COVER SHEET

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S. E. C. Registration Number

T O P F R O N T I E R
I N V E S T M E N T H O L D I N G S ,
I N C .

(Company's Full Name)

5 t h F l o o r E N Z O B l d g .
3 9 9 S e n . G i l P u y a t
A v e . , M a k a t i C i t y

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

Virgilio S. Jacinto	Tel. No.: (02) 632-3143
Contact Person	Company Telephone Number

1 2	3 1	2016 Definitive Information Statement SEC Form 20-IS	0 7	0 9
Month	Day	FORM TYPE	Month	Day
			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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TOP FRONTIER
INVESTMENT HOLDINGS, INC

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
JUN 10 2016
MARKET REGULATION DEPT.
BY: TIME: 11:N

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
July 14, 2016

The Annual Meeting of the Stockholders of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** will be held on **July 14, 2016 (Thursday) at 2:00 p.m. at the Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City**.

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 9, 2015
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Appointment of External Auditors
6. Election of the Board of Directors
7. Other Matters
8. Adjournment

The Minutes of the Annual Stockholders' Meetings held on July 9, 2015, as well as the resolutions of the Board of Directors beginning July 9, 2015 will be available for examination during office hours at the Office of the Corporate Secretary.

The deadline for submission of proxies is on **June 30, 2016**. For corporations, proxies must be accompanied by its Corporate Secretary's sworn certification setting the corporate officer's authority to represent the corporation in the meeting. Proxies need not be notarized. Validation of proxies will be on **July 07, 2016** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, Podium Level, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.

For your convenience in registering your attendance, please present some form of identification, such as passport, driver's license, or company I.D. Registration will start at 11:30 a.m. and the registration booths will be closed at 2:15 p.m.

Virgilio S. Jacinto
Corporate Secretary and
Compliance Officer

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
JUN 10 2016
MARKET REGULATION DEPT.
BY: TIME: 11:15

1. Check the appropriate box:

[ ] Preliminary Information Statement

[√] Definitive Information Statement

2. Name of Registrant as specified in its charter **Top Frontier Investment Holdings, Inc.**

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

4. SEC Identification Number **CS200803939**

5. BIR Tax Identification Number **006-990-128**

6. **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City** **1200**
Address of principal office Postal Code

7. Registrant's telephone number, including area code **(02) 632-3481**

8. **July 14, 2016 (Thursday) at 2:00 p.m.**
Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex,
No. 40 San Miguel Avenue, Mandaluyong City
Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders **June 10, 2016**

10. Name of Person Filing the Statement: **Top Frontier Investment Holdings, Inc.**
Address: **5th Floor, ENZO Building,**
No. 399 Sen. Gil J. Puyat Ave.,
Makati City 1200
Telephone No.: **(02) 632-3481**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding (as of March 31, 2016)
Common Shares	**332,886,167***

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

[ ] Preliminary Information Statement

[√] Definitive Information Statement

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

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Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding (as of March 31, 2016)
Common Shares	**332,886,167***

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

Consolidated Total Liabilities **P968,830 million**

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes [√] No [ ]

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange, Inc. – Common Shares

INFORMATION STATEMENT

GENERAL INFORMATION

Date, time and place of meeting of security holders.

The annual stockholders' meeting of **Top Frontier Investment Holdings, Inc.** (the "Company", "Top Frontier" or the "Parent Company") will be held at the **Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City** on **July 14, 2016 (Thursday)** at **2:00 p.m.** The complete mailing address of the principal office of the Company is **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City**.

The information statement and form of proxy are first to be sent to the stockholders approximately on **June 10, 2016**.

Revocability of Proxies

A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked through any of the following means: (i) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (ii) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Dissenters' Right of Appraisal

Under Title X of The Corporation Code of the Philippines (the "Corporation Code"), stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the date prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action, namely: (i) any amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (ii) sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; (iii) merger or consolidation; and (iv) investment of corporate funds in another corporation or business or for any other purpose other than the primary purpose for which the corporation was organized, as provided under Section 42 of the Corporation Code.

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided under the aforementioned pertinent provisions of Corporation Code.

SOLICITATION INFORMATION

Person Making the Solicitation

This solicitation is being made by the Company.

Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation of approximately P1,000,000.00 will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon

No director, officer, or nominee for election as director of the Company, or any of their associates, at any time since the beginning of the last fiscal year, has any substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted upon in the meeting, other than their election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of May 31, 2016, the Company has the following outstanding shares:

Title of Class	No. of Shares Outstanding
Common Shares	332,886,167
Preferred Shares	1,904,540
Total	334,790,707

As of May 31, 2016, the following is the breakdown of the foreign and Filipino ownership of the shares of stock of the Company:

Share Class	Number of Foreign-owned Shares	% of Foreign Ownership	Number of Filipino-owned Shares	% of Filipino Ownership	Total Shares Outstanding
Common	52,403,657	15.74%	280,482,510	84.26%	332,886,167
Preferred	-	-	1,904,540	100%	1,904,540
	52,403,657	**15.74%**	**282,387,050**	**84.35%**	**334,790,707**

The record date with respect to this solicitation is **May 27, 2016**. Only stockholders of record at the close of business on **May 27, 2016** will be entitled to vote at the meeting.

A stockholder entitled to vote at the meeting has the right to vote in person or by proxy. With respect to the election of directors, in accordance with Section 24 of the Corporation Code, a stockholder may vote the number of common shares held in his name in the Company's stock books as of **May 27, 2016**, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company is computed as follows: **number of common shares held on record as of record date multiplied by seven (7) directors**.

The deadline for submission of proxies is on **June 30, 2016**. Validation of proxies will be on **July 07, 2016** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, Podium Level, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.

Beneficial owners of more than five percent (5%) of the Company's voting[1] securities (both common and preferred shares) as of May 31, 2016 are as follows:

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% out of the Total Outstanding Shares
Common	Iñigo U. Zobel (Chairman of the Board) 5th Floor, ENZO Bldg., No. 399 Sen. Gil J. Puyat Ave., Makati City	Iñigo U. Zobel	Filipino	199,601,417	59.62%
	Aurora T. Calderon (Director and Treasurer) No. 40 San Miguel Ave., Mandaluyong City	Nominee-director of Mr. Zobel in the Board	Filipino	100	

[1] *Holders of common shares have the right to vote on all matters requiring stockholders' approval. The holders of the preferred shares shall not be entitled to vote except in matters provided for in the Corporation Code, namely: amendment of Articles of Incorporation; adoption and amendment of By-laws; sale, lease, exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution.*

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% out of the Total Outstanding Shares
	Patrick T. Lugue (Former Director) 5th Floor, ENZO Bldg., No. 399 Sen. Gil J. Puyat Ave., Makati City	Nominee of Mr. Zobel	Filipino	100 Total: 199,601,617	
Common	Master Year Limited Scotia Centre, 4/F P.O. Box 2804, George Town Grand Cayman KYI-1112, Cayman Islands	Master Year Limited ("MYL")	Caymanian	49,799,800	14.87 %
	Ramon S. Ang (President and CEO) No. 40 San Miguel Ave., Mandaluyong City	Sole director / shareholder of MYL and Nominee-director of MYL in the Board	Filipino	100	
	Ferdinand K. Constantino (Director) No. 40 San Miguel Ave., Mandaluyong City	Nominee-director of MYL in the Board	Filipino	100 Total: 49,800,000	
Common	Privado Holdings, Corp. Room 306 Narra Building, 2776 Pasong Tamo Ext., Makati City	Privado Holdings, Corp. (100% owned by Mr. Ramon S. Ang)	Filipino	36,814,051 44,500 [in PCD Nominee Corporation (Filipino)] Total: 36,858,551	11.00%

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% out of the Total Outstanding Shares
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/entities	Filipino	35,341,283 [inclusive of the 44,500 shares of Privado Holdings, Corp.]	10.56%

As regards security ownership of management, the table below sets out the details of the voting securities in the name of the directors, executive officers, and nominees for election as directors, of the Company as of May 31, 2016:

Title of Class	Name of Record Owner	Position	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Total No. of Shares	% of Total Outstanding Shares
Common	Iñigo U. Zobel	Chairman of the Board	Iñigo U. Zobel	Filipino	199,601,417	59.62%
Common	Aurora T. Calderon	Director and Treasurer	Iñigo U. Zobel; Nominee-director Aurora T. Calderon	Filipino Filipino	100 2,260	0% 0%
Common	Ramon S. Ang	President and CEO	MYL; Nominee-director Ramon S. Ang	MYL - Caymanian Filipino	100 75,787	0% 0.02%
Common	Ferdinand K. Constantino	Director	MYL; Nominee-director Ferdinand K. Constantino	MYL - Caymanian Filipino	100 14,750	0% 0%
Common	Nelly A. Favis-Villafuerte	Director	Nelly A. Favis-Villafuerte	Filipino	100	0%
Common	Consuelo M. Ynares-Santiago	Independent Director	Consuelo M. Ynares-Santiago	Filipino	100	0%
Common	Minita V. Chico-Nazario	Independent Director	Minita V. Chico-Nazario	Filipino	100	0%

Title of Class	Name of Record Owner	Position	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Total No. of Shares	% of Total Outstanding Shares
Common	Bella O. Navarra	Chief Finance Officer	Bella O. Navarra	Filipino	10,260	0%
Common	Virgilio S. Jacinto	Corporate Secretary and Compliance Officer	Virgilio S. Jacinto	Filipino	2,562	0%
Common	Maria Rosario B. Balanza	Investment Relations Officer	Maria Rosario B. Balanza	Filipino	1,307	0%
Common	Irene M. Cipriano	Assistant Corporate Secretary	Irene M. Cipriano	Filipino	1,000	0%

The aggregate number of shares owned of record by the directors and key officers of the Company as a group as of May 31, 2016 is 199,709,943 common shares, which is approximately 59.65% of the outstanding shares of the Company.

Voting Trust

None of the stockholders holding more than five percent (5%) of the voting securities of the Company are under a voting trust or similar agreement.

Changes in Control

The Company is not aware of any change of control or arrangements that may result in a change in control of the Company.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The overall management and supervision of Top Frontier is undertaken by the Board of Directors. The Board is composed of seven (7) members of the Board, two (2) of whom are independent directors. Pursuant to Section 2, Article III of the Company's By-laws, the directors are elected at each regular stockholders' meeting by stockholders entitled to vote. The term of a director is one (1) year from date of election and until their successors are elected and qualified.

