand;	Unsecured;
plans	December 31, 2013	7	-	22,604	-	Interest bearing	No impairment
Associates	**September 30, 2014**	**14,916**	**20**	**8,807**	**2**	On demand;	Unsecured;
	December 31, 2013	3,086	332	10,173	1	Non-interest bearing	No impairment
	September 30, 2014	**-**	**-**	**-**	**13,917**	Less than 1	Unsecured and
	December 31, 2013	-	-	-	11,751	to 10 years; Interest bearing	secured
Joint Ventures	**September 30, 2014**	**-**	**55**	**672**	**8**	On demand;	Unsecured;
	December 31, 2013	-	65	325	28	Non-interest bearing	No impairment
Shareholders	**September 30, 2014**	**98**	**13**	**92**	**175**	On demand;	Unsecured;
in subsidiaries	December 31, 2013	-	5	131	240	Non-interest bearing	No impairment
Others	**September 30, 2014**	**75**	**-**	**152**	**49**	On demand;	Unsecured;
	December 31, 2013	1	-	2	1,077	Non-interest bearing	No impairment
Total	**September 30, 2014**	**P15,103**	**P88**	**P22,364**	**P23,821**		
Total	December 31, 2013	P3,094	P402	P33,235	P22,474		

a. Interest-bearing payables and related financing charges are the composition of amounts owed to a shareholder of the Parent Company. Payables are used for working capital purposes and for the acquisition of investments in shares of stock. These payables, which bear interest ranging from 3.00% to 5.81%, have no definite payment terms and are considered payable upon demand. Interest expense and financing charges amounted to P193 and P363 for the periods ended September 30, 2014 and 2013, respectively.

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

c. Amounts owed to related parties consist of trade payables.

d. 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.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2014

	January 1, 2014	Additions and Transfers	Acquisition of Subsidiaries, Disposals and Reclassifications	Currency Translation Adjustments	September 30, 2014
Cost:					
Land and land improvements	**P25,572**	**P752**	**P2,119**	**P141**	**P28,584**
Buildings and improvements	**47,504**	**2,199**	**(688)**	**198**	**49,213**
Power plants	**221,760**	**4,854**	**-**	**-**	**226,614**
Refinery and plant equipment	**49,675**	**241**	**(24)**	**169**	**50,061**
Service stations and other equipment	**15,669**	**1,067**	**(235)**	**107**	**16,608**
Machinery and equipment	**94,752**	**2,597**	**(3,502)**	**(121)**	**93,726**
Telecommunications equipment	**6,995**	**127**	**(244)**	**-**	**6,878**
Transportation equipment	**12,782**	**745**	**(131)**	**4**	**13,400**
Tools and small equipment	**2,806**	**411**	**(179)**	**(34)**	**3,004**
Office equipment, furniture and fixtures	**5,373**	**228**	**(75)**	**(4)**	**5,522**
Molds	**829**	**233**	**(275)**	**3**	**790**
Leasehold improvements	**2,181**	**98**	**(34)**	**(36)**	**2,209**
Construction in progress	**108,494**	**11,670**	**3,490**	**(36)**	**123,618**
	594,392	**25,222**	**222**	**391**	**620,227**
Accumulated depreciation and amortization:					
Land improvements	**2,812**	**135**	**421**	**6**	**3,374**
Buildings and improvements	**18,637**	**1,329**	**(208)**	**98**	**19,856**
Power plants	**21,125**	**4,296**	**-**	**-**	**25,421**
Refinery and plant equipment	**30,290**	**1,390**	**(23)**	**540**	**32,197**
Service stations and other equipment	**9,673**	**983**	**(184)**	**59**	**10,531**
Machinery and equipment	**56,466**	**3,099**	**(1,864)**	**48**	**57,749**
Telecommunications equipment	**5,444**	**215**	**(244)**	**-**	**5,415**
Transportation equipment	**4,427**	**756**	**(103)**	**(1)**	**5,079**
Tools and small equipment	**2,099**	**176**	**(232)**	**(22)**	**2,021**
Office equipment, furniture and fixtures	**4,389**	**686**	**(40)**	**(420)**	**4,615**
Molds	**459**	**61**	**(132)**	**1**	**389**
Leasehold improvements	**1,152**	**105**	**(320)**	**(5)**	**932**
	156,973	**13,231**	**(2,929)**	**304**	**167,579**
Accumulated impairment losses:					
Land improvements	**266**	**-**	**-**	**-**	**266**
Buildings and improvements	**2,663**	**-**	**(402)**	**5**	**2,266**
Machinery and equipment	**8,445**	**-**	**(872)**	**32**	**7,605**
Transportation equipment	**12**	**-**	**(3)**	**-**	**9**
Tools and small equipment	**18**	**-**	**21**	**-**	**39**
Office equipment, furniture and fixtures	**42**	**-**	**(2)**	**-**	**40**
Leasehold improvements	**1**	**-**	**-**	**-**	**1**
	11,447	**-**	**(1,258)**	**37**	**10,226**
Net book value	**P425,972**	**P11,991**	**P4,409**	**P50**	**P442,422**

