108142015002189

# 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**

| | |
|---|---|
| Document ID | 108142015002189 |
| Document Type | 17-Q (FORM 11-Q:QUARTERLY REPORT/FS) |
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# COVER SHEET

CS200803939
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

(02) 632-3145
Company Telephone Number

| 12 | 31 | SEC Form 17-Q | 07 | 09 |
|---|---|---|---|---|
| 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

Document I. D.

Cashier

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STAMPS

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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 **JUNE 30, 2015**

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. **(02) 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 June 30, 2015) |
|---|---|
| **Common Shares** | **332,886,167*** |

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

| | |
|---|---|
| **Total Liabilities** | **P965,206 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 June 30, 2015 (with comparative figures as of December 31, 2014 and for the period ended June 30, 2014) 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" 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**<br>Director/Treasurer/Authorized Signatory |
| Date | August 14, 2015 |
| Signature and Title | **BELLA O. NAVARRA**<br>Chief Finance Officer/Authorized Signatory |
| Date | August 14, 2015 |

ANNEX "A"

**TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**JUNE 30, 2015 AND DECEMBER 31, 2014**
***(In Millions)***

## ASSETS

| | 2015 Unaudited | 2014 Audited |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents (Notes 2, 8 and 9) | P 206,150 | P 258,763 |
| Trade and other receivables - net (Notes 2, 4, 8 and 9) | 122,585 | 133,456 |
| Inventories (Note 2) | 88,853 | 85,846 |
| Current portion of biological assets - net | 3,443 | 3,320 |
| Prepaid expenses and other current assets (Notes 2, 8 and 9) | 57,293 | 46,227 |
| | 478,324 | 527,612 |
| Assets held for sale | 8,798 | 9,339 |
| Total Current Assets | 487,122 | 536,951 |
| Noncurrent Assets | | |
| Investments and advances - net (Note 2) | 29,891 | 37,646 |
| Available-for-sale financial assets (Notes 8 and 9) | 5,904 | 5,717 |
| Property, plant and equipment - net (Notes 2 and 5) | 534,507 | 520,286 |
| Investment property - net | 5,370 | 5,796 |
| Biological assets - net of current portion | 2,165 | 1,973 |
| Goodwill (Note 2) | 48,542 | 30,224 |
| Other intangible assets - net (Note 2) | 211,065 | 152,144 |
| Deferred tax assets (Note 2) | 15,416 | 14,982 |
| Other noncurrent assets - net (Notes 2, 4, 8 and 9) | 29,331 | 35,457 |
| Total Noncurrent Assets | 882,191 | 804,225 |
| | P 1,369,313 | P 1,341,176 |

## LIABILITIES AND EQUITY

| | 2015 Unaudited | 2014 Audited |
|---|---|---|
| Current Liabilities | | |
| Loans payable (Notes 4, 8 and 9) | P 156,008 | P 180,712 |
| Accounts payable and accrued expenses (Notes 2, 4, 8 and 9) | 127,237 | 132,482 |
| Finance lease liabilities - current portion (Notes 8 and 9) | 16,497 | 15,642 |
| Income and other taxes payable (Note 2) | 12,332 | 13,382 |
| Dividends payable (Note 2) | 1,576 | 2,584 |
| Current maturities of long-term debt - net of debt issue costs (Notes 2, 4, 8 and 9) | 76,926 | 25,153 |
| Total Current Liabilities | 390,576 | 369,955 |
| Noncurrent Liabilities | | |
| Long-term debt - net of current maturities and debt issue costs (Notes 2, 4, 8 and 9) | 308,547 | 310,297 |
| Deferred tax liabilities (Note 2) | 55,344 | 48,748 |
| Finance lease liabilities - net of current portion (Notes 8 and 9) | 186,691 | 194,450 |
| Other noncurrent liabilities (Notes 2, 4, 8 and 9) | 24,048 | 24,089 |
| Total Noncurrent Liabilities | 574,630 | 577,584 |
| 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 | 64 | (152) |
| Reserve for retirement plan | (702) | (703) |
| Cumulative translation adjustments | 144 | 281 |
| Retained earnings: | | |
| Appropriated | 18,649 | 15,964 |
| Unappropriated | 34,568 | 33,937 |
| Treasury stock | (76,780) | (76,780) |
| | 97,194 | 93,798 |
| Non-controlling Interests (Note 2) | 306,913 | 299,839 |
| Total Equity | 404,107 | 393,637 |
| | P 1,369,313 | P 1,341,176 |

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 JUNE 30, 2015 AND 2014**
***(In Millions, Except Per Share Data)***

| | 2015 Unaudited | 2014 Unaudited | For the Quarters Ended 2015 Unaudited | For the Quarters Ended 2014 Unaudited |
|---|---|---|---|---|
| SALES (Note 3) | ₱ 338,776 | ₱ 404,938 | ₱ 179,612 | ₱ 210,030 |
| COST OF SALES | 269,865 | 346,072 | 140,862 | 179,078 |
| GROSS PROFIT | 68,911 | 58,866 | 38,750 | 30,952 |
| SELLING AND ADMINISTRATIVE EXPENSES | (29,737) | (27,354) | (15,377) | (14,158) |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES | (15,008) | (13,355) | (7,818) | (6,778) |
| INTEREST INCOME | 2,233 | 1,882 | 1,023 | 889 |
| EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES | (21) | 377 | (157) | 700 |
| GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT | 31 | (105) | 153 | (69) |
| OTHER INCOME (CHARGES) - Net | (1,979) | 4,764 | (1,842) | 5,718 |
| INCOME BEFORE INCOME TAX | 24,430 | 25,075 | 14,732 | 17,254 |
| INCOME TAX EXPENSE | 8,445 | 6,080 | 4,806 | 3,916 |
| NET INCOME | ₱ 15,985 | ₱ 18,995 | ₱ 9,926 | ₱ 13,338 |
| Attributable to: | | | | |
| Equity holders of the Parent Company | ₱ 3,316 | ₱ 7,114 | ₱ 1,920 | ₱ 6,332 |
| Non-controlling interests | 12,669 | 11,881 | 8,006 | 7,006 |
| | ₱ 15,985 | ₱ 18,995 | ₱ 9,926 | ₱ 13,338 |
| Basic/Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6) | ₱ 10.04 | ₱ 21.54 | ₱ 5.81 | ₱ 19.17 |

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 JUNE 30, 2015 AND 2014**
**(In Millions)**

| | 2015 Unaudited | 2014 Unaudited | For the Quarters Ended 2015 Unaudited | For the Quarters Ended 2014 Unaudited |
|---|---|---|---|---|
| **NET INCOME** | ₱ 15,985 | ₱ 18,995 | ₱ 9,926 | ₱ 13,338 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS** | | | | |
| EQUITY RESERVE FOR RETIREMENT PLAN | 2 | (3) | (1) | - |
| INCOME TAX BENEFIT (EXPENSE) | (1) | 1 | - | - |
| SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net | 191 | 257 | (31) | 64 |
| | 192 | 255 | (32) | 64 |
| **ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** | | | | |
| LOSS ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS | (1,620) | (159) | (120) | (483) |
| NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS | 253 | (586) | 106 | (36) |
| INCOME TAX BENEFIT (EXPENSE) | (25) | 58 | (24) | 55 |
| | (1,392) | (687) | (38) | (464) |
| **OTHER COMPREHENSIVE LOSS -** Net of tax | (1,200) | (432) | (70) | (400) |
| **TOTAL COMPREHENSIVE INCOME -** Net of tax | ₱ 14,785 | ₱ 18,563 | ₱ 9,856 | ₱ 12,938 |
| Attributable to: | | | | |
| Equity holders of the Parent Company | ₱ 3,180 | ₱ 7,061 | ₱ 1,911 | ₱ 6,250 |
| Non-controlling interests | 11,605 | 11,502 | 7,945 | 6,688 |
| | ₱ 14,785 | ₱ 18,563 | ₱ 9,856 | ₱ 12,938 |

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 JUNE 30, 2015 AND 2014**
***(In Millions)***