The incumbent members of the Board of Directors of Company, all of whom are nominees for re-election as directors in the meeting, are as follows:

Name	Age	Citizenship	Position	Year Position was Assumed
Iñigo U. Zobel	59	Filipino	Chairman	2008
Ramon S. Ang	62	Filipino	Director	2010
Ferdinand K. Constantino	64	Filipino	Director	2010
Aurora T. Calderon	61	Filipino	Director	2013
Nelly A. Favis-Villafuerte	79	Filipino	Director	2013
Consuelo M. Ynares-Santiago	76	Filipino	Independent Director	2013
Minita V. Chico-Nazario	76	Filipino	Independent Director	2014

The following are the executive officers of Company:

Name	Age	Citizenship	Position	Year Position was Assumed
Iñigo U. Zobel	59	Filipino	Chairman of the Board	2008
Ramon S. Ang	62	Filipino	President and Chief Executive Officer	2013
Aurora T. Calderon	61	Filipino	Treasurer	2010
Bella O. Navarra	55	Filipino	Chief Finance Officer	2013
Virgilio S. Jacinto	59	Filipino	Corporate Secretary and Compliance Officer	2010 2013
Maria Rosario B. Balanza	54	Filipino	Investment Relations Officer	2014
Irene M. Cipriano	41	Filipino	Assistant Corporate Secretary	2013

The following is the brief description of the business experience of each of the directors and executive officers of the Company over the past five (5) years.

Iñigo U. Zobel

Mr. Zobel is the Chairman of Top Frontier (since 2008) and the Chairman of the Executive Committee (since 2013). He is also the Chairman of E. Zobel, Inc. (since 1983), IZ Investment Holdings, Inc. (since 2013) and Prime Zygnet Holdings Inc. (since 2015); Director of San Miguel Corporation (since 2009); President of Manila North Harbour Port, Inc. (since 2015); and a Director of E. Zobel Foundation, Inc., Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly an Independent Director of San Miguel Corporation (1999-2009), San Miguel Brewery Inc. (2007-2010), San Miguel Pure Foods Company, Inc. (2006-2009), San Miguel Properties, Inc. (2009-2010), and Ginebra San Miguel, Inc. (2004-2010); President and Chief Operating Officer of Air Philippines Corporation (2012-2014); and Director of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014).

Ramon S. Ang

Mr. Ang is the Director (since 2010) and President and Chief Executive Officer (since 2013) of Top Frontier. He is also a member of the Executive Committee, Corporate Governance Committee, and the Chairman of the Executive Compensation Committee of Top Frontier (since 2013). Mr. Ang is the Vice Chairman (since 1999), President and Chief Operating Officer of San Miguel Corporation (since 2002); Chairman of San Miguel Brewery Inc. (since 2007), San Miguel

Brewery Hong Kong Limited (since 2005), Liberty Telecoms Holdings Inc. (since 2008), Sea Refinery Corporation (since 2011), SMC Global Power Holdings Corp. (since 2010), San Miguel Foods, Inc. (since 2006), San Miguel Yamamura Packaging Corporation (since 2006), San Miguel Properties, Inc. (since 2002), Anchor Insurance Brokerage Corporation (since 2001), Clariden Holdings, Inc. (since 2012) and Manila North Harbour Port, Inc. (since 2016); Vice Chairman (since 2010) and Director (since 2000) of Ginebra San Miguel, Inc.; Vice Chairman (since 2011) and Director (since 2001) of San Miguel Pure Foods Company, Inc.; President and Chief Executive Officer of Petron Corporation (since 2015), Chairman and President of San Miguel Holdings Corp. (since 2010) and San Miguel Equity Investments Inc. (since 2011); Chairman of Philippine Diamond Hotel & Resort, Inc. (since 2004), Philippine Oriental Realty Development, Inc. (since 2004), and Atea Tierra Corporation (since 2006). He is also the sole director and shareholder of Master Year Limited (since 2012) and the Chairman of Privado Holdings, Corp. He was formerly the Chairman and Chief Executive Officer of Petron Corporation (2009-2015); President and Chief Operating Officer of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014); Vice Chairman and Director of Manila Electric Company (2009-2014); and Director of Air Philippines Corporation (2012-2014). Mr. Ang holds directorships in various subsidiaries of San Miguel Corporation.

Ferdinand K. Constantino

Mr. Constantino is a Director of Top Frontier (since 2010) and the Chairman of the Nomination and Hearing Committee and a member of the Audit Committee and Corporate Governance Committee (since 2013). He is also the Senior Vice President, Chief Finance Officer and Treasurer (since 2001) and Director (since 2010) of San Miguel Corporation; President of Anchor Insurance Brokerage Corporation (since 2002); Vice Chairman of SMC Global Power Holdings Corp. (since 2011); a Director of San Miguel Brewery Inc. (since 2007), San Miguel Yamamura Packaging Corporation (since 2002), SMC Stock Transfer Service Corporation (since 1993), San Miguel Holdings Corp. (since 2001), and Clariden Holdings, Inc. (since 2012); and a Director and Treasurer of San Miguel Equity Investments, Inc. (since 2011). Mr. Constantino previously served as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009), San Miguel Properties, Inc. (2001-2009), Bank of Commerce (2008-2010), Ginebra San Miguel Inc. (2008-2010; 2012-2015), PAL Holdings, Inc. (2012-2014), Philippine Airlines, Inc. (2012-2014); and Chief Finance Officer of Manila Electric Company (2009). He holds directorships in various subsidiaries of San Miguel Corporation.

Aurora T. Calderon

Ms. Calderon is a Director of Top Frontier (since 2013), the Treasurer (since 2010) and a member of the Executive Committee, Audit Committee and Executive Compensation Committee (since 2013). She is also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of San Miguel Corporation (since 2010); a Director of San Miguel Corporation (since 2014), Petron Corporation (since 2010), Petron Marketing Corporation (since 2010), Petron Freeport Corporation (since 2010), Sea Refinery Corporation (since 2010), New Ventures Realty Corporation (since 2010), Las Lucas Construction and Development Corp. (since 2010), Thai San Miguel Liquor Co. (since 2008), SMC Global Power Holdings Corp. (since 2010), San Miguel Equity Investments Inc. (since 2011), and Clariden Holdings, Inc. (since 2012). She was previously a consultant of San Miguel Corporation reporting directly to the President and Chief Operating Officer (1998-2010) and formerly a Director of Manila Electric Company (2009), PAL Holdings, Inc. (2012-2014), Philippine Airlines, Inc. (since 2012-2014) and Air Philippines

Corporation (2012-2014). Ms. Calderon holds directorships in various subsidiaries of San Miguel Corporation.

Nelly A. Favis-Villafuerte

Atty. Villafuerte is a Director of Top Frontier (since 2013) and a member of the Nomination and Hearing Committee (since 2013). She is also a Director of Petron Corporation (since 2011) and a Director of Tori Spectrum Telecom, Inc., formerly Wi-Tribe Telecoms, Inc. (since 2012) and Skyphone Logistics, Inc. (since 2012). She was formerly a Monetary Board Member (2005-2011), an Undersecretary of the Department of Trade and Industry (1998 – 2005) and a Governor of the Board of Investment (1998 – 2005).

Consuelo M. Ynares-Santiago

Justice Santiago is an Independent Director of Top Frontier (since 2013), the Chairperson of the Corporate Governance Committee and a member of the Audit Committee and the Executive Compensation Committee (since 2013). She is also an Independent Director of SMC Global Power Holdings Corp. (since 2011), Anchor Insurance Brokerage Corporation (since 2012), South Luzon Tollway Corporation (since 2015) and Phoenix Petroleum Phil. Inc. (Since 2013). She was formerly an Associate Justice of the Supreme Court (1999 – 2009), an Associate Justice of the Court of Appeals (1990 – 1999), and a Regional Trial Court Judge of Makati City (1986 – 1990).

Minita V. Chico-Nazario

Justice Nazario is an Independent Director of Top Frontier (since 2014), the Chairperson of the Audit Committee and a member of the Nomination and Hearing Committee (since 2014). She is also an Independent Director of San Miguel Properties, Inc. (since 2012), Ginebra San Miguel Inc. (since 2013) and San Miguel Pure Foods Company, Inc. (since 2015). She is also currently the Dean of the College of Law of the University of Perpetual Help, Las Pinas City (since 2011), and a Legal Consultant of the Union Bank of the Philippines (since 2010), United Coconut Planters Bank and Philippine Investment One & Two, Inc. Justice Nazario is formerly an Associate Justice of the Supreme Court (2004-2009), the Presiding Justice of the Sandiganbayan (2003) and the Chairman of the Board (2010) and Director (2010-2011) of the Philippine National Oil Exploration Corporation.

Bella O. Navarra

Ms. Navarra is the Chief Finance Officer of Top Frontier (since 2013) and the Vice President, Comptrollership of San Miguel Corporation (since 2000). She is a Director and the Treasurer of Clariden Holdings, Inc. (since 2012) and various subsidiaries of San Miguel Corporation; and a Director of San Miguel Holdings Corp. (since 2007), San Miguel Equity Investments Inc. (since 2011), and SMC Stock Transfer Service Corporation (since 2001). She holds directorships in various subsidiaries of San Miguel Corporation.

Virgilio S. Jacinto

Atty. Jacinto is the Corporate Secretary of Top Frontier (since 2010), Compliance Officer (since 2013) and a member of the Corporate Governance Committee (since 2013). He is the Corporate Secretary, Senior Vice-President, General Counsel and Compliance Officer of San Miguel Corporation (since 2010). He is also the Corporate Secretary and Compliance Officer of Ginebra San Miguel, Inc. and a Director of Petron Corporation (since 2010); President of SMC Stock Transfer

Service Corporation (since 2011); a Director and Corporate Secretary of SMC Global Power Holdings Corp. (since 2010); and Corporate Secretary of San Miguel Holdings Corp. (since 2010) and various subsidiaries of San Miguel Corporation. He is also an Associate Professor at the University of the Philippines, College of Law (since 1993). Atty. Jacinto was formerly the Vice President and First Deputy General Counsel of San Miguel Corporation (2006-2010) and a Director of San Miguel Brewery Inc. (2010-2015). He holds directorships in, and is the incumbent Corporate Secretary of, various subsidiaries of San Miguel Corporation.