September 30, 2013

	January 1, 2013	Additions and Transfers	Acquisition of Subsidiaries, Disposals and Reclassifications	Currency Translation Adjustments	September 30, 2013
Cost:					
Land and land improvements	P -	P -	P98	P -	P98
Refinery and plant equipment	-	-	26	-	26
Office equipment, furniture and fixtures	-	-	8	-	8
Leasehold improvements	-	-	5	-	5
	-	-	137	-	137
Accumulated depreciation and amortization:					
Refinery and plant equipment	-	1	-	-	1
Net book value	P-	(P1)	P137	P -	P136

Depreciation and amortization charged to operations amounted to P13,231 and P1 in September 2014 and 2013, respectively.

5. Basic and Diluted Earnings Per Share (EPS)

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

Diluted EPS is computed in the same manner, adjusted for the effects of dilutive potential common shares.

If basic and diluted EPS are equal, these are presented as one line item in the consolidated statements of income labeled as "Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company".

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

	September 30	
	2014	2013
Income (loss) attributable to equity holders of the Parent Company	**P3,890**	(P3,075)
Dividends on preferred shares for the period	**-**	(797)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**P3,890**	(P3,872)
Weighted average number of common shares outstanding (in millions)	**330**	5
Stock split approved in 2013 including retroactive adjustments (in millions)	**-**	485
Weighted average number of common shares outstanding (in millions) (b)	**330**	490
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**P11.78**	(P7.90)

As of September 30, 2014 and 2013, the Group has no dilutive debt or equity instruments.

6. Dividends

On July 9, 2014, the Board of Directors (BOD) of the Parent Company declared cash dividend to all preferred shareholders as of July 9, 2014 at P139.50 per share.

On November 10, 2014, the BOD of the Parent Company declared cash dividends to all preferred shareholders as of November 12, 2014 at P139.50 per share, payable on November 12, 2014.

On February 13, 2013, the BOD of the Parent Company declared cash dividend to all preferred shareholders as of February 13, 2013 at P139.50 per share.

7. **Financial Risk and Capital Management Objectives and Policies**

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

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

This note presents information about the exposure of the Group 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 fair value through profit or loss (FVPL), restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

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

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

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

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and 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 enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report.

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

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

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

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

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

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

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;

- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and

- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,070 and P1,868 for the period ended September 30, 2014 and for the year ended December 31, 2013, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

September 30, 2014	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P1,610**	**P8,421**	**P4,609**	**P21,609**	**P15,061**	**P31,168**	**P82,478**
Interest rate	**6.3131% - 12%**	**5.4885% - 9.33%**	**6.05% - 7.1827%**	**6.3131% - 7.1827%**	**5.93% - 10.5%**	**5.50% - 7.1827%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**13,463**	**-**	**-**	**-**	**35,900**	**49,363**
Interest rate		**7.00%**				**4.875%**	
Floating Rate							
Philippine peso-denominated	**714**	**13,574**	**2,844**	**3,443**	**3,885**	**9,418**	**33,878**
Interest rate	**PDST-F + margin or BSP overnight rate + margin, whichever is higher**	**PDST-F + margin or BSP overnight rate + margin, whichever is higher**	**PDST-F + margin or BSP overnight rate + margin, whichever is higher**	**PDST-F + margin or BSP overnight rate + margin, whichever is higher**	**PDST-F + margin or BSP overnight rate + margin, whichever is higher**	**PDST-F + margin or BSP overnight rate + margin, whichever is higher**	
Foreign currency-denominated (expressed in Philippine peso)	**8,687**	**39,432**	**14,512**	**98,075**	**12,389**	**-**	**173,095**
Interest rate	**LIBOR + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**		
	P11,011	**P74,890**	**P21,965**	**P123,127**	**P31,335**	**P76,486**	**P338,814**

December 31, 2013	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P29,509	P2,494	P7,450	P24,438	P2,080	P29,214	P95,185
Interest rate	6.3131% - 12%	5.4885% - 9.33%	6.145% - 9.33%	6.05% - 7.1827%	6.3131% - 7.1827%	5.93% - 10.50%	
Foreign currency-denominated (expressed in Philippine peso)	9,536	-	13,319	-	-	35,516	58,371
Interest rate	2.00%		7.00%			4.875%	
Floating Rate							
Philippine peso-denominated	1,019	12,180	2,181	2,341	2,618	7,528	27,867
Interest rate	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	PDST-F + margin or BSP overnight rate + margin, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	31,933	12,240	12,240	6,152	96,337	-	158,902
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin		
	P71,997	P26,914	P35,190	P32,931	P101,035	P72,258	P340,325