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock | | Additional Paid-in Capital | Revaluation Increment | Reserve for Retirement Plan | Cumulative Translation Adjustments | | Retained Earnings | | Treasury Stock | | Total | | |
| | Common | Preferred | | | | Translation Reserve | Fair Value Reserve | Appropriated | Unappropriated | Common | Preferred | | | |
| As of January 1, 2015 (Audited) | ₱ 490 | ₱ 260 | ₱ 120,501 | ₱ (152) | ₱ (703) | ₱ (345) | ₱ 626 | ₱ 15,964 | ₱ 33,937 | ₱ (28,457) | ₱ (48,323) | ₱ 93,798 | ₱ 299,839 | ₱ 393,637 |
| Loss on exchange differences on translation of foreign operations | - | - | - | - | - | (380) | - | - | - | - | - | (380) | (1,240) | (1,620) |
| Share in other comprehensive income of associates and joint ventures - net | - | - | - | - | - | - | 131 | - | - | - | - | 131 | 60 | 191 |
| Net gain on available-for-sale financial assets | - | - | - | - | - | - | 112 | - | - | - | - | 112 | 116 | 228 |
| Equity reserve for retirement plan | - | - | - | - | 1 | - | - | - | - | - | - | 1 | - | 1 |
| Other comprehensive income (loss) | - | - | - | - | 1 | (380) | 243 | - | - | - | - | (136) | (1,064) | (1,200) |
| Net income | - | - | - | - | - | - | - | - | 3,316 | - | - | 3,316 | 12,669 | 15,985 |
| Total comprehensive income (loss) | - | - | - | - | 1 | (380) | 243 | - | 3,316 | - | - | 3,180 | 11,605 | 14,785 |
| Net addition to non-controlling interests and others | - | - | - | 216 | - | - | - | - | - | - | - | 216 | 4,781 | 4,997 |
| Appropriations - net | - | - | - | - | - | - | - | 2,685 | (2,685) | - | - | - | - | - |
| Cash dividends and distributions: | | | | | | | | | | | | | | |
| Common | - | - | - | - | - | - | - | - | - | - | - | - | (4,171) | (4,171) |
| Preferred | - | - | - | - | - | - | - | - | - | - | - | - | (2,656) | (2,656) |
| Undated subordinated capital securities | - | - | - | - | - | - | - | - | - | - | - | - | (2,485) | (2,485) |
| As of June 30, 2015 (Unaudited) | ₱ 490 | ₱ 260 | ₱ 120,501 | ₱ 64 | ₱ (702) | ₱ (725) | ₱ 869 | ₱ 18,649 | ₱ 34,568 | ₱ (28,457) | ₱ (48,323) | ₱ 97,194 | ₱ 306,913 | ₱ 404,107 |
| | | | | | | | | | | | | | | |
| As of January 1, 2014 (Audited) | ₱ 490 | ₱ 260 | ₱ 120,501 | ₱ (228) | ₱ 913 | ₱ (1,121) | ₱ 1,362 | ₱ 276 | ₱ 46,267 | ₱ (28,457) | ₱ (48,323) | ₱ 91,940 | ₱ 276,816 | ₱ 368,756 |
| Gain (loss) on exchange differences on translation of foreign operations | - | - | - | - | - | 244 | - | - | - | - | - | 244 | (403) | (159) |
| Share in other comprehensive income of associates and joint ventures - net | - | - | - | - | - | - | 170 | - | - | - | - | 170 | 87 | 257 |
| Net loss on available-for-sale financial assets | - | - | - | - | - | - | (465) | - | - | - | - | (465) | (63) | (528) |
| Equity reserve for retirement plan | - | - | - | - | (2) | - | - | - | - | - | - | (2) | - | (2) |
| Other comprehensive income (loss) | - | - | - | - | (2) | 244 | (295) | - | - | - | - | (53) | (379) | (432) |
| Net income | - | - | - | - | - | - | - | - | 7,114 | - | - | 7,114 | 11,881 | 18,995 |
| Total comprehensive income (loss) | - | - | - | - | (2) | 244 | (295) | - | 7,114 | - | - | 7,061 | 11,502 | 18,563 |
| Net addition to non-controlling interests and others | - | - | - | - | - | - | - | - | - | - | - | - | 13,452 | 13,452 |
| Appropriations - net | - | - | - | - | - | - | - | 501 | (501) | - | - | - | - | - |
| Cash dividends and distributions: | | | | | | | | | | | | | | |
| Common | - | - | - | - | - | - | - | - | - | - | - | - | (5,424) | (5,424) |
| Preferred | - | - | - | - | - | - | - | - | - | - | - | - | (2,358) | (2,358) |
| Undated subordinated capital securities | - | - | - | - | - | - | - | - | - | - | - | - | (1,824) | (1,824) |
| As of June 30, 2014 (Unaudited) | ₱ 490 | ₱ 260 | ₱ 120,501 | ₱ (228) | ₱ 911 | ₱ (877) | ₱ 1,067 | ₱ 777 | ₱ 52,880 | ₱ (28,457) | ₱ (48,323) | ₱ 99,001 | ₱ 292,164 | ₱ 391,165 |

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 JUNE 30, 2015 AND 2014**
***(In Millions)***

| | 2015 Unaudited | 2014 Unaudited |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | ₱ 24,430 | ₱ 25,075 |
| Adjustments for: | | |
| Depreciation, amortization and others - net | 14,114 | 7,542 |
| Interest expense and other financing charges | 15,008 | 13,355 |
| Interest income | (2,233) | (1,882) |
| Equity in net losses (earnings) of associates and joint ventures | 21 | (377) |
| Loss (gain) on sale of investments and property and equipment | (31) | 105 |
| Operating income before working capital changes | 51,309 | 43,818 |
| Changes in noncash current assets, certain current liabilities and others | (22,725) | (17,298) |
| Cash generated from operations | 28,584 | 26,520 |
| Interest and other financing charges paid | (12,301) | (12,221) |
| Income taxes paid | (6,814) | (5,863) |
| Net cash flows provided by operating activities | 9,469 | 8,436 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of subsidiaries | (1,095) | (247) |
| Cash and cash equivalents acquired from business combination, net of cash paid | 14,415 | - |
| Additions to investments and advances | (1,500) | (5,145) |
| Additions to property, plant and equipment | (25,007) | (15,405) |
| Decrease (increase) in other noncurrent assets and others | (4,661) | 238 |
| Proceeds from sale of investments and property and equipment | 698 | 31,600 |
| Interest received | 2,173 | 1,775 |
| Dividends received from an associate and available-for-sale financial assets | 25 | 27 |
| Net cash flows provided by (used in) investing activities | (14,952) | 12,843 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from: | | |
| Short-term borrowings | 390,088 | 392,901 |
| Long-term borrowings | 24,425 | 63,623 |
| Payments of: | | |
| Short-term borrowings | (413,905) | (386,894) |
| Long-term borrowings | (24,292) | (74,021) |
| Payments of finance lease liabilities | (10,997) | (10,069) |
| Cash dividends and distributions paid to non-controlling shareholders | (10,320) | (10,952) |
| Proceeds from reissuance of treasury shares of a subsidiary | 20,956 | - |
| Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries | 14,884 | 13,140 |
| Redemption of preferred shares of subsidiaries | (40,642) | - |
| Net increase in non-controlling interests | 582 | - |
| Net cash flows used in financing activities | (49,221) | (12,272) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 2,091 | (467) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (52,613) | 8,540 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 258,763 | 191,813 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | ₱ 206,150 | ₱ 200,353 |

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**
**JUNE 30, 2015**
**(Amounts in Millions)**

| | | | | Past Due | |
|---|---|---|---|---|---|
| | **Total** | **Current** | **1 - 30 Days** | **31 - 60 Days** | **Over 60 Days** |
| Trade | ₱ 57,342 | ₱ 46,271 | ₱ 3,628 | ₱ 1,664 | ₱ 5,779 |
| Non-trade | 62,388 | 34,078 | 1,474 | 1,119 | 25,717 |
| Others | 12,003 | 12,003 | - | - | - |
| Total | 131,733 | 92,352 | 5,102 | 2,783 | 31,496 |
| Less allowance for impairment losses | 9,148 | | | | |
| Net | ₱ **122,585** | | | | |

## 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 June 30, 2015 and comparative financial statements for the same period in 2014 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New and Amended Standards

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

*Amendments to Standards Adopted in 2015*

The Group has adopted the following PFRS starting January 1, 2015 and accordingly, changed its accounting policies in the following areas:

- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:

  - Meaning of 'Vesting Condition' *(Amendment to PFRS 2, Share-based Payment).* PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition.

  - Scope Exclusion for the Formation of Joint Arrangements *(Amendment to PFRS 3, Business Combinations).* PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements*, - i.e., including joint operations - in the financial statements of the joint arrangements themselves.

  - Disclosures on the Aggregation of Operating Segments *(Amendments to PFRS 8, Operating Segments).* PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- Scope of Portfolio Exception *(Amendment to PFRS 13, Fair Value Measurement).* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments,* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.

- Definition of 'Related Party' *(Amendments to PAS 24, Related Party Disclosures).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans.

- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40).* PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3.

- Classification and Measurement of Contingent Consideration *(Amendments to PFRS 3).* The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, rather than to any other PFRS. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss. Consequential amendments are also made to PAS 39 and PFRS 9 to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is amended to exclude provisions related to contingent consideration.

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

*New and Amended Standards Not Yet Adopted*

A number of new and amended standards are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- Disclosure Initiative (Amendments to PAS 1, *Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income, consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and consolidated statements of comprehensive income. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

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

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates)*. The amendments address an inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture between the requirements in PFRS 10 and PAS 28. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:

  - Changes in Method for Disposal *(Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations).* PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed. The amendments to PFRS 5 are applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to changes in methods of disposal that occur on or after January 1, 2016.

  - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements *(Amendment to PFRS 7, Financial Instruments: Disclosures)*. The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment is required to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

  - Disclosure of Information 'Elsewhere in the Interim Financial Report' *(Amendment to PAS 34).* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is required to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

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

## 2. Business Combinations

**Infrastructure**

- Atlantic Aurum Investments B.V. (AAIBV)

On March 5, 2015, a Notarial Deed of Transfer of Shares was executed in accordance with the requirements of the laws of the Netherlands whereby Padma Fund L.P. transferred to San Miguel Holdings Corp. (SMHC) the following: (i) 44% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement. The total consideration for the additional 48.47% equity interest amounted to US$224 or P9,893.

With the transfer of the additional 48.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is consolidated by SMHC effective March 5, 2015.

AAIBV has shareholdings in the companies that hold the concession rights to operate and maintain the South Luzon Expressway (SLEX) and the 16.38-kilometer Stage 1 and Stage 2 of the South Metro Manila Skyway (Skyway) and Stage 3 of the Skyway which connects the North Luzon Expressway and SLEX.