Maria Rosario B. Balanza

Ms. Balanza is the Investment Relations Officer of Top Frontier (since 2014). She is also an Assistant Vice President for the Planning and Research Services Department, Corporate Finance of San Miguel Corporation.

Irene M. Cipriano

Atty. Cipriano is the Assistance Corporate Secretary of Top Frontier (since 2013) and an Assistant Vice President and Associate General Counsel of San Miguel Corporation. She is also the Corporate Secretary of San Miguel Equity Investments Inc. (since 2011) and the Assistant Corporate Secretary of SMC Global Power Holdings Corp. (since 2010) and of various subsidiaries of San Miguel Corporation. Atty. Cipriano was formerly the Assistant Corporate Secretary of PAL Holdings, Inc. (2012 - 2014) and Philippine Airlines, Inc. (2012 - 2014).

Term of Office

Pursuant to the Company's By-laws, the directors are elected at each annual stockholders meeting by stockholders entitled to vote. Each director holds office until the next annual election and his successor is duly elected, unless he resigns, dies or is removed prior to such election.

The nominees for election to the Board of Directors on July 14, 2016 are as follows:

1. Iñigo U. Zobel
2. Ramon S. Ang
3. Ferdinand K. Constantino
4. Aurora T. Calderon
5. Nelly A. Favis-Villafuerte
6. Consuelo M. Ynares-Santiago – Independent Director
7. Minita V. Chico-Nazario – Independent Director

Independent Directors

The incumbent independent directors of the Company are as follows:

1. Consuelo M. Ynares-Santiago
2. Minita V. Chico-Nazario

The incumbent independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the Securities Regulation Code ("SRC"). The Certifications of the incumbent independent directors are attached hereto as **Annexes "A-1" and "A-2"**, respectively.

The nominees for election as independent directors of the Board of Directors on July 14, 2016 are as follows:

Nominee for Independent Director (a)	Person/Group recommending nomination (b)	Relation of (a) and (b)
Consuelo M. Ynares-Santiago	Iñigo U. Zobel	None
Minita V. Chico-Nazario	Iñigo U. Zobel	None

In approving the nominations for independent directors, the Nominations and Hearing Committee took into consideration the guidelines and procedures on the nomination of independent directors prescribed in SRC Rule 38. Upon their election, the independent directors shall submit their respective certifications on their qualification in accordance with the Notice issued by the Securities and Exchange Commission dated October 20, 2006.

The nominations for the election of all directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary on or before such date that the Board of Directors may fix, provided that such date shall be prior to the stockholders' meeting.

The nominations are forwarded to the Nominations Committee which shall pre-screen the qualifications of the nominees and prepare a final list of nominees eligible for election. No other nominations are entertained after the final list of candidates is prepared.

Under Section 2, Article III of the Company's By-laws, (i) any stockholder having at least one hundred (100) common shares registered in his name may be elected director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company's By-laws is not qualified or eligible for nomination or election to the Board of Directors.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-laws.

Significant Employees

While all employees are expected to make a significant contribution to the Company, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

Family Relationship

There are no family relationships up to the fourth civil degree either of consanguinity or affinity among any of the directors and executive officers.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Company have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission ("SEC") or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

Certain Relationships and Related Transactions

See Note 33, Related Party Disclosures, of the Notes to the 2015 Audited Consolidated Financial Statements of the Company, hereto attached as **Annex "B-1"**.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Executive Compensation

The Company provides each director, who are not officers of San Miguel Corporation, with reasonable per diem of P20,000 and P10,000 for each Board and Committee meeting attended, respectively. Under Section 9, Article III of the Company's By-laws, the Board may provide, in its discretion, an allowance or per diem to each member of the Board for his attendance at each meeting of the Board. Additionally, it provides that as compensation of the directors, the Board shall receive and allocate yearly an amount of not more than ten percent (10%) of the net income before income tax of the Company during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

Section 8, Article IV of the Company's By-Laws further provides that the officers shall receive such remuneration as the Board may determine. It likewise provides that a director shall not be precluded from serving the Company in any other capacity as an officer, agent or otherwise, and receiving compensation therefore.

The executive officers, currently comprising of the President and Chief Executive Officer, the Treasurer, the Chief Finance Officer, the Corporate Secretary and the Assistant Corporate Secretary, did not receive any compensation for the years ended 2015, 2014, 2013, 2012, 2011 and 2010, and will not receive any compensation for 2016.

No other compensation was paid to the directors for the periods indicated.

Employment Contract between the Company and Executive Officers

There are no employment contracts between the Company and its named executive officers.

Warrants and Options Held by the Executive Officers and Directors

None of the directors and executive officers of the Company hold any warrants or options in the Company.

Other Arrangements

Except as described above, there are no other arrangements pursuant to which any of the directors and executive officers of the Company were compensated, or is to be compensated, directly or indirectly since the incorporation of Company on March 11, 2008.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

Top Frontier Investment Holdings, Inc. is a Philippine corporation organized on March 11, 2008 as a holding company. Top Frontier is the largest shareholder of San Miguel Corporation ("SMC") in which it holds 1,573,100,340 common shares, or 66.14% of SMC's total outstanding common stock, as of December 31, 2015. On August 30, 2013, Top Frontier acquired 100% of the outstanding common stock of Clariden Holdings, Inc. ("Clariden"), a holding company with interests in exploration, mining and development. The common shares of Top Frontier were listed on January 13, 2014 at the Philippine Stock Exchange ("PSE"). Other than its ownership in SMC and Clariden, Top Frontier has no other operations as of December 31, 2015.

SAN MIGUEL CORPORATION

SMC, together with its subsidiaries (collectively referred to as the "SMC Group"), is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales of about 5.1% of the Philippine gross domestic product in 2015.

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

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

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

- acquired 68.26% equity interest in Petron Corporation ("Petron")

- acquired the rights, pursuant to Independent Power Producer Administrator ("IPPA") agreements with Power Sector Assets and Liabilities Management Corporation ("PSALM") to administer three power plants in Sual and San Roque in Pangasinan and Ilijan in Batangas

- made the following infrastructure acquisitions:

  - initial 35% equity interest in Private Infra Dev Corporation ("PIDC"), which is now at 70.11%

  - initial 93.4% equity interest in Trans Aire Development Holdings Corp. ("TADHC", formerly known as Caticlan International Airport Development Corporation), which is now at 99.8% of the total outstanding shares of TADHC

  - 51% equity interest In Universal LRT Corporation (BVI) Limited ("ULC")

  - initial 46.53% equity interest In Atlantic Aurum Investments B.V. ("AAIBV"), which is now at 95%

- made the following telecommunications acquisitions:

  - initial 41.48% equity interest in Liberty Telecommunications Holdings, Inc. ("LTHI"), which is now at 97.46% of the total issued and outstanding shares of LTHI

  - 100% equity interest in Bell Telecommunication Philippines, Inc. ("BellTel"), a 100% equity interest in A.G.N. Philippines, Inc. ("AGNP"), which holds 40% interest in Eastern Telecommunications Philippines, Inc. ("ETPI") and 37.7% equity interest in ETPI through San Miguel Equity Securities, Inc. ("SMESI"), bringing its total indirect equity interest in ETPI to 77.7%

- acquired 100% equity interest in each of the three concession holders of coal deposits in the Southern Mindanao region – namely, Daguma Agro Minerals, Inc. ("DAMI"), Bonanza Energy Resources, Inc. ("BERI") and Sultan Energy Phils. Corp. ("SEPC")

- acquired initially 30% in Bank of Commerce ("BOC"), which is now at 39.93%

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses with 18,656 regular employees and more than 100 production facilities in the Asia-Pacific region as of December 31, 2015. SMC's product portfolio includes beer, liquor, non-alcoholic beverages, poultry, animal feeds, flour, fresh and processed meats, dairy products, coffee, various packaging products and a full range of refined petroleum products, most of which are market leaders in their respective markets. In addition, the SMC Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

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

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

Core Businesses

Beverage

San Miguel Brewery Inc. ("SMB") is primarily engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes. SMB has six production facilities in the Philippines strategically located in Luzon, Visayas and Mindanao and operates one brewery each in Hong Kong, Indonesia, Vietnam, Thailand, and two breweries in China through its wholly - owned subsidiary, San Miguel Brewing International Ltd. ("SMBIL"). SMBIL also exports its beer products to over 30 countries and territories worldwide in North America, Africa, the Middle East, Australia and the rest of Asia. The exports of SMBIL are primarily sold under various beer brands as well as under private labels. In addition, SMB has recently acquired the non-alcoholic beverage business of Ginebra San Miguel Inc. ("GSMI").

The SMC Group also produces hard liquor through its majority-owned subsidiary, GSMI. GSMI is one of the largest gin producers in the world by volume with some of the most recognizable brands in the Philippine liquor market. It operates one distillery, five liquor bottling plants and one cassava starch milk plant, and has engaged two toll bottlers strategically located throughout the Philippines and one bottling and distillery plant in Thailand.

GSMI distributes its products by shipping directly to dealers. GSMI has recently streamlined its distribution network by reorganizing its network of dealers by assigned geographic areas. The reorganization was designed to enhance the efficiency of the distribution network by having fewer but larger dealers. GSMI had 91 dealers for its liquor products. GSMI uses third-party services in the warehousing and delivery of its products.

Food

The food operations of SMC holds numerous market-leading positions in the Philippine food industry, offering a wide range of high-quality food products and services to household, institutional and foodservice customers. The food business is conducted through San Miguel Pure Foods Company, Inc. ("SMPFC"). SMPFC was formed in 2001 integrating the Philippines' two leading food groups – the food businesses of SMC and Pure Foods Company. SMPFC is an 85.37%-owned business of SMC that manufactures and markets processed meat products. SMPFC, through its subsidiaries, later on diversified into poultry and livestock operations, feeds and flour milling, dairy and coffee operations, franchising and young animal ration manufacturing and distribution. In the last quarter of 2013, SMPFC, through its wholly-owned subsidiary, San Miguel Mills, Inc. ("SMMI"), commenced operations of the Golden Bay Grain Terminal Corporation ("GBGTC") in Mabini, Batangas capable of accommodating panamax vessels. In addition to its Philippine operations, the food business is also present in Indonesia and Vietnam.