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, 2014		December 31, 2013	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,430**	**P109,112**	US$1,355	P60,073
Trade and other receivables	**947**	**42,510**	1,101	48,859
Prepaid expenses and other current assets	**126**	**5,696**	51	2,285
AFS financial assets	**12**	**544**	7	314
Noncurrent receivables	**137**	**6,126**	191	8,464
	3,652	**163,988**	2,705	119,995
Liabilities				
Loans payable	**520**	**23,335**	478	21,230
Accounts payable and accrued expenses	**1,119**	**52,803**	1,717	76,226
Long-term debt (including current maturities)	**4,956**	**222,420**	4,894	217,273
Finance lease liabilities (including current portion)	**2,252**	**101,047**	2,351	104,392
Other noncurrent liabilities	**799**	**35,841**	756	33,558
	9,646	**435,446**	10,196	452,679
Net foreign currency-denominated monetary liabilities	**(US$5,994)**	**(P271,458)**	(US$7,491)	(P332,684)

The Group reported net foreign exchange losses amounting to P3,252 and P1,995 for the periods ended September 30, 2014 and 2013, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
December 31, 2012	41.05
September 30, 2013	43.54
December 31, 2013	44.395
September 30, 2014	44.875

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

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

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

September 30, 2014	**P1 Decrease in the US Dollar Exchange Rate**		**P1 Increase in the US Dollar Exchange Rate**	
	Effect on Income before Income Tax	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P1,966)**	**(P1,840)**	**P1,966**	**P1,840**
Trade and other receivables	**(278)**	**(864)**	**278**	**864**
Prepaid expenses and other current assets	**(104)**	**(95)**	**104**	**95**
AFS financial assets	**-**	**(12)**	**-**	**12**
Noncurrent receivables	**(133)**	**(93)**	**133**	**93**
	(2,481)	**(2,904)**	**2,481**	**2,904**
Loans payable	**60**	**502**	**(60)**	**(502)**
Accounts payable and accrued expenses	**298**	**1,029**	**(298)**	**(1,029)**
Long-term debt (including current maturities)	**4,866**	**3,497**	**(4,866)**	**(3,497)**
Finance lease liabilities (including current portion)	**2,252**	**1,576**	**(2,252)**	**(1,576)**
Other noncurrent liabilities	**742**	**577**	**(742)**	**(577)**
	8,218	**7,181**	**(8,218)**	**(7,181)**
	P5,737	**P4,277**	**(P5,737)**	**(P4,277)**

December 31, 2013	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,004)	(P1,054)	P1,004	P1,054
Trade and other receivables	(150)	(1,056)	150	1,056
Prepaid expenses and other current assets	(51)	(36)	51	36
AFS financial assets	-	(7)	-	7
Noncurrent receivables	(174)	(139)	174	139
	(1,379)	(2,292)	1,379	2,292
Loans payable	30	469	(30)	(469)
Accounts payable and accrued expenses	756	1,490	(756)	(1,490)
Long-term debt (including current maturities)	4,894	3,426	(4,894)	(3,426)
Finance lease liabilities (including current portion)	2,351	1,645	(2,351)	(1,645)
Other noncurrent liabilities	681	551	(681)	(551)
	8,712	7,581	(8,712)	(7,581)
	P7,333	P5,289	(P7,333)	(P5,289)

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.

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

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

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

Liquidity Risk

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

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

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

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

September 30, 2014	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P237,991**	**P237,991**	**P237,991**	**P -**	**P -**	**P -**
Trade and other receivables - net	**138,052**	**138,052**	**138,052**	**-**	**-**	**-**
Option deposit (included under "Prepaid expenses and other current assets" account)	**1,122**	**1,122**	**1,122**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**1,379**	**1,379**	**1,379**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**128**	**128**	**128**	**-**	**-**	**-**
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**6,861**	**6,903**	**477**	**6,208**	**218**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**12,889**	**12,889**	**-**	**12,889**	**-**	**-**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,896**	**3,896**	**3,896**	**-**	**-**	**-**
Financial Liabilities						
Loans payable	**157,427**	**158,258**	**158,258**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**168,318**	**168,601**	**168,601**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**881**	**881**	**881**	**-**	**-**	**-**
Long-term debt (including current maturities)	**334,281**	**406,837**	**27,251**	**88,643**	**201,759**	**89,184**

(forward)