SMHC has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | P21,595 |
| Trade and other receivables - net | 5,956 |
| Inventories | 22 |
| Prepaid expenses and other current assets | 2,713 |
| Investments and advances - net | 1,346 |
| Property, plant and equipment - net | 189 |
| Other intangible assets - net | 55,107 |
| Deferred tax assets | 120 |
| Other noncurrent assets - net | 163 |

*Forward*

| | |
|---|---|
| **Liabilities** | |
| Accounts payable and accrued expenses | (P21,422) |
| Income and other taxes payable | (717) |
| Dividends payable | (373) |
| Long-term debt - net of debt issue costs | (47,635) |
| Deferred tax liabilities | (4,624) |
| Other noncurrent liabilities | (875) |
| **Total Identifiable Net Assets at Fair Value** | P11,565 |

Goodwill was recognized as a result of the acquisition as follows:

| | |
|---|---|
| Total consideration transferred | P9,893 |
| Equity interest held before business combination | 10,396 |
| Non-controlling interest measured at proportionate interest in identifiable net assets | 9,678 |
| Total identifiable net assets at fair value | (11,565) |
| **Goodwill** | P18,402 |

**Packaging**

- Vinocor Worldwide Direct Pty. Ltd. (Vinocor)

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

Additionally, on January 9, 2015, SMYA incorporated and registered in Australia a new entity, SMYV Pty Ltd. which acquired 100% of Vinocor's wine closure and customized wine bottle business on February 27, 2015 for AU$11.2 (P501).

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

| | |
|---|---|
| **Assets** | |
| Inventories | P139 |
| Prepaid expenses and other current assets | 4 |
| Property, plant and equipment - net | 141 |
| **Liabilities** | |
| Accounts payable and accrued expenses | (4) |
| **Total Identifiable Net Assets at Fair Value** | P280 |

Goodwill was recognized as a result of the acquisition as follows:

| | |
|---|---|
| Total cash consideration transferred | P501 |
| Total identifiable net asset at fair value | (280) |
| **Goodwill** | P221 |

The Group is currently completing the purchase price allocation exercise on the acquisitions. The identifiable assets and liabilities are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

If the foregoing acquisitions have occurred on January 1, 2015, management estimates that consolidated revenue would have been P340,989 and consolidated net income for the period would have been P16,059. In determining these amounts, management assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2015.

**Energy**

- Ondarre Holding Corporation (OHC)

On February 10, 2015, SMC Global Power Holdings Corp. (SMC Global) acquired 100% of the outstanding and issued shares of stock of OHC for a total consideration of P588. OHC is engaged in acquiring by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop and hold for investment or otherwise, real estate of all kinds, and to improve, manage or otherwise deal with or dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances.

The following summarizes the recognized amounts of assets acquired from OHC at the acquisition date:

| | |
|---|---|
| **Assets** | |
| Cash, prepaid expenses and other current assets | P38 |
| Investment property - net | 550 |
| **Total Identifiable Net Assets at Fair Value** | P588 |

In accordance with the criteria set out in paragraph 2 of PFRS 3 and based on Philippine Interpretations Committee Question and Answer No. 2011 - 06 PFRS 3 and PAS 40 - *Acquisition of investment properties - asset acquisition or business combination*, SMC Global is exempt from applying acquisition method and should be accounted for as an asset acquisition based on the principles described in other PFRS. The acquired set of assets and activities does not constitute a business as defined in PFRS 3. The management's intention for acquiring OHC is to use its investment property for administrative purposes. The investment property of OHC is presented as part of land under "Property, plant and equipment" account in the consolidated statements of financial position.

## 3. Segment Information

Operating Segments

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

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

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

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

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

The energy segment is engaged in power generation, distribution and trading and coal mining. The power generation assets supply electricity to a variety of customers, including Manila Electric Company, 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 follows:

| | Beverage | | Food | | Packaging | | Energy | | Fuel and Oil | | Infrastructure | | Telecommu-nications | | Mining and Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| **Sales** | | | | | | | | | | | | | | | | | | | | |
| External sales | **P46,757** | P44,477 | **P50,504** | P49,169 | **P9,736** | P9,618 | **P36,079** | P40,817 | **P183,440** | P255,087 | **P9,266** | P4,442 | **P815** | P739 | **P2,179** | P589 | **P –** | P – | **P338,776** | P404,938 |
| Inter-segment sales | **498** | 150 | **4** | 7 | **2,277** | 1,896 | **4,376** | 2,943 | **2,611** | 3,143 | **–** | – | **–** | – | **7,554** | 2,758 | **(17,320)** | (10,897) | **–** | – |
| Total sales | **P47,255** | P44,627 | **P50,508** | P49,176 | **12,013** | 11,514 | **P40,455** | P43,760 | **P186,051** | P258,230 | **P9,266** | P4,442 | **P815** | P739 | **P9,733** | P3,347 | **(P17,320)** | (P10,897) | **P338,776** | P404,938 |
| **Results** | | | | | | | | | | | | | | | | | | | | |
| Segment results | **P10,795** | P10,000 | **P2,590** | P2,547 | **P872** | P799 | **P13,278** | P14,560 | **P8,860** | P6,000 | **P2,987** | (P87) | **(P372)** | (P148) | **P123** | (P2,624) | **P41** | P465 | **P39,174** | P31,512 |

## 4. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as of June 30, 2015 and December 31, 2014:

| | Reporting Period | Revenue from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| Shareholders of the Parent | **June 30, 2015** | **P -** | **P -** | **P -** | **P9,500** | On demand; Interest bearing | Unsecured; No impairment |
| Company | December 31, 2014 | - | - | - | 9,348 | | |
| | **June 30, 2015** | **-** | **-** | **-** | **221** | On demand; | Unsecured; |
| | December 31, 2014 | - | - | - | 221 | Non-interest bearing | No impairment |
| Retirement | **June 30, 2015** | **241** | **-** | **12,918** | **-** | On demand; | Unsecured; |
| Plans | December 31, 2014 | 216 | - | 12,686 | - | Interest bearing | No impairment |
| Associates | **June 30, 2015** | **914** | **119** | **700** | **-** | On demand; | Unsecured; |
| | December 31, 2014 | 2,066 | 98 | 7,473 | 159 | Interest and non-interest bearing | No impairment |
| | **June 30, 2015** | **-** | **-** | **-** | **19,074** | Less than 1 | Unsecured and |
| | December 31, 2014 | - | - | - | 16,640 | to 10 years; Interest bearing | secured |
| Joint Ventures | **June 30, 2015** | **-** | **78** | **673** | **-** | On demand; | Unsecured; |
| | December 31, 2014 | - | 83 | 674 | 1 | Non-interest bearing | No impairment |
| Shareholders in | **June 30, 2015** | **154** | **54** | **123** | **1,876** | On demand; | Unsecured; |
| Subsidiaries | December 31, 2014 | 107 | 15 | 90 | 348 | Non-interest bearing | No impairment |
| Others | **June 30, 2015** | **24** | **-** | **12** | **5,887** | On demand; | Unsecured; |
| | December 31, 2014 | 54 | - | 6,910 | 45 | Non-interest bearing | No impairment |
| **Total** | **June 30, 2015** | **P1,333** | **P251** | **P14,426** | **P36,558** | | |
| Total | December 31, 2014 | P2,443 | P196 | P27,833 | P26,762 | | |

a. Interest-bearing payables and related financing charges are 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 other financing charges amounted to P129 and P127 for the periods ended June 30, 2015 and 2014, 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 and professional fees.

d. The amounts owed to associates include interest bearing loans to Bank of Commerce presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

## 5. Property, Plant and Equipment

Property, plant and equipment consist of:

**June 30, 2015**

| | Land and Improvements | Buildings and Improvements | Power Plants | Refinery and Plant Equipment | Service Stations and Other Equipment | Equipment, Furniture and Fixtures | Leasehold Improvements | Mine and Mining Property | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| **January 1, 2015 (Audited)** | P59,818 | P54,245 | P255,082 | P50,532 | P16,142 | P132,102 | P2,350 | P5,530 | P135,986 | P711,787 |
| Additions | 318 | 351 | - | 301 | 895 | 1,987 | 22 | 3 | 21,130 | 25,007 |
| Disposals/reclassifications/acquisition of subsidiaries | 1,142 | (1,477) | - | (2) | (157) | (2,908) | 179 | 7 | 1,465 | (1,751) |
| Currency translation adjustments | (545) | (606) | - | (723) | (476) | (231) | - | - | (165) | (2,746) |
| **June 30, 2015 (Unaudited)** | 60,733 | 52,513 | 255,082 | 50,108 | 16,404 | 130,950 | 2,551 | 5,540 | 158,416 | 732,297 |
| **Accumulated Depreciation and Amortization** | | | | | | | | | | |
| **January 1, 2015 (Audited)** | 3,973 | 20,616 | 27,859 | 32,218 | 10,471 | 80,781 | 1,324 | 4,652 | - | 181,894 |
| Additions | 109 | 1,127 | 3,387 | 946 | 682 | 3,737 | 103 | 55 | - | 10,146 |
| Disposals/reclassifications/acquisition of subsidiaries | 64 | (937) | - | (2) | (49) | (1,420) | (160) | - | - | (2,504) |
| Currency translation adjustments | (39) | (348) | - | (328) | (259) | (466) | - | - | - | (1,440) |
| **June 30, 2015 (Unaudited)** | 4,107 | 20,458 | 31,246 | 32,834 | 10,845 | 82,632 | 1,267 | 4,707 | - | 188,096 |
| **Accumulated Impairment Losses** | | | | | | | | | | |
| **January 1, 2015 (Audited)** | 266 | 1,882 | - | - | - | 6,886 | - | 573 | - | 9,607 |
| Currency translation adjustments | - | 22 | - | - | - | 65 | - | - | - | 87 |
| **June 30, 2015 (Unaudited)** | 266 | 1,904 | - | - | - | 6,951 | - | 573 | - | 9,694 |
| **Carrying Amount** | | | | | | | | | | |
| **June 30, 2015 (Unaudited)** | P56,360 | P30,151 | P223,836 | P17,274 | P5,559 | P41,367 | P1,284 | P260 | P158,416 | P534,507 |