SMPFC is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers in the Philippines. SMPFC has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *B-Meg* for animal feeds and *La Pacita* for biscuit and flour-based snacks beginning February 2015.

The support of intermediate parent company SMC and partnerships with major international companies like United States-based Hormel Foods International Corporation and Singapore-based SCCPL and Penderyn Pte Ltd. ("Penderyn") have given SMPFC access to the latest technologies and expertise, allowing it to deliver flavor, freshness, safety, quality and value-for-money to its customers.

SMPFC operates and manages one of the most extensive distribution networks across the Philippines, with its products available in every major city. It has a multichannel distribution network that supplies its products to supermarkets and traditional retail outlets, trade, food service channels and franchised stores. For the value-added meats business, it centrally manages sales and distribution through San Miguel Integrated Sales ("SMIS"), which the selling arm of SMPFC's value-added products to both modern trades, such as major supermarket chains, hypermarkets, groceries, convenience stores, and general trades, market traders and "sari-sari" stores (small neighborhood stores). For its feeds, poultry, fresh meats and flour businesses, SMPFC maintains business-specific sales forces to service trade channels and manage its distributors and dealers. Great Food Solutions ("GFS") of SMPFC, on the other hand, manages sales to key food service customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains. Meanwhile, the distribution advantage of the feeds business lies in the strategic location of its production facilities, which are near primary markets or the major sources of its raw materials.

SMPFC has been listed on the PSE since 1973.

The Food Group operates through the following major subsidiaries:

- ***San Miguel Foods, Inc. (SMFI)*** - is a 99.99%-owned subsidiary of SMPFC and operates the integrated Feeds, and Poultry and Fresh Meats businesses, the Franchising business, the SMIS selling and distribution activities, and the GFS foodservice business.

  a) ***Feeds business*** - manufactures and sells animal feeds to commercial farms and distributors. Internal requirements of SMFI's combined Poultry and Fresh Meats business are likewise being served by the Feeds business.

  b) ***Poultry and Fresh Meats business*** **-** engages in integrated poultry operations and sells live broilers, dressed chicken, cut-ups and easy-to-cook formats, as well as customized products for export and for domestic foodservice accounts. It also manages fully-integrated operations for pork and beef, and engages in the sale and distribution of fresh and marinated meats in *Monterey* meat shops located in major supermarkets and cities throughout the country. The business also sells live hogs and supplies the requirements of The Purefoods-Hormel Company, Inc. ("PF-Hormel"), an affiliate, for the latter's manufacture of meat-based value-added products.

  c) ***Franchising business*** - engages in franchising operations and was established in September 2011 primarily to strengthen and grow SMFI's retail business model through faster franchise expansion, brand performance improvement and development of new business concepts for retail. Its two retail concepts, namely, *SanMig Food Ave.* and *Hungry Juan* roast barbecue outlets, showcase the San

Miguel Group's food and beverage products. There are a total of 256 outlets for the two retail concepts operating as at December 31, 2015.

d) ***San Miguel Integrated Sales*** - was formed in May 2009 when the receivables, inventories and fixed assets of SMC's Centralized Key Accounts Group were transferred to SMFI. SMIS is engaged in the business of providing logistics and selling services in the identified modern and general trade customers of the value-added businesses of SMPFC, namely, Magnolia, Inc. (Magnolia), PF-Hormel, SMMI and San Miguel Super Coffee Mix Co., Inc. (SMSCCI).

e) ***Great Food Solutions*** - engages in the foodservice business and caters to hotels, restaurants, convenience stores and other institutional accounts for their processed meats, poultry, dairy, coffee and flour-based requirements, as well as provides food solutions/recipes and menus.

- ***San Miguel Mills, Inc.*** - is a 100%-owned subsidiary of SMPFC and engages in the manufacture and distribution of flour, customized flour, flour pre-mixes and bakery ingredients. In September 2011, SMMI formed GBGTC as its wholly-owned subsidiary. GBGTC, which started commercial operations in September 2013, operates and manages a port terminal and provides general services such as handling of grains, among others. In June 2012, SMMI acquired *Cobertson Realty Corporation (CRC)*, which became a wholly-owned subsidiary of SMMI. CRC is a Philippine corporation engaged in the purchase, acquisition, development or use for investment, among others, of real and personal property, to the extent permitted by law. In December 2012, CRC's corporate name was changed to *Golden Avenue Corp.* following the necessary approvals of CRC's Board of Directors and stockholders, and the Philippine Securities and Exchange Commission ("SEC").

- ***The Purefoods-Hormel Company, Inc.*** - is a 60%-40% joint venture between SMPFC and Hormel Netherlands B.V., which produces and markets value-added refrigerated processed meats and canned meat products. PF-Hormel's refrigerated processed meats include, among others, hotdogs, cold cuts, hams, bacons, nuggets and other ready-to-eat meat products, while its canned meat products include corned beef, luncheon meats, sausages, meat spreads and canned viands.

- ***Magnolia, Inc.*** - is a 100%-owned subsidiary of SMPFC and manufactures and markets butter, margarine, cheese, milk, ice cream, jelly snacks, cooking oils, salad aids, biscuits and powder mixes.

- ***PT San Miguel Pure Foods Indonesia (PTSMPFI)*** - started as a 49%-51% joint venture between SMPFC and the Hero Group of Companies and organized in 1995 for the manufacture and distribution of processed meats in Indonesia. In 2004, SMPFC increased its ownership to 75% following the Hero Group's divestment of its interest in PTSMPFI to Lasalle Financial Inc. ("Lasalle"). The remaining 25% is currently owned by Penderyn of Singapore by virtue of the sale and transfer by Lasalle of its entire shareholding in PTSMPFI to Penderyn effective February 2, 2010. On February 5, 2010, Lasalle, Penderyn and SMPFC executed an Adherence Agreement pursuant to which Penderyn agreed to observe and perform all obligations of Lasalle under the Joint Venture Agreement relating to PTSMPFI.

- ***San Miguel Super Coffeemix Co., Inc.*** - is a 70%-30% joint venture between SMPFC and Super Coffeemix Manufacturing Ltd ("SCML") of Singapore, which started commercial operations in April 2005 by marketing its 3-in-1 regular coffee mixes in the Philippines. Since then, SMSCCI has introduced a good number of products which include sugar-free line of coffee mixes, 100% Premium Instant Black Coffee, 3-in-1 flavored coffee mixes and coffeemix with cereals. In November 2009, by virtue of the Deed of Assignment and Deed of Novation of Joint Venture Agreement executed by and among SMSCCI, SCML and SCCPL, SCML assigned and transferred its entire shareholding in SMSCCI to SCCPL, and SCCPL agreed to perform and comply with all obligations of SCML under the Joint Venture Agreement relating to SMSCCI.

- ***San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)*** - is a company incorporated in the British Virgin Islands in August 1996 as a wholly-owned subsidiary of SMC, through San Miguel Foods and Beverage International Limited ("SMFBIL"). SMPFI Limited owns 100% of San Miguel Pure Foods (VN) Co., Ltd. (formerly 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. In December 2006, SMFBIL sold to Hormel Netherlands B.V. its 49% interest in SMPFI Limited.

- ***San Miguel Pure Foods International, Limited (SMPFIL)*** - is a company incorporated in the British Virgin Islands in February 2007 and is 100%-owned by SMPFC. In July 2010, SMPFC, through SMPFIL, acquired SMC's 51% interest (through SMFBIL) in SMPFI Limited. In January 2015, SMPFIL signed an agreement for the purchase from Hormel of the latter's 49% of the issued share capital of SMPFI Limited.

Packaging

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

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

a) ***Glass*** - The glass business is the Packaging Group's largest business segment. It has three glass manufacturing facilities in the Philippines and one glass mold plant serving the requirements of the beverage, food, pharmaceutical, chemical, personal care and health care industries. The bulk of the glass bottle requirements served by this segment are for the beverage industries. SMYAC is the country's most technologically advanced glass manufacturing facility.

b) ***Metal*** - The metal business manufactures metal caps, crowns, resealable caps and two-piece aluminum beverage cans for a range of industries that include beer, spirits, soft drinks and food. The Packaging Group's metal container plant is the only aluminum beverage can plant in the Philippines and pioneered in the production of two-piece cans and ends for the beverage market.

c) ***Plastic*** - The plastic business provides plastic crates and pallets, plastic poultry flooring, plastic trays, plastic tubes, plastic consumer and industrial containers, and plastic pails and tubs to domestic and international markets.

d) ***PET*** - The PET business produces PET preforms and bottles, plastic caps and handles and offers filling services for PET bottles and aluminum cans.

e) ***Paper*** - Mincorr, a wholly-owned subsidiary of SMC, supplies the packaging needs of a broad range of manufacturing and agricultural industries. Mincorr is based in Davao. The Group also operates a paperboard facility in China.

f) ***Flexibles*** - Through the Rightpak plant and Malaysian plants, the Packaging Group manufactures flexible packaging for the food, beverage, personal care, chemical and healthcare industries. It also provides composite materials for a varied range of industries including construction, semiconductor and electronics.

The Packaging Group has 11 international packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and a packaging research center) and Australia (glass, trading, wine closures and bottle caps) and New Zealand (plastics and trading).

Aside from extending the reach of the packaging business overseas, these facilities serve the packaging requirements of SMB breweries in China, Vietnam, Indonesia and Thailand.

In January 2008, SMC finalized the joint venture agreement with NYG pursuant to which NYG purchased 35% of San Miguel Packaging Specialists, Inc. ("SMPSI") and San Miguel Packaging International Limited ("SMPIL").

Following the creation of the joint venture between SMPSI and NYG, SMPSI changed its corporate name to "San Miguel Yamamura Packaging Corporation", as approved by the SEC on June 4, 2008. In addition, the Board of Directors of SMPIL likewise approved the change in the corporate name of SMPIL to "San Miguel Yamamura Packaging International Limited" on January 3, 2008 and such change became effective on June 11, 2008.

SMYPC owns all of the domestic plants of the Packaging Group, except the corrugated carton plant, Mincorr and SMYAC, which is already an existing joint venture between SMC and NYG. SMYPIL's subsidiaries are the Packaging Group's international facilities.