September 30, 2014	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Over 5 Years**
Finance lease liabilities (including current portion)	**P189,118**	**P261,143**	**P21,665**	**P22,946**	**P71,649**	**P144,883**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and commissioning)	**13,465**	**13,470**	**-**	**12,821**	**13**	**636**

December 31, 2013	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P191,813	P191,813	P191,813	P -	P -	P -
Trade and other receivables - net	165,585	165,585	165,585	-	-	-
Option deposit (included under “Prepaid expenses and other current assets” account)	1,110	1,110	1,110	-	-	-
Derivative assets (included under “Prepaid expenses and other current assets” account)	681	681	681	-	-	-
Financial assets at FVPL (included under “Prepaid expenses and other current assets” account)	117	117	117	-	-	-
AFS financial assets (including current portion presented under “Prepaid expenses and other current assets” account)	6,526	6,551	411	6,015	125	-
Noncurrent receivables and deposits - net (included under “Other noncurrent assets” account)	22,260	22,260	-	22,260	-	-
Restricted cash (included under “Other noncurrent assets” account)	1,817	1,817	1,817	-	-	-
Financial Liabilities						
Loans payable	143,740	144,304	144,304	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	127,500	127,903	127,903	-	-	-
Derivative liabilities (included under “Accounts payable and accrued expenses” account)	455	455	455	-	-	-
Long-term debt (including current maturities)	336,212	402,289	85,951	38,984	193,287	84,067
Finance lease liabilities (including current portion)	195,048	267,467	20,140	22,036	70,036	155,255
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and commissioning)	16,950	16,983	-	16,713	13	257

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

Investments

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

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

	September 30, 2014	December 31, 2013
Cash and cash equivalents	**P237,991**	P191,813
Trade and other receivables - net	**138,052**	165,585
Option deposit	**1,122**	1,110
Derivative assets	**1,379**	681
Financial assets at FVPL	**128**	117
AFS financial assets	**6,861**	6,526
Noncurrent receivables and deposits - net	**12,889**	22,260
Restricted cash	**3,896**	1,817
	P402,318	P389,909

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

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

Financial and Other Risks Relating to Livestock

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

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing plants and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at reasonable price.

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

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

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

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

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

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

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

8. Financial Assets and Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

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

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

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

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

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

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

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

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

When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

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

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

Financial Liabilities

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

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

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

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

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

Debt Issue Costs

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

<u>Classification of Financial Instruments between Debt and Equity</u>
From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the

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

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

	September 30, 2014		December 31, 2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P237,991**	**P237,991**	P191,813	P191,813
Trade and other receivables - net	**138,052**	**138,052**	165,585	165,585
Option deposit (included under "Prepaid expenses and other current assets" account)	**1,122**	**1,122**	1,110	1,110
Derivative assets (included under "Prepaid expenses and other current assets" account)	**1,379**	**1,379**	681	681
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**128**	**128**	117	117
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**6,861**	**6,861**	6,526	6,526
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**12,889**	**12,889**	22,260	22,260
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,896**	**3,896**	1,817	1,817
Financial Liabilities				
Loans payable	**157,427**	**157,427**	143,740	143,740
Accounts payable and accrued expenses (excluding current retirement liabilities and IRO)	**168,318**	**168,318**	127,500	127,500
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**881**	**881**	455	455
Long-term debt (including current maturities)	**334,281**	**356,282**	336,212	355,655
Finance lease liabilities (including current portion)	**189,118**	**189,118**	195,048	195,048
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and commissioning)	**13,465**	**13,465**	16,950	16,950

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

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

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

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 1.7% to 4.3% and 0.4% to 3.8% as of September 30, 2014 and December 31, 2013. The discount rates used for foreign currency-denominated loans range from 0.1% to 2.4% and 0.2% to 2.9% as of September 30, 2014 and December 31, 2013. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Currency Forwards
The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,467, US$1,720 and US$1,445 as of September and June 30, 2014 and December 31, 2013, respectively, and with various maturities in 2014. The net positive (negative) fair value of these currency forwards amounted to P1,189, (P228) and P640 as of September and June 30, 2014 and December 31, 2013, respectively.

Currency Options
The Group entered into short-term currency options with an aggregate notional amount as of September and June 30, 2014 of US$1,529 and US$1,378, respectively. The net negative fair value of these currency options as of September and June 30, 2014 amounted to P676 and P375, respectively. The Group has no outstanding currency option agreements as of December 31, 2013.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2014. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 170 and 960 metric tons as of June 30, 2014 and December 31, 2013, respectively. The net positive (negative) fair value of these swaps amounted to P1 and (P6) as of June 30, 2014 and December 31, 2013, respectively. The Group has no outstanding commodity swap on the purchase of aluminum as of September 30, 2014.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2014. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 5.4, 8.2 and 2.0 million barrels as of September and June 30, 2014 and December 31, 2013, respectively. The positive fair value of these swaps amounted to P796, P683 and P6 as of September and June 30, 2014 and December 31, 2013, respectively.