## June 30, 2014

| | Land and Improvements | Buildings and Improvements | Power Plants | Refinery and Plant Equipment | Service Stations and Other Equipment | Equipment, Furniture and Fixtures | Leasehold Improvements | Mine and Mining Property | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | | |
| January 1, 2014 (Audited) | P56,385 | P51,437 | P250,054 | P49,675 | P15,669 | P127,190 | P2,307 | P509 | P109,372 | P662,598 |
| Additions | 401 | 368 | - | 163 | 670 | 1,825 | 39 | 1 | 11,938 | 15,405 |
| Disposals/reclassifications/acquisition of subsidiaries | 1,952 | (31) | - | (61) | (190) | (1,109) | (31) | 8 | 2,829 | 3,367 |
| Currency translation adjustments | 58 | (156) | - | 84 | 53 | (556) | (1) | - | 14 | (504) |
| June 30, 2014 (Unaudited) | 58,796 | 51,618 | 250,054 | 49,861 | 16,202 | 127,350 | 2,314 | 518 | 124,153 | 680,866 |
| Accumulated Depreciation and Amortization | | | | | | | | | | |
| January 1, 2014 (Audited) | 2,817 | 18,767 | 21,311 | 30,290 | 9,673 | 73,514 | 1,163 | 57 | - | 157,592 |
| Additions | 91 | 1,152 | 3,216 | 923 | 642 | 3,966 | 92 | 52 | - | 10,134 |
| Disposals/reclassifications/acquisition of subsidiaries | 421 | (20) | - | (39) | (156) | (333) | (314) | 1 | - | (440) |
| Currency translation adjustments | 4 | (42) | - | 346 | 29 | (527) | - | - | - | (190) |
| June 30, 2014 (Unaudited) | 3,333 | 19,857 | 24,527 | 31,520 | 10,188 | 76,620 | 941 | 110 | - | 167,096 |
| Accumulated Impairment Losses | | | | | | | | | | |
| January 1, 2014 (Audited) | 266 | 2,275 | - | - | - | 7,404 | - | - | - | 9,945 |
| Disposals and reclassifications | - | - | - | - | - | 28 | - | - | - | 28 |
| Currency translation adjustments | - | (68) | - | - | - | (195) | - | - | - | (263) |
| June 30, 2014 (Unaudited) | 266 | 2,207 | - | - | - | 7,237 | - | - | - | 9,710 |
| Carrying Amount | | | | | | | | | | |
| June 30, 2014 (Unaudited) | P55,197 | P29,554 | P225,527 | P18,341 | P6,014 | P43,493 | P1,373 | P408 | P124,153 | P504,060 |

Depreciation and amortization charged to operations amounted to P10,146 and P10,134 in June 2015 and 2014, respectively.

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

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

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

Basic and Diluted Earnings per Common Share is computed as follows:

| | **June 30** | |
|---|---|---|
| | **2015** | 2014 |
| Net income attributable to common shareholders of the Parent Company (a) | **P3,316** | P7,114 |
| Weighted average number of common shares outstanding (in millions) (b) | **330** | 330 |
| Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b) | **P10.04** | P21.54 |

As of June 30, 2015 and 2014, the Parent Company has no dilutive debt or equity instruments.

## 7. Dividends

The Parent Company has no dividend declaration as of June 30, 2015 and 2014.

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

Objectives and Policies

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

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

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

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

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

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

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

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

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

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

<u>Interest Rate Risk</u>

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

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

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

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,212 and P1,957 for the period ended June 30, 2015 and for the year ended December 31, 2014, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

| **June 30, 2015** | **<1 Year** | **1-2 Years** | **>2-3 Years** | **>3-4 Years** | **>4-5 Years** | **>5 Years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Fixed Rate** | | | | | | | |
| Philippine peso-denominated | **P5,991** | **P7,996** | **P26,389** | **P21,604** | **P9,482** | **P58,222** | **P129,684** |
| Interest rate | **5.4885% - 12%** | **6.05% - 8.74899%** | **6.0606% - 8.74899%** | **5.93% - 10.50%** | **6.0606% - 8.74899%** | **4.9925% - 8.74899%** | |
| Foreign currency-denominated (expressed in Philippine peso) | **13,372** | **51** | **-** | **-** | **-** | **23,283** | **36,706** |
| Interest rate | **7%** | **12.45% - 12.85%** | | | | **4.875%** | |
| **Floating Rate** | | | | | | | |
| Philippine peso-denominated | **12,135** | **1,136** | **1,295** | **1,253** | **732** | **2,188** | **18,739** |
| Interest rate* | **PDST-R + margin or BSP overnight rate + margin, whichever is higher** | **PDST-R + margin or BSP overnight rate + margin, whichever is higher** | **PDST-R + margin or BSP overnight rate + margin, whichever is higher** | **PDST-R + margin or BSP overnight rate + margin, whichever is higher** | **PDST-R + margin or BSP overnight rate + margin, whichever is higher** | **PDST-R + margin** | |
| Foreign currency-denominated (expressed in Philippine peso) | **46,013** | **31,934** | **78,073** | **46,405** | **39** | **-** | **202,464** |
| Interest rate | **LIBOR + margin, COF + margin** | **LIBOR + margin, COF + margin** | **LIBOR + margin, COF + margin** | **LIBOR + margin, COF + margin** | **COF + margin** | | |
| | **P77,511** | **P41,117** | **P105,757** | **P69,262** | **P10,253** | **P83,693** | **P387,593** |

| December 31, 2014 | <1 Year | 1-2 Years | >2-3 Years | >3-4 Years | >4-5 Years | >5 Years | Total |
|---|---|---|---|---|---|---|---|
| Fixed Rate | | | | | | | |
| Philippine peso-denominated | P2,490 | P4,033 | P26,141 | P4,384 | P17,171 | P38,042 | P92,261 |
| Interest rate | 5.4885% - 12% | 6.0606% - 8.2498% | 6.05% - 8.2498% | 6.0606% - 8.2498% | 5.93% - 10.50% | 5.50% - 8.2498% | |
| Foreign currency-denominated (expressed in Philippine peso) | - | 13,262 | - | - | - | 35,776 | 49,038 |
| Interest rate | | 7 % | | | | 4.875% | |
| Floating Rate | | | | | | | |
| Philippine peso-denominated | 11,664 | 1,495 | 1,511 | 1,512 | 1,147 | 1,467 | 18,796 |
| Interest rate | PDST-F + margin or BSP overnight rate + margin, whichever is higher | PDST-F + margin or BSP overnight rate + margin, whichever is higher | PDST-F + margin or BSP overnight rate + margin, whichever is higher | PDST-F + margin or BSP overnight rate + margin, whichever is higher | PDST-F + margin or BSP overnight rate + margin, whichever is higher | PDST-F + margin | |
| Foreign currency-denominated (expressed in Philippine peso) | 11,691 | 43,741 | 13,546 | 104,391 | 3,569 | - | 176,938 |
| Interest rate | LIBOR + margin | LIBOR + margin, COF + margin | LIBOR + margin, COF + margin | LIBOR + margin, COF + margin | LIBOR + margin, COF + margin | | |
| | P25,845 | P62,531 | P41,198 | P110,287 | P21,887 | P75,285 | P337,033 |

**Philippine Dealing and Exchange Corp. discontinued to publish PDST-F effective April 1, 2015.*

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:

| | **June 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$2,114** | **P95,310** | US$2,761 | P123,582 |
| Trade and other receivables | **1,202** | **54,183** | 841 | 37,624 |
| Prepaid expenses and other current assets | **9** | **422** | 26 | 1,150 |
| Noncurrent receivables | **41** | **1,846** | 184 | 8,199 |
| | **3,366** | **151,761** | 3,812 | 170,555 |
| **Liabilities** | | | | |
| Loans payable | **526** | **23,738** | 808 | 36,109 |
| Accounts payable and accrued expenses | **1,595** | **71,917** | 1,431 | 64,014 |
| Long-term debt (including current maturities) | **5,304** | **239,170** | 5,053 | 225,943 |
| Finance lease liabilities (including current portion) | **2,138** | **96,438** | 2,319 | 103,677 |
| Other noncurrent liabilities | **542** | **24,466** | 978 | 43,763 |
| | **10,105** | **455,729** | 10,589 | 473,506 |
| Net foreign currency-denominated monetary liabilities | **(US$6,739)** | **(P303,968)** | (US$6,777) | (P302,951) |

The Group reported net gains (losses) on foreign exchange amounting to (P1,848) and P4,651 for the period ended June 30, 2015 and 2014, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

| | **Philippine Peso to US Dollar** |
|---|---|
| **June 30, 2015** | **45.090** |
| December 31, 2014 | 44.720 |
| June 30, 2014 | 43.650 |
| December 31, 2013 | 44.395 |

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

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

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

| | **P1 Decrease in the US Dollar Exchange Rate** | | **P1 Increase in the US Dollar Exchange Rate** | |
|---|---|---|---|---|
| **June 30, 2015** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P1,807)** | **(P1,573)** | **P1,807** | **P1,573** |
| Trade and other receivables | **(525)** | **(1,044)** | **525** | **1,044** |
| Prepaid expenses and other current assets | **-** | **(9)** | **-** | **9** |
| Noncurrent receivables | **(27)** | **(35)** | **27** | **35** |
| | **(2,359)** | **(2,661)** | **2,359** | **2,661** |
| Loans payable | **375** | **413** | **(375)** | **(413)** |
| Accounts payable and accrued expenses | **663** | **1,278** | **(663)** | **(1,278)** |
| Long-term debt (including current maturities) | **4,437** | **3,526** | **(4,437)** | **(3,526)** |
| Finance lease liabilities (including current portion) | **2,138** | **1,497** | **(2,138)** | **(1,497)** |
| Other noncurrent liabilities | **325** | **281** | **(325)** | **(281)** |
| | **7,938** | **6,995** | **(7,938)** | **(6,995)** |
| | **P5,579** | **P4,334** | **(P5,579)** | **(P4,334)** |

| December 31, 2014 | P1 Decrease in the US Dollar Exchange Rate | | P1 Increase in the US Dollar Exchange Rate | |
|---|---|---|---|---|
| | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| Cash and cash equivalents | (P2,242) | (P2,091) | P2,242 | P2,091 |
| Trade and other receivables | (202) | (780) | 202 | 780 |
| Prepaid expenses and other current assets | (26) | (18) | 26 | 18 |
| Noncurrent receivables | (166) | (135) | 166 | 135 |
| | (2,636) | (3,024) | 2,636 | 3,024 |
| Loans payable | 454 | 675 | (454) | (675) |
| Accounts payable and accrued expenses | 705 | 1,216 | (705) | (1,216) |
| Long-term debt (including current maturities) | 4,967 | 3,564 | (4,967) | (3,564) |
| Finance lease liabilities (including current portion) | 2,319 | 1,623 | (2,319) | (1,623) |
| Other noncurrent liabilities | 902 | 707 | (902) | (707) |
| | 9,347 | 7,785 | (9,347) | (7,785) |
| | P6,711 | P4,761 | (P6,711) | (P4,761) |

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

San Miguel Corporation (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 to meet payment obligations when they fall under normal and stress circumstances.