In December 17, 2009, the Packaging Group through its international subsidiary, SMYPIL, acquired a 65% stake in JHK Investments Pty. Ltd., which owns 100% of Cospak Group, the largest packaging trading firm in Australia. As of October 2013, SMYPIL acquired the remaining shares in San Miguel Yamamura Knox, Pty. Ltd, now San Miguel Yamamura Australasia Pty. Ltd. ("SMYA"). Accordingly, SMYA is now wholly-owned by SMYPIL.

In January 2013, SMYPC finalized its joint venture with Can-Pack S.A. for its two-piece aluminum can manufacturing business. The strategic partnership through the joint-venture company, CAI, will modernize SMYPC's aluminum can business while utilizing the know-how and technologies of Can Pack Group. It also aims to introduce various aluminum can packaging formats to the growing market in the Philippines and the Asia Pacific region.

On March 1, 2013, SMYPC acquired 104,500,000 common shares, equivalent to 35% equity interest in Northern Cement Corporation ("NCC"). NCC is primarily engaged in manufacturing, developing, processing, exploiting, buying and selling cement and/or other products derived therefrom.

On February 27, 2015, SMYPIL through its new Australian subsidiary, SMYV Pty Ltd, has completed the acquisition of Vinocor Worldwide Direct Pty. Ltd. ("Vinocor"). Vinocor is a market leader in the supply of corks and closures for wine bottles in Australia, with facilities and operations based in Adelaide, South Australia.

Real Estate

San Miguel Properties Inc. ("SMPI") was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.68% owned by SMC.

SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

The first project of SMPI is the SMC Head Office Complex, now considered a landmark and a catalyst in transforming the area now known as the Ortigas Business District.

SMPI has expanded its portfolio, serving the high-end market with its foray into townhouse developments, such as Dover Hill in San Juan, One Dover View and Two Dover View in Mandaluyong, and Emerald 88 in Pasig.

Other residential developments are located in General Trias, Cavite and Sta. Rosa, Laguna.

The Makati Diamond Residences, a luxury serviced apartment across Greenbelt 5 in Legaspi Village, Makati City, has been operational as of 2015.

New Businesses

Fuel and Oil

SMC operates its fuel and oil business through Petron, which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in the Philippines, with a market share of 35.4% as of December 31, 2015, according to the Department of Energy of the Philippines ("DOE"). Petron participates in the reseller (service station), industrial, lube and liquefied petroleum gas sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, situated within the premises of the service stations.

In Malaysia, Petron holds a 17.1% share of the retail market as of September 30, 2015, based on Petron estimates and information from Fahrenheit Research (M) Sdn. Bhd ("Fahrenheit Research"), the market research consultant appointed by Malaysian retail market participants to compile industry data.

Petron owns and manages the most extensive oil distribution infrastructure with 30 depots, terminals and airport installations and approximately 2,200 retail service stations in the Philippines and 10 product terminals and more than 560 retail service stations in Malaysia. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

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

Energy

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

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

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

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

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

As of December 31, 2015, SMC Global is one of the largest power companies in the Philippines, which holds a 22.2% market share of the total installed power generation capacity for the Luzon power grid and a 16.5% market share of the national grid according to the Energy Regulatory Commission of the Philippines ("ERC").

Infrastructure

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

TPLEX

SMHC, through its subsidiary, Rapid Thoroughfares, Inc, owns a 70.11% equity interest in PIDC. PIDC is a company which holds a 35-year Build-Transfer-Operate ("BTO") concession rights to construct, operate and maintain an 88.85 km toll expressway from La Paz, Tarlac, through Pangasinan, to Rosario, La Union.

The TPLEX expressway is expected to be integrated with other major expressways (including the North Luzon Expressway ("NLEX") and Subic-Clark-Tarlac Expressway to expand the road/expressway network in and around Metro Manila by 325 km. Construction of the expressway began in October 2010.

On October 31, 2013, PIDC opened the first section from Tarlac to Gerona. The 49 km stretch from Gerona to Carmen was fully operational by April 2014. The 14 km stretch from Carmen to Urdaneta was fully operational starting March 17, 2015. On the other hand, the construction of Section 3A from Urdaneta to Pozorrubio is currently ongoing and this will extend up to Rosario, Pangasinan. This last section is targeted for completion by 2017.

SLEX and Skyway

On March 5, 2015, SMHC increased its shareholdings in AAIBV to 95% stake. AAIBV has the following shareholdings:

- 80% stake in South Luzon Tollway Corporation ("SLTC"), through MTD Manila Expressways, Inc., a wholly-owned subsidiary of AAIBV. SLTC holds a 30-year concession rights to operate the 36.1 km South Luzon Expressway ("SLEX"), one of the three (3) major expressways that link Metro Manila to Southern Luzon;

- 87.84% beneficial ownership in Citra Metro Manila Tollways Corporation ("CMMTC"), through Atlantic Aurum Investments Philippines Corporation, a wholly-owned subsidiary of AAIBV. CMMTC holds a 30-year concession to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2 Project.

STAR Tollway

SMHC, through Cypress Tree Capital Investments, Inc. has an effective 100% interest in Star Infrastructure Development Corporation ("SIDC"). SIDC holds the 30-year BTO concession rights of the STAR Project consisting of: Stage 1 - operation and maintenance of the 22.16 km toll road from Sto. Tomas to Lipa City; and Stage 2 - financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City to Batangas City.

NAIA Expressway

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

The construction of the NAIAx is currently on its final stage with virtually the entire 5.4 km stretch set to be completed by second quarter of 2016. The section fronting NAIA Terminal 3 will remain under construction until the third quarter 2016.

Skyway Stage 3

On February 28, 2014, SMHC through AAIBV incorporated Stage 3 Connector Tollways Holdings Corporation, which holds an 80% ownership interest in Citra Central Expressway Corp. ("CCEC"). CCEC holds a 30-year concession to construct, operate, and maintain the Skyway Stage 3, an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway System. Skyway Stage 3 will inter-connect the southern and northern areas of Metro Manila, decongesting traffic and stimulating the growth of trade and industry in neighboring provinces.

This project is expected to be completed by the end of 2017.

Boracay Airport

SMC, through the 99.8% interest of SMHC in TADHC, is undertaking the expansion of Boracay Airport under a 25-year Build-Rehabilitate-Operate-Transfer concession granted by the Republic of the Philippines ("ROP"), through the Department of Transportation and Communications of the Philippines.

The rehabilitation of the existing terminal was completed. The extension of the Boracay Airport runway to 1.8 km, is now complete with jet operations expected to start by the second quarter of 2016. The improvements on the Boracay Airport will further expand its capacity as such improvements will allow for night landing. The construction of the new and bigger terminal is set to begin at around the same time to accommodate the projected increase in tourist arrivals.

MRT-7

In October 2010, SMC, through SMHC, acquired a 51% stake in ULC, which holds the 25-year Build-Gradual Transfer-Operate-Maintain concession for MRT-7. MRT-7 is a planned expansion of the Metro Manila mass transit rail system which mainly involves the construction of a

22 km mass rail transit system with 14 stations that will start from San Jose del Monte City and end at the integrated LRT-1 / MRT-3 / MRT- 7 station at North EDSA and a 22 km six-lane access road connecting the Intermodal Transport Terminal to the Bocaue exit of NLEX.

ULC will operate and manage the system on behalf of the Philippine government for 25 years and will gradually transfer ownership of the system to the Philippine government in proportion to semi-annual capacity fee payments received.

On August 19, 2014, ULC received the Performance Undertaking issued by the Department of Finance.

Harbour Port

On December 9, 2015, shares of stock in Manila North Harbour Port, Inc. ("MNHPI") were issued to SMHC, by virtue of which it had become a 43.33% owner of MNHPI. With the 35% equity interest held by Petron in MNHPI, the Group obtained control and consolidated MNHPI effective December 9, 2015.

MNHPI holds the concession rights to manage, operate, develop and maintain the Manila North Harbor and other port facilities for 25 years.

Telecommunications

SMC has made investments in the telecommunications sector in the Philippines through acquisitions of stakes in LTHI, BellTel and ETPI.

Liberty Telecom

In 2010, SMC through its subsidiary, Vega Telecom Inc. ("Vega"), owns a 41.48% stake in LTHI, a telecommunications carrier listed in the PSE, offering data communications and data connectivity services. Vega increased its ownership in LTHI from 41.48% to 45.05% in April 2014, and to 45.58% in December 2014. As of September 2, 2015, Vega owns 97.46% of the total issued and outstanding shares of LTHI, inclusive of both common and preferred shares.

BellTel

Also, in 2010, Vega subscribed to the shares of stock equivalent to 100% of Two Cassandra-CCI Conglomerates, Inc., Power Smart Capital Limited, and Perchpoint Holdings, Corp. that collectively owns 100% of BellTel. In December 2014 and 2015, Vega made a direct additional investment to BellTel by subscribing to its unissued shares thereby increasing direct ownership interest to 50%.

BellTel, which began commercial operations in 2002, offers an integrated package of services, including local and long distance telephony, high speed data connectivity and Internet. It has various licenses that include local exchange carrier, international gateway facility, inter-exchange carrier, very small aperture terminal, internet service provider, and wireless local loop telephone systems in various cities and municipalities in the National Capital Region of the Philippines. It is authorized to provide the full range of services throughout the Philippines. In 2014, BellTel acquired 100% of Dominer Pointe, Inc. and Somete Logistics & Dev't. Corp. from various individuals. Both tower companies are engaged in the business of conceptualization, construction, installation, establishment, operation, leasing, sale and maintenance, and rendering of specialty technical services for tower infrastructures to be utilized by telecommunication companies.

Eastern Telecom

In 2010, SMC, through Vega, acquired 100% of the outstanding and issued shares of stock of AGNP, the beneficial owner of approximately 40% of ETPI, inclusive of the existing businesses, investments and telecommunications service facilities of ETPI. On October 20, 2011, SMESI acquired an additional 37.7% of the outstanding and issued shares of stock of ETPI bringing its total indirect equity interest in ETPI to 77.7%.