Commodity Options
The Group has outstanding bought and sold options covering its wheat requirements with

notional quantities of 9,525, 36,469 and 174,248 metric tons as of September and June 30, 2014 and December 31, 2013, respectively. These options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The net negative fair value of these options amounted to P23, P30 and P186 as of September and June 30, 2014 and December 31, 2013, respectively.

The Group has outstanding commodity options covering its crude oil requirements with notional quantity of 0.4, 1.6 and 1.0 million barrels as of September and June 30, 2014 and December 31, 2013, respectively. These call and put options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The net positive (negative) fair value of these options amounted to P91, (P95) and (P41) as of September and June 30, 2014 and December 31, 2013, respectively.

Embedded Derivatives

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

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

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$150, US$135 and US$183 as of September and June 30, 2014 and December 31, 2013, respectively. These non-financial contracts consist mainly of foreign currency denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net positive (negative) fair value of these embedded currency forwards amounted to (P138), P23 and (P163) as of September and June 30, 2014 and December 31, 2013, respectively.

Embedded Currency Options

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

For the periods ended September 30 and June 30, 2014, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P2,225 and (P429), respectively.

Fair Value Hierarchy

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

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

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

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

	September 30, 2014			December 31, 2013		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P1,379**	**P1,379**	P -	P681	P681
Financial assets at FVPL	**128**	**-**	**128**	117	-	117
AFS financial assets	**1,591**	**5,270**	**6,861**	1,256	5,270	6,526
Financial Liabilities						
Derivative liabilities	**-**	**881**	**881**	-	455	455

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

9. Events After the Reporting Date

Public Offering of Series 2 Preferred Shares by Petron Corporation (Petron)

The Executive Committee of Petron, pursuant to the authority delegated to it by the BOD at the meeting held on August 6, 2014, approved at its meeting held on September 6, 2014 the public offering of preferred shares of Petron amounting to P7,000, with an oversubscription option of up to P3,000. The issue consisted of ten million cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares, inclusive of the three million shares issued upon the exercise of the oversubscription option (collectively, the "Series 2 Preferred Shares") . The Series 2 Preferred Shares were issued in two (2) series - Series 2A Preferred Shares (“Series 2A”) and Series 2B Preferred Shares (“Series 2B”). The offer price was P1,000.00 per share, with the following dividend rates:

Series 2A: 6.3% per annum;
Series 2B: 6.8583% per annum.

The Series 2A may be redeemed by Petron starting on the fifth anniversary from the listing date, while the Series 2B may be redeemed starting on the seventh anniversary from the listing date.

Cash dividends shall be payable on February 3, May 3, August 3 and November 3 of each year, as and if declared by the BOD.

The Series 2 Preferred Shares were listed and traded on the Main Board of the Philippine Stock Exchange on November 3, 2014.

10. Other Matters

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

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

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

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

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 43 (a) of the 2013 Audited Consolidated Financial Statements, that remain outstanding as of September 30, 2014. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. The effects of seasonality or 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, 2014.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of September 30, 2014. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

i. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

ANNEX "B"

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

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

INTRODUCTION

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

I. 2014 TRANSACTIONS

A. DIVESTMENTS

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

- On September 12, 2014, San Miguel Corporation (SMC) and San Miguel Equity Investments Inc. signed a joint agreement with the Lucio Tan Group covering the following transactions, subject to certain closing conditions:

  - Sale of the 49% equity interest in Trustmark Holdings Corporation (Trustmark) and Zuma Holdings and Management Corporation (Zuma). The sale includes the indirect ownership of 43.23% and 48.98% beneficial interests in Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (PAL Express), respectively.

  - Sale of the equity interest and cancellation of subscription rights on the shares of stock of Fortunate Star Limited.

  As of September 30, 2014, the Group has received a total of US$874 million or an equivalent of P38,616 million for the transactions. Since the transactions are still subject to certain closing conditions, the amount received was presented as part of "Accounts payable and accrued expenses" account, while the carrying value of the investments and advances amounting to P36,803 million was reclassified under "Assets held for sale" account in the consolidated statements of financial position.

B. FINANCING

Top Frontier

- Top Frontier completed the refinancing of the US$650 million loan and in March 2014, Top Frontier has availed of US$675 million from the new loan.