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

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

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

| June 30, 2015 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | **P206,150** | **P206,150** | **P206,150** | **P -** | **P -** | **P -** |
| Trade and other receivables - net | **122,585** | **122,585** | **122,585** | **-** | **-** | **-** |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **148** | **148** | **148** | **-** | **-** | **-** |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | **144** | **144** | **144** | **-** | **-** | **-** |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | **5,976** | **6,068** | **90** | **5,621** | **179** | **178** |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account) | **5,911** | **5,911** | **-** | **2,472** | **855** | **2,584** |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | **6,779** | **6,779** | **5,948** | **831** | **-** | **-** |
| **Financial Liabilities** | | | | | | |
| Loans payable | **156,008** | **156,964** | **156,964** | **-** | **-** | **-** |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and infrastructure restoration obligation (IRO)) | **125,555** | **125,840** | **125,840** | **-** | **-** | **-** |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | **1,189** | **1,189** | **1,189** | **-** | **-** | **-** |
| Long-term debt (including current maturities) | **385,473** | **453,372** | **94,243** | **54,967** | **210,550** | **93,612** |

*Forward*

| June 30, 2015 | 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) | **P203,188** | **P238,126** | **P22,731** | **P23,391** | **P74,189** | **P117,815** |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO) and accrual for mine rehabilitation and decommissioning) | **13,504** | **13,508** | **-** | **12,915** | **4** | **589** |

| December 31, 2014 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash and cash equivalents | P258,763 | P258,763 | P258,763 | P - | P - | P - |
| Trade and other receivables - net | 133,456 | 133,456 | 133,456 | - | - | - |
| Option deposit (included under "Prepaid expenses and other current assets" account) | 1,118 | 1,118 | 1,118 | - | - | - |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | 360 | 360 | 360 | - | - | - |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | 136 | 136 | 136 | - | - | - |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | 6,148 | 6,185 | 460 | 5,511 | 214 | - |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account) | 11,931 | 11,941 | - | 2,435 | 6,973 | 2,533 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | 2,683 | 2,683 | 1,604 | 1,079 | - | - |
| Financial Liabilities | | | | | | |
| Loans payable | 180,712 | 181,670 | 181,670 | - | - | - |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO) | 132,009 | 132,290 | 132,290 | - | - | - |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | 325 | 325 | 325 | - | - | - |
| Long-term debt (including current maturities) | 335,450 | 400,305 | 41,715 | 75,092 | 196,766 | 86,732 |
| Finance lease liabilities (including current portion) | 210,092 | 248,201 | 22,105 | 23,173 | 71,945 | 130,978 |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning) | 14,370 | 14,373 | - | 13,883 | 3 | 487 |

Credit Risk

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

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

*Trade and Other Receivables*

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

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

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

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

*Investments*

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

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

| | **June 30, 2015** | December 31, 2014 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | **P204,498** | P255,943 |
| Trade and other receivables - net | **122,585** | 133,456 |
| Option deposit | **-** | 1,118 |
| Derivative assets | **148** | 360 |
| Financial assets at FVPL | **144** | 136 |
| AFS financial assets | **5,976** | 6,148 |
| Noncurrent receivables and deposits - net | **5,911** | 11,931 |
| Restricted cash | **6,779** | 2,683 |
| | **P346,041** | P411,775 |

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

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

Financial and Other Risks Relating to Livestock

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

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

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

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

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

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

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

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

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

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

## 9. Financial Assets and Financial Liabilities

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

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

*'Day 1' Profit.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in

profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group has no financial assets classified as HTM investments as of June 30 and March 31, 2015 and December 31, 2014.

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

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

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

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

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

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

<u>Derecognition of Financial Assets and Financial Liabilities</u>
*Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

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

- deliver cash or another financial asset to another entity;

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

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

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

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

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

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

| | **June 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **P206,150** | **P206,150** | P258,763 | P258,763 |
| Trade and other receivables - net | **122,585** | **122,585** | 133,456 | 133,456 |
| Option deposit (included under "Prepaid expenses and other current assets" account) | **-** | **-** | 1,118 | 1,118 |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **148** | **148** | 360 | 360 |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | **144** | **144** | 136 | 136 |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account) | **5,976** | **5,976** | 6,148 | 6,148 |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account) | **5,911** | **5,911** | 11,931 | 11,931 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | **6,779** | **6,779** | 2,683 | 2,683 |
| **Financial Liabilities** | | | | |
| Loans payable | **156,008** | **156,008** | 180,712 | 180,712 |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO) | **125,555** | **125,555** | 132,009 | 132,009 |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | **1,189** | **1,189** | 325 | 325 |
| Long-term debt (including current maturities) | **385,473** | **408,175** | 335,450 | 359,539 |
| Finance lease liabilities (including current portion) | **203,188** | **203,188** | 210,092 | 210,092 |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning) | **13,504** | **13,504** | 14,370 | 14,370 |

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

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

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

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

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

*Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities.* The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.1% to 4.4% and 2.5% to 4.3% as of June 30, 2015 and December 31, 2014, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 8.0% and 0.2% to 2.1% as of June 30, 2015 and December 31, 2014, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

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

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

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

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

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

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

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

The Group has no outstanding derivatives accounted for as a fair value hedge as of June 30 and March 31, 2015 and December 31, 2014.

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

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

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

The Group has no outstanding derivatives accounted for as a cash flow hedge as of June 30 and March 31, 2015 and December 31, 2014.

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

The Group has no hedge of a net investment in a foreign operation as of June 30 and March 31, 2015 and December 31, 2014.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

Derivative Instruments not Designated as Hedges

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

*Freestanding Derivatives*

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

*Interest Rate Swap*

As of June 30, 2015, the Group has outstanding interest rate swap with notional amount of US$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P273 as of June 30, 2015. The Group has no outstanding interest rate swap as of December 31, 2014.

*Currency Forwards*

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,415, US$1,219 and US$1,673 as of June 30 and March 31, 2015 and December 31, 2014, respectively, and with various maturities in 2015. The net positive (negative) fair value of these currency forwards amounted to (P6), P50 and P0.4 as of June 30 and March 31, 2015 and December 31, 2014, respectively.

*Currency Options*

As of June 30 and March 31, 2015 and December 31, 2014, the Group has outstanding currency options with an aggregate notional amount of US$1,720, US$1,826 and US$245, respectively, and with various maturities in 2015. The net negative fair value of these currency options amounted to P651, P581 and P140 as of June 30 and March 31, 2015 and December 31, 2014, respectively.

*Commodity Swaps*

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2015. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 355, 120 and 610 metric tons as of June 30 and March 31, 2015 and December 31, 2014, respectively. The net negative fair value of these swaps amounted to P0.2, P0.5 and P2 as of June 30 and March 31, 2015 and December 31, 2014, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2015. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 18.9, 25.3 and 6.6 million barrels as of June 30 and March 31, 2015 and December 31, 2014, respectively. The net positive fair value of these swaps amounted to P539, P246 and P1,420 as of June 30 and March 31, 2015 and December 31, 2014, respectively.

*Commodity Options*

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities of 2,994 and 5,987 metric tons as of March 31, 2015 and December 31, 2014, respectively. These options can be exercised at various calculation dates in 2015 with specified quantities on each calculation date. The net negative fair value of these options amounted to P5 as of March 31, 2015 and December 31, 2014. As of June 30, 2015, the Group has no outstanding commodity options on the purchase of wheat.

As of June 30 and March 31, 2015, the Group has outstanding bought options covering its fuel oil requirements with notional quantity of 1,950 and 975 metric tons, respectively. These options can be exercised at various calculation dates in 2015 with specified quantities on each calculation date. The positive fair value of these options amounted P1 as of June 30 and March 31, 2015. The Group has no outstanding commodity options on the purchase of fuel oil as of December 31, 2014.

As of June 30 and March 31, 2015 and December 31, 2014, the Group has no outstanding commodity options on the purchase of crude oil.

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

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

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

*Embedded Currency Forwards*
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$136, US$160 and US$152 as of June 30 and March 31, 2015 and December 31, 2014, respectively. These non-financial contracts consist mainly of foreign currency denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P68, P59 and P54 as of June 30 and March 31, 2015 and December 31, 2014, respectively.

*Embedded Currency Options*
The total outstanding notional amount of currency options embedded in non-financial contracts amounted to US$0.4, US$0.7 and US$1 as of June 30 and March 31, 2015 and December 31, 2014, 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 P0.2, P0.4 and P1 as of June 30 and March 31, 2015 and December 31, 2014, respectively.