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

CobaltPoint Telecom

On December 4, 2015, Vega acquired 88.17% ownership in CobaltPoint Telecom, Inc. ("CTI") through the acquisition of 100% equity interest in Trans Digital Excel Inc., which holds 78.45% equity interest in the total outstanding capital stock and direct acquisition of 9.72% equity interest.

CTI is primarily engaged in the operations and maintenance of a nationwide cellular mobile telephone system using analog advance mobile phone service system. CTI has the lease capacity from other telecommunication companies and to operate as a virtual network operator and/or as a reseller in the provisioning of its telecommunication services.

Banking

SMC, through SMPI, currently holds approximately 39.93% of the BOC, a commercial bank licensed to engage in banking operations in the Philippines.

Others

South Western Cement Corporation (SWCC)

On October 15, 2014, San Miguel Equity Investments, Inc. ("SMEII") acquired from Clariden its 100% ownership interest in SWCC.

SWCC is primarily engaged in the business of manufacturing, importing, exporting, buying, selling or otherwise dealing in, at wholesale, of cements and other goods of similar nature, and any and all equipment, materials, supplies, used or employed in or related to the manufacture of such finished goods.

SMEII, through SWCC has the exclusive right to conduct mining operations in 306.46 hectares of land and 505.7929 hectares of land both located in Lo-oc, Malabuyoc, Cebu pursuant to Mineral Production Sharing Agreement ("MPSA") No. 059-96-VII and MPSA No. 060-96-VII, both executed on November 18, 1996 between the ROP and Lo-oc Limestone and Development Corporation ("LLDC"). LLDC subsequently assigned its rights, title and interest in and to the

MPSAs to SWCC, which assignment was approved by the Mines and Geosciences Bureau on September 24, 1997.

The primary purpose of these MPSAs is to provide for the exploration, sustainable development and commercial utilization of limestone and other mineral deposits existing in the contract area, with all the necessary services, technology and financing to be provided by SWCC. The MPSAs have a term of 25 years from effective date, renewable for another 25 years.

The share of the ROP consists of an excise tax on mineral products as provided for in Republic Act No. 7729 amending Section 151(a) of the NIRC as amended. If minerals, other than limestone are discovered in commercial quantities in the contract area, the value thereof shall be added to the value of the principal mineral in computing the share of the ROP.

Daguma Agro-Minerals, Inc., Bonanza Energy Resources, Inc. and Sultan Energy Phils. Corp.

SMC, through San Miguel Energy Corporation, owns 100% interest in three coal mining companies, namely DAMI, BERI and SEPC, the concession holders of coal deposits in Southern Mindanao.

CLARIDEN HOLDINGS, INC.

The Parent Company, through Clariden, holds mining tenements in various areas in the Philippines. These mining tenements, owned by Clariden's various subsidiaries, include: (i) Mineral Production Sharing Agreements (MPSAs) for the Nonoc Nickel Project and Mt. Cadig Nickel Project, (ii) Exploration Permits (EPs) for certain areas under the Bango Gold Project, and (iii) pending Application for Production Sharing Agreement (APSA) and pending Exploration Permit Applications (EXPA) for other areas of the Bango Gold Project. A subsidiary of Clariden was also chosen as the contractor under a Joint Operating Agreement to be executed for the North Davao Project.

Clariden's exploration and mining projects are:

Nonoc Nickel Project

Clariden, through its indirect beneficial ownership in Philnico Industrial Corporation ("PIC"), Pacific Nickel Philippines, Inc. ("PNPI"), and Philnico Processing Corp. ("PPC"), holds mining rights over an area of approximately 23,877 hectares located in the islands of Nonoc, Hanigad, and Awasan, Surigao City; and Basilisa and Cagdianao, Dinagat Island Province, within Parcel II and Parcel III of the Surigao Mineral Reservation under MPSA No. 072-97-XIII (SMR), expiring in 2022. The original MPSA area of approximately 25,000 hectares was reduced as a result of the exclusion from the MPSA and reclassification of 106.473 hectares for the establishment of a Special Economic Zone in 1999 and 1,016.9113 hectares as alienable and disposable land in 2004.

Amended and Restated Definitive Agreement and Related Agreements. In 1996, PIC (formerly the Philnico Mining and Industrial Corporation) acquired 90% of the shares of stock and certain receivables of the ROP in PPC (formerly, the Nonoc Mining and Industrial Corporation) through an Amended and Restated Definitive Agreement ("ARDA") with the ROP, acting through the Asset Privatization Trust (now the Privatization and Management Office or PMO), executed on May 10, 1996, as supplemented and amended on May 2, 1997 and September 27, 1999, respectively.

Under the ARDA, the purchase price shall be payable on an installment basis in accordance with the payment schedule stipulated therein. Further, the ARDA provides that the installment payable on a large portion of the purchase price shall consider the average London Metal Exchange ("LME") price of nickel which should be higher than PNPI's break-even price for the period. This is in recognition of the need to put the nickel refinery in commercial operation before compliance with the payment schedule may be enforced. As security for the payment of the purchase price, PIC pledged the subject PPC shares to the ROP. The ARDA contains a provision that in case of default in the payment of the purchase price in accordance with the terms thereof, the title to the PPC shares shall *ipso facto* revert to the ROP (the "Automatic Reversion Clause").

In 2003, PIC filed a case in the Makati Regional Trial Court to enjoin PMO from enforcing the Automatic Reversion Clause and requesting the trial court to fix the period for payment and performance by PIC of its obligations under the ARDA. The trial court issued injunction orders enjoining PMO from enforcing the Automatic Reversion Clause. The PMO filed a Petition before the Court of Appeals challenging such injunction orders, which Petition was denied by the Court of Appeals. The issues relating to the injunction orders and the validity of the Automatic Reversion Clause were subsequently appealed to the Supreme Court, which, in a Decision dated August 27, 2014, declared that the Automatic Reversion Clause constituted *pactum commissorium* and, thus, null and void.

In the meantime, the proceedings before the trial court are on-going. In December 2015, PIC filed a Motion for Summary Judgment praying for the trial court to resolve the only remaining issue of fixing the period for payment and performance by PIC of its obligations under the ARDA.

MPSA No. 072-97-XIII (SMR). The ROP and PIC entered into an MPSA which was approved on January 20, 1995 by the President of the Philippines pursuant to Executive Order No. 279 (1987) as implemented by DENR Administrative Order (DAO) Nos. 57 (1989) and 82 (1990). The said MPSA was thereafter revoked but subsequently reinstated and approved by the President in September 1996 after the execution of the ARDA.

In May 1997, PIC assigned its rights and obligations under the MPSA to PNPI and PNPI, in turn, assigned all mineral processing rights under the MPSA in favor of PPC. As a result of the assignment, PNPI holds exclusive rights to explore, develop, mine, and commercially utilize nickel, cobalt, chrome, iron and other mineral deposits within the contract area for a period of 25 years, renewable for another 25 years. On the other hand, PPC holds exclusive rights with respect to the processing of minerals and resources under the MPSA.

The MPSA further provides that the ROP share shall be the excise taxes on the mineral products at the time of its removal and at the rate provided for in Republic Act No. 7729 amending Section 151(A) of the National Internal Revenue Code (NIRC), as amended, in addition to a royalty fee of not less than 5% of the market value of the gross output exclusive of all other taxes. If minerals, other than nickel and cobalt are discovered in commercial quantities in the contract area, the value thereof shall be added to the value of the principal minerals in computing the share of the ROP.

On August 7, 1997, the MPSA was amended to conform to Republic Act No. 7942, otherwise known as the Philippine Mining Act of 1995, and DAO No. 96-40, the Revised Implementing Rules and Regulations.

The request for an additional two - year exploration period filed by PNPI was approved by the MGB on February 25, 2015. Activities covered by the said additional two - year exploration period include exploration drilling, metallurgical testing, conduct of environmental and social studies and preparation of a feasibility study. Exploration drilling in Nonoc Island and in the south Dinagat portion of the contract area has been completed. Rehabilitation of some mine site facilities such as the geochemical laboratory, main warehouse and staff houses have been completed while others are being scheduled for rehabilitation. Certain continuing activities in compliance with mandatory requirements under the MPSA and mining regulations such as the Environmental Protection and Enhancement Program and Social Development and Management Program are also being implemented.

Infill drilling in Nonoc Island has been started while exploration drilling in the North Dinagat area of the contract area will start by early 2016.

On September 21, 2015, PNPI entered into Deeds of Partial Assignment and Transfer with each of V.I.L. Mines, Incorporated (VMI) and Prima Lumina Gold Mining Corp. (Prima Lumina) covering certain areas of MPSA-072-97-XIII (SMR). An area of 7,035 hectares was assigned to Prima Lumina while an area of 6,264 hectares was assigned to VMI. On December 11, 2015, the Deeds of Partial Assignment and Transfer were filed with the DENR MGB Regional Office No. XIII (CARAGA) for review and evaluation prior to transmittal to the MGB Central Office. Pursuant to mining rules and regulations, the MGB Central Office will thereafter submit the said Deeds to the DENR Secretary for approval.

Resources. The primary mineral resource within the MPSA area is nickel. Based on a Philippine Mineral Reporting Code (PMRC) Competent Person's Report prepared in September 2014, the combined measured and indicated resource of Nonoc Island and the adjacent areas of South Dinagat, Hanigad and Awasan islands at 0.70% Ni cut-off was estimated at 235 million metric tons at an average grade of 1.25% Ni and an average iron content of 35% Fe. The measured resource at 0.7% Ni cut-off was estimated at 143 million metric tons at 1.25% Ni average grade and iron content averaging 35% Fe. Indicated resource at 0.7% Ni cut-off was estimated at 92 million metric tons at an average grade of 1.23% Ni and an average iron content of 33% Fe. Secondary resources not fully quantified but now considered commercially saleable are: (i) overburden (materials overlying the nickel deposit previously considered as waste or of no value but with the advent of new technology and favorable nickel prices has become economic) which can be marketed as direct shipping ore; and (ii) iron tailings generated by previous nickel processing operations and can be marketed on an as is, where is basis or upgraded to at least 60% iron.

Special Economic Zone. On May 1, 1999, PIC and the City of Surigao entered into a Memorandum of Agreement in relation to a proposed plan of establishing, developing, and operating a Special Economic Zone (Ecozone) in a 106-hectare portion of Nonoc Island, Surigao City (the Property), which area is covered by the MPSA.