San Miguel Brewery Inc. (SMB)

- On April 2, 2014, SMB issued fixed rate bonds amounting to P15,000 million with the following tenors and interest rates:

  a) Series G Bonds with the aggregate principal amount of P12,462 million having a term of 7 years or maturing on April 2, 2021, with a fixed interest rate of 5.50% per annum; and

  b) Series H Bonds with an aggregate principal amount of P2,538 million having a term of 10 years or maturing on April 2, 2024, with a fixed interest rate of 6.00% per annum.

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

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

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

SMC

- On April 29, 2014, 1,077,573 common shares of stock of SMC were delivered to the bondholders of SMC's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at the exchange price of P80.44 per share and fixed exchange rate of P43.34 to US dollar. The 1,077,573 common shares of stock of SMC were transacted and crossed at the Philippine Stock Exchange on May 22, 2014 via a special block sale.

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

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

Petron Corporation (Petron)

- As of July 2, 2014, Petron has fully availed the US$300 million, five - year term loan facility.

On September 29, 2014, Petron completed the syndication of its US$300 million five-year term loan facility with 24 banks, raising the facility to US$475 million. Amortization in seven equal amounts will start in May 2016, with final amortization due in May 2019.

On October 24 and November 6, 2014, Petron made drawdowns amounting to US$70 million and US$105 million, respectively, to complete the availment of the U$475 million term loan facility.

Proceeds were used to refinance other long-term obligations to take advantage of the lower interest rate.

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

Fuel and Oil:

- On various dates in 2014, Petron Malaysia Refining & Marketing Bhd. and Petron Fuel International Sdn. Bhd. availed of Malaysian Ringgit (MYR)200 million (P2,733 million) and MYR100 million (P1,372 million) loans, respectively.

  Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. The loans are on a five-year term and bear an interest rate of Cost of Fund (COF)+1.5%.

Infrastructure:

- In 2014, Private Infra Dev Corporation (PIDC) has drawn a total of P4,130 million from the P15,140 million ten-year term loan facility used for financing the Tarlac-Pangasinan-La Union Toll Expressway (TPLEX Project).

- On March 5, 2014, Trans Aire Development Holdings Corp. (TADHC) has drawn an additional of P832 million from the P3,300 million ten-year term loan facility used for financing the Boracay Airport Project.

- In 2014, Star Infrastructure Development Corporation (SIDC) has drawn a total of P1,234 million, from the P3,500 million ten-year term loan facility to finance the construction and development of Stage II, Phase II of the Southern Tagalog Arterial Road (STAR Project).

Energy:

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

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

- On September 30, 2014, SMC PowerGen Inc., a wholly-owned subsidiary of SMC Global, has made the final drawdown of P1,500 million from the P13,800 million 10-year term loan with fixed interest rate of 6.3131%. The proceeds was used for the construction of the Phase 2 of power plant in Limay, Bataan.

II. FINANCIAL PERFORMANCE

2014 vs. 2013

The financial performance of the Group for the period ended September 30, 2014 substantially reflects the results of operations of SMC.

Consolidated sales revenue amounted to P598,730 million which primarily represents the sales revenue of SMC and its subsidiaries. The corresponding consolidated income from operations amounted to P46,504 million.

The major contributors to sales and income from operations of the Group follow:

(In Millions)	Net Sales	% Contribution	Income from Operations	% Contribution
Traditional Businesses:				
Food Group	P74,407	12%	P4,327	9%
San Miguel Brewery Inc.	56,273	9%	15,280	33%
New Businesses:				
Petron	374,429	63%	5,799	12%
Energy Group	60,793	10%	21,877	47%

In terms of net sales, Petron accounted for P374,429 million or 63%, SMB came fourth at P56,273 million or 9% and the Food Group ranked second due to the improvement in volume and prices.

In operating income terms, the Energy Group ranked number one at P21,877 million contributing 47% and SMB was second at P15,280 million or 33%.

Operating income margin as an indicator of profitability is 36% for Energy Group, 27% for SMB, 6% for the Food Group and Petron at 2%. We expect Petron to post improvement in operating income margin once RMP-2 Project is fully commissioned as it shall generate higher volumes and produce more of the white and higher-margin products.

Equity in net earnings of associates and joint ventures represents the share in the net income of the Group's non-controlling interests in Atlantic Aurum Investments BV, PAL and Northern Cement Corporation, net of the share in the net loss of Liberty Telecoms Holdings, Inc.

Other income includes a) gain on sale of property and equipment, b) dividend income and c) gain on derivatives, mainly on account of derivative gain on freestanding commodity and currency forwards of Petron, net of the derivative loss on the currency forwards of SMC.

With the foreign exchange loss on the translation of foreign currency denominated assets and liabilities mainly of SMC Global, SMC, Petron and Top Frontier and net financing charges incurred by the Group, consolidated net income before non-controlling interests amounted to P20,351 million, while net income attributable to equity holders of the Parent Company is P3,890 million.