For the periods ended June 30, 2015 and 2014 and March 31, 2015 and 2014, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P785), (P429), (P248) and P1,573, respectively.

Fair Value Measurements

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

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

| | **June 30, 2015** | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** | Level 1 | Level 2 | Total |
| **Financial Assets** | | | | | | |
| Derivative assets | **P -** | **P148** | **P148** | P - | P360 | P360 |
| Financial assets at FVPL | **144** | **-** | **144** | 136 | - | 136 |
| AFS financial assets | **227** | **5,749** | **5,976** | 215 | 5,933 | 6,148 |
| **Financial Liabilities** | | | | | | |
| Derivative liabilities | **-** | **1,189** | **1,189** | - | 325 | 325 |

The Group has no financial instruments valued based on Level 3 as of June 30, 2015 and December 31, 2014. During the period, there were no transfers into or out of Level 3 fair value measurement.

## 10. Events After the Reporting Date

a. *Reclassification of 810,000,000 Series "1" Preferred Shares to Series "2" Preferred Shares of SMC*

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

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

On July 14, 2015, the BOD of SMC authorized the following:

(a) Issuance and offer for sale to the public and investors of 446,667,000 of the Series "2" Preferred Shares of SMC, at an issue price of P75 per share, to be issued up to three subseries;
(b) Filing of a Registration Statement and Prospectus with the Securities and Exchange Commission; and
(c) Filing of listing application with the Philippine Stock Exchange of the new subseries of the Series "2" Preferred Shares.

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

b. *Investment by Vega Telecoms, Inc. (Vega) in Express Telecommunications, Inc. (Extelcom) and High Frequency Telecommunications, Inc. (High Frequency)*

On July 14, 2015, the BOD of SMC confirmed the investment of Vega in Extelcom and High Frequency.

The investments by Vega in Extelcom and High Frequency, were made through the acquisition of 100% equity interest in: (a) MultiTech Holdings, Inc., which holds the total outstanding capital stock of High Frequency, and (b) Trans Digital Excel, Inc., which holds 78.45% equity interest in the total outstanding capital stock of Extelcom, respectively.

c. *Acquisition of the entire interest and participation of Qtel West Bay Holdings S. P. C. (Qtel), Wi-tribe Asia Limited (Wi-Tribe), and White Dawn Solution Holdings, Inc. (White Dawn) in Liberty Telecoms Holdings, Inc. (LTHI).*

The BOD of SMC, in its regular meeting held on July 14, 2015, authorized Vega to acquire the entire interest and participation of Qtel, Wi-tribe, and White Dawn (collectively, the "Sellers") in LTHI. In compliance with the Securities Regulation Code, Vega will conduct a tender offer of the common shares of LTHI held by the public. The purchase of the shares of the Sellers by Vega shall be subject to closing conditions, inclusive of the completion of the tender offer.

On July 16, 2015, Vega acquired the following in separate transactions:

426,800,168 common shares and 1,527,033,102 preferred shares in LTHI from QTEL

175,113,191 preferred shares in LTHI from Wi-Tribe.

1,205,621,881 preferred shares in LTHI from White Dawn.

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

11. **Other Matters**

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

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

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

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

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 44 (a) of the 2014 Audited Consolidated Financial Statements, that remain outstanding as of June 30, 2015. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. The effects of seasonality or 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 June 30, 2015.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of June 30, 2015. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

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

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") as of and for the period ended June 30, 2015 (with comparative figures as of December 31, 2014 and for the period ended June 30, 2014). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2015, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

## I. 2015 SIGNIFICANT TRANSACTIONS

### A. INVESTMENTS

- *Acquisition of 44% Equity Interest in Atlantic Aurum Investments B.V. (AAIBV) and Exercise of Option to Acquire Additional 4.47%*

On March 5, 2015, a Notarial Deed of Transfer of Shares was executed in accordance with the requirements of the laws of the Netherlands whereby Padma Fund L.P. (Padma) transferred to San Miguel Holdings Corp. (SMHC) the following: (i) 44% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement. The total consideration for the additional 48.47% equity interest amounted to US$224 million or P9,893 million.

With the transfer of the additional 48.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and is consolidated by SMHC effective March 5, 2015.

AAIBV has shareholdings in the companies that hold the concession rights to operate and maintain the South Luzon Expressway (SLEX) and the 16.38-kilometer (Stages 1 and 2) South Metro Manila Skyway (Skyway) and Stage 3 of the Skyway which connects the North Luzon Expressway and SLEX.

- *Acquisition of the 49% Interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)*

In January 2015, San Miguel Pure Foods International, Limited (SMPFIL), a wholly-owned subsidiary of San Miguel Pure Foods Company Inc. (SMPFC), purchased from Hormel Netherlands B.V. (Hormel) the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% of SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in San Miguel Hormel (Vn) Co., Ltd., a company incorporated in Vietnam which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats. Following the acquisition, SMPFI Limited has become a wholly-owned subsidiary of SMPFIL.

- *Acquisition of La Pacita Trademarks*

In February 2015, the acquisition by SMPFC of Felicisimo Martinez & Co. Inc.'s (FMC) trademarks, formulations, recipes and other intangible properties (IP Rights) relating to FMC's *La Pacita* biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions and the payment of the consideration for such IP Rights.

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

On April 30, 2015, SMB executed a Deed of Sale with GSMI for the purchase by SMB of finished goods inventories and other inventories comprising of containers, packaging materials, goods-in-process and raw materials as of March 31, 2015, used by GSMI in its non-alcoholic beverage business.

The total purchase price paid by SMB for the non-alcoholic beverage assets of GSMI is P398 million (exclusive of value-added tax), net of adjustments to the price of the equipment purchased from GSMI last April 1, 2015 after subsequent validation and confirmation by the parties.

- *Divestment of the Shares of Stock of Indophil Resources NL (Indophil)*

On January 23, 2015, the Indophil shares of stock held by Coastal View Exploration Corporation (Coastal View) were transferred to Alsons Prime Investments Corporation (Alsons) for AUD30 cents per share following the approval by the Supreme Court of Victoria and the shareholders of Indophil of the Scheme of Arrangement proposed by Alsons. Coastal View received the payment on the sale of the investment amounting to AU$14.41 million or P493 million on January 30, 2015.

## B. PREFERRED SHARES

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

On November 7, 2014, the Board of Directors (BOD) of Petron approved the redemption of the 2010 Preferred Shares at a redemption price of P100.00 per share in accordance with terms and conditions of the issuance of the 2010 Preferred Shares. The redemption price of the 2010 Preferred Shares and all accumulated unpaid cash dividends was paid on March 5, 2015 to the stockholders of record as of February 18, 2015.

The redemption of the shares was financed by the proceeds of the issuance of Series "2" preferred shares on November 3, 2014.

- *Redemption of Preferred Shares by Petron Global Limited (PGL)*

On May 13, 2015, PGL redeemed its 150,000,000 series A and 200,000,000 series B cumulative, non-voting, non-participating and non-convertible preferred shares at a redemption price equal to its original issuance price and par value of US$1.00 per share or P15,642 million. These preferred shares were previously issued to a third party investor in 2012 with a dividend rate of 6% per annum.

- *Redemption of Outstanding Preferred Shares by SMPFC*

On February 3, 2015, SMPFC's BOD approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of SMPFC's treasury shares.

- *Issuance of Series "2" Perpetual Preferred Shares (PFP2 Shares) by SMPFC*

On January 20, 2015, the BOD of The Philippine Stock Exchange, Inc. (PSE) approved, subject to Securities and Exchange Commission (SEC) approval and certain conditions, the application of SMPFC to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover SMPFC's preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered SMPFC's Registration Statement covering the registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share (the "PFP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC's application to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover the PFP2 Shares Offering at an offer price of P1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by SMPFC's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The PFP2 Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The PFP2 Shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the PFP2 Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMPFC, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, SMPFC's 15,000,000 PFP2 Shares with par value of P10.00 per share were issued and listed with the PSE.

- *Reissuance and Private Placement of Series "1" Preferred Shares of San Miguel Corporation (SMC)*

On April 14, 2015, SMC issued 279,406,667 Series "1" Preferred Shares in the name of certain subscribers at P75.00 per share or a total amount of P20,956 million. The proceeds from the reissuance of Series "1" Preferred Shares is still in the cash in bank balance of SMC as of June 30, 2015.

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

**C. FINANCING**

- *Availment of Long-term Debt*

− Vertex Tollways Devt. Inc. (Vertex)

On February 27 and May 29, 2015, Vertex has drawn P2,200 million and P2,600 million loan, respectively, for the financing of the ongoing construction of the Ninoy Aquino International Airport (NAIA ) Expressway Project.

− SMC Global Power Holdings Corp. (SMC Global)

On March 6, 2015, SMC Global made the final drawdown of US$200 million (P8,825 million) from the US$700 million 5-year floating rate loan facility agreement, for the financing of ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes.

− Private Infra Dev Corporation (PIDC)

On April 24, 2015, PIDC made the final drawdown of P3,640 million to complete the P15,140 million ten-year term loan facility used for financing the Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) Project.

− SLTC

On May 22, 2015, SLTC issued fixed rate bonds amounting to P7,300 million divided into Series A (P2,400 million), Series B (P2,400 million) and Series C (P2,500 million) having a term of 5 years and 3 months or maturing on August 22, 2020, 7 years or maturing on May 22, 2022, and 10 years or maturing on May 22, 2025 respectively, with a fixed interest rate per annum of 4.9925%, 5.5796% and 6.4872%, respectively.

The net proceeds of SLTC's P7,300 million fixed rate bond offering were used to prepay the 5-year P7,975 million Peso-denominated Floating Rate Corporate Notes and Security Agreement drawn on April 4, 2012 with interest rate of the higher of (i) a spread of 3% per annum over PDST-F rate and (ii) the BSP Overnight Borrowing Rate plus 0.75% per annum.