Under the Memorandum of Agreement, the City of Surigao agreed to cause the reclassification of the Property from mineral to agricultural land and thereafter lease the same to PIC for the establishment of the Ecozone. PIC, in turn, agreed to cause the conditional release of the Property from the coverage of the MPSA to enable the City of Surigao to acquire the Property from the ROP, without prejudice to the ownership over the existing facilities and infrastructures on the Property.

Subsequently, Proclamation No. 172 and Presidential Proclamation No. 192 were issued excluding the Property from the Surigao Mineral Reservation, declaring it open for disposition, and creating the Ecozone with an initial area of 106.473 hectares. On December 10, 1999, the ROP and the City of Surigao executed a Deed of Donation by virtue of which the ROP donated the Property to the City of Surigao to enable it to host the Ecozone to be developed and operated by PIC.

Pursuant to the Memorandum of Agreement, the lease contract between the City of Surigao and PIC was executed on September 21, 1999 and took effect on December 10, 1999, for an initial period of 25 years, renewable for another 25 years at the option of PIC. The lease contract provides that the payment of the stipulated rental shall only start after 2 years from the execution of the contract or after the commissioning of the Nonoc Nickel Refinery, whichever comes later. Clariden is currently conducting metallurgical tests and additional technical studies to determine the optimal processing option for the nickel deposits.

In July 2013, PIC and PNPI filed a case to enjoin the actions of the Mayor of Surigao City in threatening to take over the Property. On March 27, 2014, the Court of Appeals of Cagayan de Oro City rendered a Decision permanently enjoining the Mayor, and all persons acting on his behalf, from taking over the Property, including the improvements thereon.

Operating Agreement with Shuley Mine, Incorporated. On April 27, 2009, PNPI entered into a Mines Operating Agreement with Shuley Mine, Incorporated. (SMI) whereby SMI agreed to undertake the extraction, hauling, shipment and marketing of nickel ore within a designated 1,174-hectare area under the MPSA for an initial period of 48 months and renewable for another 48 months upon mutual agreement by the parties. The agreement was registered with the MGB Regional Office No. XIII on June 2, 2009 and approved by the MGB Central Office on July 23, 2009 with the condition that mining operations can only commence once PNPI has filed and secured approval of the Declaration of Mining Project Feasibility (DMPF) covering the area subject of the agreement. The Partial DMPF was approved by the MGB Central Office on April 8, 2010.

On September 29, 2009, the parties entered into a Supplemental Agreement, whereby the parties agreed to expand the coverage of the Mines Operating Agreement to include, among others: (i) all mining activities such as exploration, expansion of stockyard, and extraction from in situ, run of mine, and tailings, and (ii) mining and extraction of all other nickel grades except nickel ore between 1% to 1.4% nickel grade which shall remain under PNPI's ownership, with their corresponding royalty rates computed as an increasing amount per unit volume based on the grades of nickel ore subject to an escalation based on the LME price of nickel. Under the Supplemental Agreement, the parties agreed that the effectivity of the Mines Operating Agreement starts on the date the Partial DMPF was approved by the MGB. On March 16, 2011, the parties amended the Mines Operating Agreement to provide for the payment by SMI of the Value Added Tax on the royalty fee.

In April 2013, SMI filed a case with the Regional Trial Court of Surigao City to enjoin PNPI from stopping the mining, shipping and other operations of SMI under the Mines Operating Agreement. In May 2014, SMI and PNPI entered into a Compromise Agreement to amicably settle the pending case, which was approved by the court in a Judgment dated June 2, 2014. The Compromise Agreement states, among others, that SMI shall immediately cease all mining operations and shall be allowed to ship out mineral ores only until July 31, 2014, provided that SMI shall not ship out any and all ores with grading 1% to 1.4% nickel.

Mt. Cadig Nickel Project

MPSA No. 346-2010-IVA. Clariden, through V.I.L. Mines, Incorporated (a wholly-owned subsidiary of Clariden) has the exclusive right to conduct mining operations within 11,126.3576 hectares of land located in Tagkawayan, Quezon and Labo and Sta. Elena, Camarines Norte pursuant to MPSA No. 346-2010-IVA executed on June 25, 2010 between the ROP and VMI. The MPSA has a term of 25 years from the effective date and renewable for another term not exceeding 25 years. The primary purpose of the MPSA is to provide for the rational exploration, development and commercial utilization of nickel and other associated mineral deposits existing in the contract area with all the necessary services, technology and financing to be furnished and arranged for by VMI. The renewal of the 2-year exploration period under the MPSA was granted by the MGB on December 13, 2013. VMI is completing the implementation of its 2-Year Community Development Program (CDP) for its host communities that was approved by the MGB on May 21, 2014.

VMI is currently preparing the mandatory requirements necessary for the second renewal of the exploration period under the MPSA.

The share of the ROP under the MPSA consists of an excise tax on mineral products at the time of removal and at a rate provided for in Republic Act No. 7729 amending Section 151(a) of the NIRC as amended as well as other taxes, duties and fees levied by existing laws. If minerals, other than nickel and other associated mineral deposits are discovered in commercial quantities in the contract area, the value thereof shall be added to the value of the principal mineral in computing the share of the Government. Other government fees include the registration fee and occupation fee.

Resources. Mineral resources within the contract area, based on VMI's exploration drilling activities, are believed to comprise nickel and iron.

Bango Gold Project

Clariden, through Prima Lumina Gold Mining Corp. (Prima Lumina) is the assignee of Exploration Permit Nos. 000001-2011-XI and 000002-2011-XI covering certain areas of Compostela Valley and Davao Oriental, immediately south of the Diwalwal Gold Rush Area. These EPs allow Prima Lumina to conduct prospecting and exploration for mineral resources by geological or geophysical surveys, test pitting, trenching, drilling or any other means for the purpose of determining the existence, extent, quantity and quality of the mineral resources and the feasibility of mining them economically.

The EPs were both approved in April 2011 with a term of 2 years, renewable for like periods but not to exceed a total term of 6 years. EP No. 000001-2011- XI covers 9,997.53 hectares in the Barangays of Ngan, Panalsalan, Pagsabangan and Mangayon, Municipality of Compostela, Barangay Naboc, Municipality of Monkayo, Province of Compostela Valley, and Barangay Aliwagwag, Municipality of Cateel, Province of Davao Oriental. EP 000002-2011-XI covers 2,416.91 hectares in Barangay Ngan, Compostela and Barangay San Miguel, Municipality of New Bataan, Province of Compostela Valley; and Barangay Aliwagwag, Municipality of Cateel, Province of Davao Oriental.

Resources. Mineral resources in these areas, based on exploration activities undertaken under the EPs, are believed to include gold, copper, silver and other associated minerals.

Upon application by Prima Lumina and approval of the relevant regulatory agencies, these EPs may subsequently be converted into MPSAs or other appropriate mining tenements.

On July 15, 2014, the MGB approved the application of Prima Lumina for renewal of the EPs. Prima Lumina engaged the services of a third party contractor to conduct exploratory core drilling in the areas covered by the EPs. Preparatory activities prior to drilling such as geohazard mapping, reconnaissance exploration activities and the location of proposed drill holes are continuing. Prima Lumina is also implementing its 2-Year Community Development Program (CDP) for its host communities that was approved by the MGB on September 08, 2014.

APSA No. 0000077-XI and EXPA No. 000242-XI. In 2013, Clariden, through its subsidiary Prima Lumina, entered into an agreement to acquire approximately 71.73% of the shares of stock in Mina Del Oriente, Inc. (Mina Del Oriente). Mina Del Oriente has a pending application for MPSA denominated as APSA No. 0000077-XI and a pending application of an Exploration Permit denominated as EXPA No. 000242-XI, both filed on June 30, 1994 and covering an area of about 7,203.02 hectares and 2,116.79 hectares, respectively, in Compostela Valley.

Mina Del Oriente also entered into Memoranda of Agreement with the Indigenous Cultural Communities of Monkayo and Compostela, Compostela Valley Province, which agreements were registered with the MGB on June 29, 2011.

North Davao Project

Joint Operating Agreement with Philippine Mining Development Corporation. In 2009, Asia-Alliance Mining Resources Corp. ("Asia-Alliance") was chosen by the Philippine Mining Development Corporation ("PMDC") to undertake the exploration, development, and mining operation of the North Davao Mining Property under a Joint Operation Agreement to be executed between the parties. Asia-Alliance subsequently filed a case with the Pasig Regional Trial Court to compel the PMDC to execute the Joint Operating Agreement with terms and conditions that are consistent with the Terms of Reference during the public bidding stage.

Resources. Mineral resources are believed to comprise gold, copper and associated minerals.

Dinagat Nickel-Chromite Project

On January 24, 2006, PPC and the PMDC (formerly the National Resources Mining Development Corporation) entered into a Joint Operating Agreement designating PPC as the project contractor exclusively authorized to explore, develop, and commercially utilize existing mineral deposits within a 3,600 hectare area in the municipalities of Cagdianao and Basilisa in Dinagat Island, Surigao del Norte, adjacent to MPSA No. 072-97-X (SMR), for a period of 25 years from effective date renewable for another 25 years. On June 21, 2007, PPC assigned its rights, interests, and obligations under the Joint Operating Agreement to PNPI.

Under the Joint Operating Agreement, the sharing scheme between PMDC and the contractor shall be 71%-29%, respectively, based on the net cash income (before taxes). In addition, PPC shall pay the Government, through the PMDC, a royalty in the amount equivalent to 5% of the gross sales of the minerals/mineral products, as well as other taxes, duties, and fees levied by existing laws, national or local. If minerals other than nickel and other associated mineral deposits are discovered in commercial quantities in the contract area, the value thereof shall be added to the value of the principal mineral in computing the share of PMDC.

The principal mineral resources within the Dinagat concession area are nickel and chromite. As of December 31, 2015, discussions between PNPI and PMDC to renegotiate the sharing scheme under the Joint Operating Agreement are ongoing. Other factors critical to the feasibility of the required mine and mineral processing operations as provided in the Joint Operating Agreement are: (1) low nickel prices; and (2) the need to conduct further exploration to delineate additional nickel resources.