Net income attributable to non-controlling interests consists of the share of non-controlling stockholders in the net income of mainly SMC, SMB, Petron and San Miguel Pure Foods Company, Inc. (SMPFC).

2013 vs. 2012

The financial performance of the Group for the period ended September 30, 2013, consists of the results of operations of Top Frontier for the nine-month period and of Clariden Holdings, Inc. and subsidiaries (Clariden) from August 30, 2013 to September 30, 2013.

Dividend income from SMC for the nine months ended September 30, 2013 amounted to P1,101 million, 30% lower than the P1,564 million in the same period in 2012.

Operating expenses amounting to P25 million is 84% lower than the P156 million in the same period in 2012. The decrease is primarily due to the payment of documentary stamp tax amounting to P137 million for the US$650 million loan availed in June 2012.

Interest income went up by 95% due to higher amount of short-term investments in 2013.

Foreign exchange loss of P1,995 million as compared to the foreign exchange gain of P1,041 million in 2012, is due to the strengthening of the US dollar against the peso in 2013.

The Group did not post any gain (loss) on derivative assets for the nine months ended September 30, 2013 since the Group had no outstanding derivative assets as of September 30, 2013. In June 2012, the Parent Company assumed its rights to exercise the option to acquire the SMC common shares from the group of 44 companies in favor of Master Year Limited and exercised the option to acquire the remaining SMC common shares. The transactions resulted to the recognition of loss on derivative assets amounting to P14,354 million in 2012. The Parent Company recognized marked to market loss of P405 million for the nine months period ended September 30, 2012.

Income tax expense increased to P74 million primarily due to Clariden’s deferred tax arising from unrealized foreign exchange gain for the month of September 2013, net of unamortized discount on valuation of non-interest bearing other noncurrent liabilities.

III. FINANCIAL POSITION

2014 vs. 2013

The Group’s consolidated total assets as of September 30, 2014 amounted to P1,253,238 million, P60,684 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 P46,178 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, net of the funds used for payment of dividends.

Trade and other receivables decreased by P27,533 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 P6,230 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 P7,570 million mainly due to the higher amount of input value-added tax (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 properties increased by P1,956 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 Makati Diamond Residences Project.

The increase in other intangible assets of P6,013 million represents the recognition of toll road concession rights for the costs of the TPLEX Project, STAR Project, Ninoy Aquino International Airport (NAIA) Expressway Project and the Boracay Airport Project.

Deferred tax assets increased by P2,536 million mainly due to the recognition of deferred tax on the net operating loss carry over (NOLCO) and on the unrealized foreign exchange loss of SMC.

Other noncurrent assets decreased by P7,139 million mainly due to partial collection by Petron of its noncurrent receivables from Petron Corporation Employees Retirement Plan.

The increase in loans payable of P13,687 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 P41,331 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 P1,643 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 P1,958 million mainly due to the payment by SMC in 2014 of the dividends payable to its preferred stockholders which were outstanding in 2013.

The decrease in long-term debt of P1,931 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 the addition of US$25 million due to the refinancing of loan by Top Frontier and translation adjustments.

Deferred tax liabilities increased by P1,226 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 unamortized capitalized forex and 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 P3,433 million.

Cumulative translation adjustments increased by P335 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 Resources.

Additional appropriations of retained earnings were made by SMC Shipping and Lighterage Corporation, SMPFC, SMYAC and SMITS, Inc. to finance future capital expenditures.

Non-controlling interests (NCI) increased by P15,114 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 SMC, SMB, Petron and SMPFC, net of dividends declared by SMC, Petron, SMB and SMPFC.

2013 vs. 2012

Cash and cash equivalents as of September 30, 2013 amounted to P154 million, 24% below the P203 million as of December 31, 2012. This is mainly due to financing charges paid in September 2013.

As of September 30, 2013, the Group's receivable balance was P76 million, a decrease of 86% compared to P551 million as of December 31, 2012. The balance as of December 31, 2012 represents the dividends declared by SMC in December 2012 which was paid in January 2013. The balance as of September 30, 2013 primarily represents Clariden's receivables from related parties.

As of September 30, 2013, the Group's prepaid expenses and other current assets amounted to P93 million as compared P10 million as of December 31, 2012, an increase of P83 million due to the consolidation of Clariden's input VAT and deposits and advances to contractors.

The decrease of 29% in the Group's available for sale financial assets to P117,668 million as of September 30, 2013 compared to P165,805 million as of December 31, 2012 is due to the change in the fair market value of the investment in SMC common shares. The fair market value of SMC common shares amounted to P74.80 per share and P105.40 per share as of September 30, 2013 and December 31, 2012, respectively.