Internally generated funds was used to pay the balance of the prepayment amounting to P675 million.

- *Purchase of US$ Medium Term Notes*

On April 10, 2015, SMC has purchased a total of US$284 million or P12,611 million in principal amount of the US$800 million medium term notes issued in April 2013 to mature in 2023. The price at which SMC purchased the Notes validly tendered and accepted for purchase is 95%. SMC recognized a gain of about P275 million for the transaction.

## II. FINANCIAL PERFORMANCE

**2015 vs. 2014**

Top Frontier's 2015 consolidated sales revenue for the first semester amounted to P338,776 million, 16% lower than last year. As in the first quarter, this is due to the decline in Petron's sales revenue which primarily resulted from the lower selling price per liter.

Offsetting the decline in Petron's sales revenue was the continued growth in beverages, food and packaging businesses as well as infrastructure business. To date, the infrastructure business contributed P5,305 million in toll revenues with the consolidation of SLEX and Skyway starting March 2015.

The lower cost of sales resulted from the drop in reference crude Dubai prices.

Margin improvement in Petron during the second quarter coupled by continued improved performance of beverage, food and packaging as well as infrastructure business resulted to June year-to-date consolidated operating income of P39,174 million, 24% higher than last year.

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

Interest earned from the placement of the proceeds from the sale of the investments in Philippine Airlines, Inc. (PAL) and Air Philippines Corporation and the proceeds from the reissuance of SMC's Series "1" Preferred Shares principally contributed to the increase in interest income.

The decrease in equity in net earnings of associates and joint ventures is mainly attributable to the consolidation of the AAIBV Group starting March 2015 which was previously accounted for as an associate.

The depreciation of the peso against the US$ by P0.37 on June 30, 2015 as compared to the appreciation of peso by P0.745 on June 30, 2014, resulted to foreign exchange loss of P1,848 million in 2015 as compared to foreign exchange gain of P4,651 million in 2014.

The higher income tax expense in 2015 primarily resulted from the higher taxable income of SMB, the expiration of the income tax holiday of San Miguel Energy Corporation, South Premiere Power Corp. and Strategic Power Devt. Corp. in July 2014, and the consolidation of the AAIBV Group.

Including net financing charges and taxes, consolidated net income amounted to P15,985 million, while the corresponding net income attributable to equity holders of the Parent Company is P3,316 million. This is lower than last year, with the foreign exchange loss this year versus the gains last year.

Excluding the effect foreign exchange, consolidated net income would have been P17,541 million, 14% higher than the comparable amount last year.

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

**1. BEVERAGE**

**a. SMB**

SMB's consolidated revenues grew 5%, reaching P39,802 million for the first half of 2015. This was mainly driven by its domestic beer operations which delivered a 3% volume growth or 86.4 million cases. Along with the price increase implemented in October 2014, this translated to domestic revenues of P34,473 million, 13% higher than the previous year. On the other hand, volumes in the international operations were lower as the Hong Kong and Indonesia markets continue to face challenges. With this, SMB managed to register consolidated beer sales volume of 100.5 million cases, slightly lower than last year.

With cost management programs, operating income for the first semester amounted to P10,875 million, 6% better than last year.

**b. GSMI**

GSMI regains profitability as it ends the first half of 2015 with a net income of P5 million. This is mainly brought about by growth in volumes, led by GSM Red. First semester volume totaled to 10.2 million cases, 4% above last year. Coupled with the effect of the implemented price adjustments last January 2015 to recover higher excise taxes, consolidated revenues ended at about P7,453 million, 8% ahead of the previous year.

With higher revenues and contained costs, operating income for the semester reached P246 million, significantly higher than previous year's levels.

**2. FOOD**

SMPFC's consolidated revenue for the first semester of 2015 is up by 3% versus 2014 level to P50,508 million. Agro and milling businesses posted a modest 2% revenue growth with higher feeds and flour volume. The increase was achieved despite lower results in poultry and meat businesses with lower chicken selling prices due to industry oversupply, and lower supply of meat due to slower weight gain. On the other hand, Core brands such as Purefoods, Magnolia, Star and Dari Crème remained strong and contributed to the 11% growth in revenue of the branded value-added businesses.

These translated to a consolidated operating income amounting to P2,740 million, 2% above last year. The improved profitability of the branded value-added business during the second quarter and sustained strong performance of feeds offset the impact of poultry and meat businesses' weak performance.

**3. PACKAGING**

The San Miguel Yamamura Packaging Group's consolidated revenues for the first semester of 2015 amounted to P12,013 million, 4% higher than 2014. The business continues to benefit from higher revenues from glass and paper business. Glass business grew stronger during the second quarter with growing demands coming from beverage clients and exports. The paper business, on the other hand continue to benefit from higher tolling and export sales.

With better productivity and improved costs, Packaging Group's first semester operating income reached P1,104 million, 7% above last year.

**4. ENERGY**

SMC Global's off take volume for the first semester of 2015 was about 8.2 million megawatt hours, 7% lower than last year. Ilijan's lower volumes were due to the scheduled maintenance outage of Malampaya and Block 2 units of the plant that started in the first quarter. This was moderated by the 5% increase in Sual's off take volume with higher bilateral and Wholesale Electricity Spot Market volumes.

Coupled with decrease in average prices, SMC Global's consolidated revenue was P40,455 million, 8% lower than last year.

The Energy business' consolidated operating income of P13,650 million was 9% lower than last year.

**5. FUEL AND OIL**

Petron closed the first semester of 2015 with a P3,408 million net income, 13% higher than last year, following a strong second quarter performance. For the second quarter alone, a net income of P3,151 million was recognized resulting from higher volumes due to increased production from the Bataan Refinery and higher margin due to steadier crude oil prices during the quarter.

June year-to-date volumes ended at about 47.4 million barrels, 9% above last year's level. Philippine operations led the volume growth with 29.7 million barrels, 17% ahead of last year, on account of the 10% increase in retail sales and 25% growth in liquefied petroleum gas business. Petron Malaysia's volumes, on the other hand, contributed about 17.7 million barrels.

Meanwhile, consolidated revenues continued to reflect weakness in finished product prices causing a 28% decline and ended at P186,051 million.

With increased volumes and improved margins, first semester consolidated operating income of P8,876 million grew by 48%.

**6. INFRASTRUCTURE**

The first semester results of the Infrastructure business, mainly represents the tollway operations of the Skyway and SLTC for the period from March 5, 2015 to June 30, 2015. The consolidation of the Skyway and SLTC with SMC group contributed P5,305 million in toll revenues and about P2,987 million in operating income in June 2015.

**2014 vs. 2013**

The statement of income for the period ended June 30, 2014 consists of the consolidated financial performance of the Parent Company, SMC and Clariden Holdings, Inc. while the statement of income for the period ended June 30, 2013 consists of the financial performance of the Parent Company only.

The financial performance of the Group for the second quarter of 2014 substantially reflects the results of operations of SMC.

Consolidated sales revenue amounted to P404,938 million which primarily represents the sales revenue of SMC and its subsidiaries. The corresponding consolidated income from operations amounted to P31,512 million.

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

| *(In Millions)* | Sales | % Contribution | Income from Operations | % Contribution |
|---|---|---|---|---|
| ***Traditional Businesses:*** | | | | |
| Food Group | P49,169 | 12% | P2,697 | 9% |
| SMB | 37,724 | 9% | 10,256 | 33% |
| ***New Businesses:*** | | | | |
| Petron | 255,087 | 63% | 6,016 | 19% |
| Energy Group | 40,817 | 10% | 14,932 | 47% |

In terms of sales, Petron accounted for P255,087 million or 63% 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 P14,932 million contributing 47% and SMB was second at P10,256 million or 33%.

Operating income margin as an indicator of profitability is 37% for Energy Group, 27% for SMB, 5% for the Food Group and Petron at 2%. We expect Petron to post improvement in operating income margin once Refinery Master Plan Phase 2 (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 minority interests in Infra, net of the share in the net loss of Liberty Telecoms Holdings, Inc. (LTHI).

Other income (charges) includes a) dividend income, b) foreign exchange gain on the translation of foreign currency denominated assets and liabilities of mainly SMC Global, SMC, Petron and the

Parent Company and c) loss on derivatives, mainly on account of SMC’s freestanding currency and Petron’s currency forwards and options.

Consolidated net income before non-controlling interests amounted to P18,995 million, while net income attributable to equity holders of the Parent Company is P7,114 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 SMPFC.

The financial performance of the Parent Company in 2013 follows:

For the period ended June 30, 2013, the Parent Company incurred P1,348 million in financing charges, in relation to the US$650 million loan availed in June 2012.

Interest income in 2013 represents the income earned from cash in banks.

Other charges for the period ended June 30, 2013 pertains to the foreign exchange loss from the translation of foreign currency-denominated assets and liabilities of the Parent Company amounting to P1,953 million offset by the dividend income from SMC of P1,101 million.

## III. FINANCIAL POSITION

**2015 vs. 2014**

The Group’s consolidated total assets as of June 30, 2015 amounted to P1,369,313 million, P28,137 million higher than 2014. The increase is primarily due to the consolidation of AAIBV’s balance of toll road concession rights to operate and maintain the SLEX and the Skyway and the recognition of goodwill upon the consolidation of AAIBV on March 5, 2015, net of the decrease in cash and cash equivalents.

Cash and cash equivalents decreased by P52,613 million mainly due to the a) redemption of: the 2010 Preferred Shares of Petron, Series A and B Preferred Shares of PGL and the US$284 million medium term notes of SMC; and b) payment of short-term loans of Petron and finance lease liabilities of SMC Global, net of the proceeds from reissuance of 279,406,667 Series “1” Preferred Shares of SMC and the consolidation of AAIBV Group's cash and cash equivalents balance.