The Group's property, plant and equipment amounting to P136 million as of September 30, 2013 represents the consolidation of Clariden's land, mill, refinery buildings, mining equipment, furniture, fixtures, other office equipment and leasehold improvements.

As of September 30, 2013, the Group's mineral rights and evaluation assets amounting to P13,638 million primarily reflects the mineral rights and evaluation assets of Clariden for its various mining projects.

The Group's deferred tax assets amounting to P359 million as of September 30, 2013 represent the deferred tax assets of Clariden.

Goodwill amounting to P1,649 million as of September 30, 2013 resulted from the acquisition of Clariden in 2013.

The increase in other noncurrent assets of about P274 million in 2013 was due to the consolidation of Clariden's balance.

The Group's accounts payable and other current liabilities increased by 18% from P10,895 million as of December 31, 2012 to P12,865 million as of September 30, 2013. The increase is primarily due to the revaluation of the foreign-currency denominated amounts owed to related parties and the consolidation of Clariden's balance.

The increase in loans payable net of debt issue costs in 2013 amounting to P2,397 million was primarily due to the translation adjustment of its foreign currency-denominated loan, amortization of debt issue costs, and loan availment used for the initial payment made for the acquisition of Clariden from SMC.

The Group's deferred tax liabilities amounting to P711 million as of September 30, 2013, represent the deferred tax liabilities of Clariden.

The Group's accrual for mine rehabilitation and decommissioning amounting to P16 million as of September 30, 2013 represents Clariden's accrual for the development cost of the mine site and installation cost of the production facilities.

The Group's retirement liability amounting to about P9 million as of September 30, 2013 represents the consolidation of Clariden's balance.

As of September 30, 2013, other noncurrent liabilities totaling to P14,523 million represents Clariden's amounts owed to PMO and the Parent Company's interest bearing payables to SMC as a result of a) the acquisition of Clariden and b) the assignment of certain SMC receivables in favor of the Parent Company.

The Group's unrealized loss on available-for-sale financial assets amounted to P34,410 million as of September 30, 2013 as compared to P13,727 million unrealized gain on available for sale financial assets as of December 31, 2012. The movement represents the change in the fair market value of the investment in SMC common shares. The fair market value of SMC common shares amounted to P74.80 per share and P105.40 per share as of September 30, 2013 and December 31, 2012, respectively.

The non-controlling interests' balance amounting to P668 million as of September 30, 2013 represents the 40% and 10% interests not held in Asia-Alliance Mining Resources Corp. and Philnico Processing Corp.'s net assets, respectively.

Equity

The increase (decrease) in equity is due to:

(In millions)	September 30	
	2014	2013
Income (loss) during the period	**P20,351**	(P3,076)
Addition to non-controlling interests and others	**13,189**	(667)
Effect of translation adjustments	**1,140**	-
Change in fair value of available-for-sale financial assets during the period	**-**	(48,137)
Cash dividends	**(15,345)**	(266)
	P19,335	(P52,146)

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	September 30	
	2014	2013
Net cash flows provided by (used in) operating activities	**P19,117**	(P1,568)
Net cash flows provided by investing activities	**37,176**	1,336
Net cash flows provided by (used in) financing activities	**(11,396)**	184

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, which include increases in inventory level.

Major components of net cash flows provided by investing activities included the following:

(In millions)	September 30	
	2014	2013
Proceeds from the divestment of the equity interests in PAL and PAL Express and other related investments and advances - net	**P35,071**	P -
Proceeds from sale of investments and property and equipment	**31,958**	-
Additions to property, plant and equipment	**(25,222)**	-

Major components of net cash flows used in financing activities are as follows:

(In millions)	**September 30**	
	2014	2013
Proceeds from issuance of undated subordinated capital securities	**P13,127**	P -
Proceeds from short-term loans - net	**13,369**	450
Payment of dividends	**(17,303)**	(266)
Payment of finance lease liabilities	**(15,075)**	-
Payment of long-term debt - net	**(5,493)**	-

The effect of exchange rate changes on cash and cash equivalents amounted to P1,281 million and (P1 million) on September 30, 2014 and 2013, respectively.

V. KEY PERFORMANCE INDICATORS

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

	September 2014	December 2013
Liquidity:		
Current Ratio	**1.52**	1.30
Solvency:		
Debt to Equity Ratio	**2.52**	2.54
Asset to Equity Ratio	**3.52**	3.54
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**6.09%**	9.46%
Interest Rate Coverage Ratio	**2.77**	3.13

	Period Ended September 30	
	2014	2013
Operating Efficiency:		
Volume Growth	**N.A.**	N.A.
Revenue Growth	**N.A.**	N.A.
Operating Margin	**7.77%**	N.A.

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	$\left(\dfrac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}}\right) -1$
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*