Trade and other receivables decreased by P10,871 million mainly due to the collection of: a) non-trade receivables of SMHC, b) advances to crude supplier of Petron and c) trade receivables of SMPFC.

Prepaid expenses and other current assets increased by P11,066 million mainly due to the consolidation of AAIBV Group's balance and the increase in excess of input Value-added Tax (VAT) of SMC Global and Petron Malaysia due to payments made for the costs of materials, equipment and labor for the construction of the new power plants and with the implementation of Goods and Services Tax starting April 1, 2015, respectively.

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

Investments and advances decreased by P7,755 million mainly due to the reclassification of the carrying amount of the investment in AAIBV, Manila Toll Expressway Systems, Inc. and Skyway O&M Corporation to investments in subsidiaries from investments in associates. These companies were consolidated starting March 5, 2015.

Investment property decreased by P426 million mainly due to the reclassification by San Miguel Properties, Inc. to property, plant and equipment of the land and model unit of Makati Diamond Residences (MDR).

Biological assets increased by P315 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by P18,318 million mainly due to the consolidation of AAIBV Group.

Other intangible assets increased by P58,921 million mainly due to the consolidation of AAIBV's toll road concession rights to operate and maintain the SLEX and Stages 1 to 3 of the Skyway; and the recognition of additional toll road concession rights for the various infrastructure projects namely: NAIA Expressway, TPLEX, Boracay Airport and Southern Tagalog Arterial Road (STAR) in 2015.

Other noncurrent assets decreased by P6,126 million mainly due to the elimination of the noncurrent receivable of SMC from AAIBV upon its consolidation in March 2015.

Loans payable decreased by P24,704 million mainly due to the payments made by Petron and SMPFC of their short-term loan.

Income and other taxes payable decreased by P1,050 million mainly due to the lower accrued sales tax payable of Petron Malaysia resulting from lower regulated price of crude, net of the consolidation of the income and other taxes payable balance of AAIBV Group.

Dividends payable decreased by P1,008 million mainly due to the payment by SMC in 2015 of the dividends payable to its preferred and common stockholders which were outstanding in 2014.

The increase in long-term debt of P50,023 million was mainly due to the consolidation of the balance of AAIBV Group, and the loan availments made by: a) SMC Global primarily to finance the ongoing construction of power plants in Davao and Limay, b)Vertex to fund the NAIA Expressway Project and c) PIDC to fund the TPLEX Project, net of the redemption of US$284 million medium term notes of SMC.

Deferred tax liabilities increased by P6,596 million due to the consolidation of AAIBV.

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

Revaluation increment increased by P216 million primarily due to the acquisition by SMPFIL of the 49% equity interest of Hormel in SMPFI Limited.

Additional appropriation on retained earnings was made by SMPFC to cover the expansion projects of its subsidiaries.

Non-controlling interests (NCI) increased by P7,074 million mainly due to the reissuance of 279,406,667 Series "1" Preferred Shares from the treasury stock of SMC, the NCI recognized upon the consolidation of AAIBV Group and the share of NCI on the net income of SMC, net of the redemption of the Series A and B Preferred Shares of PGL and the 2010 Preferred Shares of Petron.

**2014 vs. 2013**

The Group's consolidated total assets as of June 30, 2014 amounted to P1,299,546 million, P3,010 million higher than 2013.

Trade and other receivables decreased by P33,745 million mainly due to collection of the remaining balance of the receivable on the sale of the Manila Electric Company shares from JG Summit Holdings, Inc., net of the increase in trade receivables of Petron due to significant increase in sales in 2014, as a result of its on-going retail station expansion program, industrial sales from the fishing and power-generation sectors, solicitation of key aviation accounts and liquefied petroleum gas sales.

Inventories increased by P11,347 million mainly due to higher volume of: a) crude and finished product importations of Petron Philippines and Petron Malaysia to support the projected increase in sales and b) importation of soybean meal by the Feeds business in June 2014, usage of which will commence in the third quarter of 2014, and the purposive build-up of the inventory for other major raw materials by SMPFC to last until the next harvest season.

Prepaid expenses and other current assets increased by P4,372 million mainly due to the increase in the balances of Petron in the following: a) the excess of input VAT over VAT payable as a result of the higher importations of crude and finished products in 2014, b) prepaid specific tax of finished products and c) prepaid insurance for refinery, depot and plants including crude and finished products.

Investments and advances increased by P6,540 million in 2014 mainly due to the additional investments made in a) Fortunate Star Limited, to fund the new aircrafts of PAL and b) LTHI, which were used for working capital.

Investment property increased by P1,662 million mainly due to the acquisition of a property in Malabon by Brewery Properties, Inc. for future expansion of Polo Brewery and additional construction costs of the MDR Project.

Deferred tax assets increased by P872 million mainly due to the recognition by SMC of deferred tax on its net operating loss carry over, net of the effect of the deferred tax on the unrealized foreign exchange gain.

Other noncurrent assets decreased by P9,696 million mainly due to partial collection by Petron of its noncurrent receivables from Petron Corporation Employees Retirement Plan.

Income and other taxes payable decreased by P1,220 million mainly due to the payment of income taxes payable for the last quarter of 2013 and first quarter of 2014.

Dividends payable decreased by P1,347 million mainly due to the payment of the dividends to the preferred stockholders of SMC which were outstanding in 2013.

The decrease in long-term debt of P14,578 million was mainly due to the payments made for the following: SMB bonds, SMC exchangeable bonds and San Miguel Yamamura Asia Corporation loan; and translation adjustments, net of availments used for the various capital projects of Petron and the Infrastructure business and the additional US$25 million or P1,091 million due to the refinancing of loan by the Parent Company.

Deferred tax liabilities increased by P1,630 million mainly due to the recognition of deferred tax liabilities on the temporary difference in the recognition of expenses for financial statement purposes versus tax computation purposes relating to the finance leases of SMC Global.

Finance lease liabilities decreased by P8,324 million mainly due to payments and the effect of foreign exchange rate changes, net of interests.

Other noncurrent liabilities decreased by P3,915 million mainly due to reclassification to current liabilities of the retention payable to the contractors of the RMP-2 Project of Petron since the project is already near to completion.

Non-controlling interests increased by P15,348 million primarily due to the issuance of undated subordinated capital securities by SMC Global and the share of the NCI in the net income of mainly SMC, SMB, Petron and SMPFC, net of dividends declared by Petron, SMB, SMPFC and SMC.

Equity

The increase in equity is due to:

| *(In millions)* | **June 30** | |
|---|---|---|
| | **2015** | 2014 |
| Income during the period | **P15,985** | P18,995 |
| Net addition to non-controlling interests and others | **4,997** | 13,452 |
| Other comprehensive loss | **(1,200)** | (432) |
| Cash dividends and distributions | **(9,312)** | (9,606) |
| | **P10,470** | P22,409 |

## IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| *(In millions)* | **June 30** | |
|---|---|---|
| | **2015** | 2014 |
| Net cash flows provided by operating activities | **P9,469** | P8,436 |
| Net cash flows provided by (used in) investing activities | **(14,952)** | 12,843 |
| Net cash flows used in financing activities | **(49,221)** | (12,272) |

Net cash from operations for the period basically consists of income for the period less changes in noncash current assets, certain current liabilities and others.

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

| *(In millions)* | **June 30** | |
|---|---|---|
| | **2015** | 2014 |
| Cash and cash equivalents acquired from business combination net of cash paid | **P14,415** | P - |
| Interest received | **2,173** | 1,775 |
| Proceeds from sale of investments and property and equipment | **698** | 31,600 |
| Additions to property, plant and equipment | **(25,007)** | (15,405) |
| Decrease (increase) in other noncurrent assets and others | **(4,661)** | 238 |
| Additions to investments and advances | **(1,500)** | (5,145) |
| Acquisition of subsidiaries | **(1,095)** | (247) |

Net cash flows used in financing activities primarily consist of the following:

| *(In millions)* | **June 30** | |
|---|---|---|
| | **2015** | 2014 |
| Redemption of preferred shares of subsidiaries | **(P40,642)** | P - |
| Proceeds from (payments of) short-term loans - net | **(23,817)** | 6,007 |
| Payment of cash dividends | **(10,320)** | (10,952) |
| Payment of finance lease liabilities | **(10,997)** | (10,069) |
| Proceeds from reissuance of treasury shares of a subsidiary | **20,956** | - |
| Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries | **14,884** | 13,140 |
| Proceeds from (payment of) long-term debt - net | **133** | (10,398) |

The effect of exchange rate changes on cash and cash equivalents amounted to P2,091 million and (P467 million) on June 30, 2015 and 2014, respectively.

## V. KEY PERFORMANCE INDICATORS

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

| | June 2015 | December 2014 |
|---|---|---|
| Liquidity: | | |
| Current Ratio | **1.25** | 1.45 |
| Solvency: | | |
| Debt to Equity Ratio | **2.39** | 2.41 |
| Asset to Equity Ratio | **3.39** | 3.41 |
| Profitability: | | |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | **6.94%** | 3.62% |
| Interest Rate Coverage Ratio | **3.49** | 3.25 |

| | Period Ended June 30 | |
|---|---|---|
| | **2015** | 2014 |
| Operating Efficiency: | | |
| Volume Growth | **6%** | N.A. |
| Revenue Growth | **(16%)** | N.A. |
| Operating Margin | **12%** | 8% |

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

| KPI | Formula |
|---|---|
| Current Ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Debt to Equity Ratio | $\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$ |
| Asset to Equity Ratio | $\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$ |
| Return on Average Equity | $\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$ |
| Interest Rate Coverage Ratio | $\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$ |

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

Revenue Growth $\left( \dfrac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$

Operating Margin $\dfrac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*