Prospective Projects

In the ordinary course of its business, Clariden considers and evaluates various mining opportunities. In connection with its evaluation of prospective mining projects, airborne magnetic and radiometric surveys are being undertaken over certain areas located in the provinces of North Cotabato, Sultan Kudarat, Davao del Sur and Sarangani, Mindanao Island.

As of December 31, 2015, projects being considered include the following:

Mindoro Iron Exploration Project. The project has an existing Financial or Technical Assistance Agreement (FTAA) under the name of Agusan Petroleum and Mineral Corporation ("APMC") executed on October 16, 2008 and registered with the MGB on October 29, 2008. The primary purpose of the FTAA is to provide for the large-scale exploration, development, and commercial utilization of minerals within the contract area with all the necessary technology, management, financing and personnel to be provided or arranged by the APMC. The FTAA grants APMC the exclusive right to explore, mine, utilize, process, refine market, transport, export and dispose of minerals and mineral products and by-products that may be derived or produced from the contract area comprised of 46,050.6483 hectares located in Baco, San Teodoro and Puerto Galera, Oriental Mindoro and Mamburao and Abra de Ilog, Occidental Mindoro. The mineral commodities in the area are nickel and iron.

*Davao del Sur Exploration Project***.** Projects in Davao del Sur are covered by pending applications for EP, denominated as EXPA No.000097-XI filed on October 29, 1998, covering 6,971.82 hectares of land located in Malita and Sta. Maria Davao del Sur; EXPA No. 000171-XI filed on June 21, 2007, covering 16,009.81 hectares of land located in Malita, Davao del Sur and Malungon and Anabel, Saranggani Province; EXPA No. 000172-XI filed on June 21, 2007 covering 16,054 hectares of land located in Sta. Maria, Malalag and Malita, Davao Del Sur; EXPA No. 000173-XI filed on June 22, 2007 covering 16,211.1 hectares of land situated in Malita and Sta. Maria, Davao Del Sur; EXPA No. 000174-XI filed on June 25, 2007 covering 16,054.09 hectares of land situated in Malita and Don Marcelino, Davao Del Sur; EXPA No.00176-XI filed on June 25, 2007 covering 16,357.96 hectares of land situated in Malita, Malalag and Sta. Maria, Davao del Sur; and EXPA No. 00175-XI filed on June 25, 2007 covering 16,146.32 hectares of land situated in Malita and Don Marcelino, Davao del Sur. The mineral commodities applied for are gold, copper and associated minerals.

Sultan Kudarat and North Cotabato Exploration Project. The projects currently have pending applications for EP, denominated as EXPA No. 000070-XII-2007 covering 16,200 hectares of land situated in the Municipality of Columbio, Province of Sultan Kudarat and in the Municipality of Tulunan, North Cotabato; and EXPA No.000071-XII-2007 covering 15,950 hectares of land situated in the Municipality of Columbio, Province of Sultan Kudarat. Both applications were filed on April 16, 2007. The mineral commodities applied for are copper, gold, precious and base metals and other minerals.

Compostela Valley Exploration Project. These comprise of projects with pending applications for EP, denominated as EXPA Nos. 000210-Xl filed on May 2008 and 000214-XI filed on June 2008 which cover 81 hectares of land and 169.5 hectares of land respectively. The mineral commodity applied for in these areas is gold. Another project has a pending application for MPSA, denominated as APSA No. 0001-XI filed on February 1991, covering 254.2 hectares of land situated in Ngan, Compostela Valley. Gold is the mineral commodity applied for.

Ilocos Norte Limestone Project. Ilocos Norte Mining Corp., Inc. is the assignee of MPSA No. 068-97-1 approved on June 6, 1997 covering a 1,284.5077 hectare contract area located in Batac, Espiritu, Nueva Era and Pinili, Ilocos Norte.

Financial Statements

The following financial statements of the Company, namely:

1. the Audited Consolidated Financial Statements of the Company and its subsidiaries as of December 31, 2015, including the Company's Statement of Management's Responsibility and the Notes to the 2015 Audited Consolidated Financial Statements of the Company, are collectively attached hereto as **Annex "B-1"**; and

2. the Unaudited Consolidated Financial Statements of the Company and its subsidiaries as of and for the period ended March 31, 2016 (with comparative figures as of December 31, 2015 and for the period ended March 31, 2016) and Selected Notes to the Financial Statements are collectively attached hereto as **Annex "B-2"**.

Management's Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2015 and March 31, 2016 are attached hereto as **Annexes "C-1"** and **"C-2"**, respectively.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the Company's external auditors on accounting and financial disclosure.

Audit and Audit Related Fees

The Company paid the external auditor Audit Fees amounting to P1.5 million and P1.4 million, in 2015 and 2014, respectively. Said fees include compensation for audit services and other related services such as audit review and research work. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

The stockholders approve the appointment of the Company's external auditors. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence.

Market Price of and Dividends on the Company's Common Equity and Related Stockholder Matters

On October 17, 2013, the SMC Board approved the declaration, by way of property dividends, of 240,196,000 common shares of the Company to the SMC common shareholders of record as of November 5, 2013, which dividend declaration was approved by the SEC on November 19, 2013. The Certificate Authorizing Registration was issued by the Bureau of Internal Revenue (BIR) on December 26, 2013 and the physical distribution of the property dividends commenced on January 2, 2014.

Top Frontier’s 490,196,200 common shares, composing the total issued common shares of the Company, were listed by way of introduction in the PSE on January 13, 2014. The percentage of public ownership of the Company as of May 31, 2016 is 11.81%.

The high and low closing prices of the common shares of Top Frontier for each quarter within the last two (2) fiscal years and for the first quarter of 2016 are as follows:

	2016		**2015**		**2014**	
	Common		**Common**		**Common**	
	High	Low	High	Low	High	Low
1st Quarter	184.00	62.90	127.90	98.00	104.90	58.05
2nd Quarter	-	-	106.80	80.00	126.50	85.20
3rd Quarter	-	-	84.95	63.00	156.00	119.80
4th Quarter	-	-	108.50	67.60	128.10	99.50

The closing price of the Company’s common shares as of June 08, 2016, the latest practicable trading date, is P184.00 per share.

The approximate number of shareholders of the Company as of May 31, 2016 is 12,970.

The top twenty (20) stockholders of the Company as of May 31, 2016 are as follows:

Rank	**Name of Stockholders**	**No. of Common Shares**	**No. of Preferred Shares**	**Total No. of Shares**	**% out of Total Outstanding Shares**
1	Iñigo U. Zobel	199,601,417	0	199,601,417	59.6198%
2	Master Year Limited	49,799,800	0	49,799,800	14.8749%
3	Privado Holdings, Corp.	36,814,051	0	36,814,051	10.9961%
4	PCD Nominee Corporation (Filipino)	35,364,810	0	35,364,810	10.5634%
5	San Miguel Corporation	2,561,031	1,904,540	4,465,571	1.3338%
6	PCD Nominee Corporation (Non- Filipino)	2,160,941	0	2,160,941	0.6455%
7	Millennium Energy, Inc.	1,080,738	0	1,080,738	0.3228%
8	Marine Shore Investment Holdings, Inc.	258,767	0	258,767	0.0773%
9	Columbus Capitana Corporation	239,233	0	239,233	0.0715%
10	Everett Steamship Corporation	190,333	0	190,333	0.0569%
11	Gingoog Holdings Corporation	183,008	0	183,008	0.0547%

Rank	Name of Stockholders	No. of Common Shares	No. of Preferred Shares	Total No. of Shares	% out of Total Outstanding Shares
12	Eduardo M. Cojuangco, Jr.	127,354	0	127,354	0.0380%
13	Estate of Allen Cham	91,398	0	91,398	0.0273%
14	Pac Rim Realty & Development Corp.	91,205	0	91,205	0.0272%
15	Ramon S. Ang	75,887	0	75,887	0.0227%
16	Cheng Siok Tuan	68,911	0	68,911	0.0206%
17	Lucky Star Holdings, Inc.	66,628	0	66,628	0.0199%
18	Carmel of St. Therese of the Child Jesus	59,295	0	59,295	0.0177%
19	Q-Tech Alliance Holdings, Inc.	45,600	0	45,600	0.0136%
20	William S. Mauskopf	44,539	0	44,539	0.0133%
	TOTAL	328,924,946	1,904,540	330,829,486	98.8168%

The Company's Board of Directors approved the declaration and payment of the following cash dividends to stockholders owning preferred shares as follows:

The Company has no dividend declaration in 2015.

For the Year Ended December 31, 2014

Date of Approval	Date of Record	Amount (in Millions)	Dividend Per Share
July 9, 2014	July 9, 2014	P266	P139.50
November 10, 2014	November 10, 2014	266	139.50
		P532	

For the Year Ended December 31, 2013

Date of Approval	Date of Record	Amount (in Millions)	Dividend Per Share
February 13, 2013	February 13, 2013	P266	P139.50

For the Year Ended December 31, 2012

Date of Approval	Date of Record	Amount (in Millions)	Dividend Per Share
February 28, 2012	February 28, 2012	P362	P139.50
June 14, 2012	June 14, 2012	966	139.50
September 7, 2012	September 7, 2012	266	139.50
November 12, 2012	November 12, 2012	266	139.50
		P1,860	

There were no cash dividends declared and paid by the Company for common shares.

Description of the securities of the Company may be found in Note 25, Equity, of its 2015 Audited Consolidated Financial Statements, attached herein as **Annex "B-1"**.

There were no securities sold by the Company within the past three (3) years which were not registered under the SRC.

Independent Public Accountants

The accounting firm of R.G. Manabat & Co. served as the Company's external auditors for the last fiscal year. The Board of Directors will again nominate R.G. Manabat & Co., for re-appointment this fiscal year.

Representatives of R.G. Manabat & Co. are expected to be present at the stockholders' meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire. R.G. Manabat & Co., then known as Manabat Sanagustin & Co., has been the Company's external auditors since 2009. In 2014, R.G. Manabat & Co. changed the signing partner assigned to the Company, in compliance with SRC Rule 68 (3) (b) (iv) in respect of the engagement of R.G. Manabat & Co.

Compliance with Leading Practice on Corporate Governance

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance ("Manual") is vested by the Board of Directors on the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. On September 19, 2013, the Board of Directors adopted the Company's Manual of Corporate Governance pursuant to the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, series of 2009. On July 31, 2014, the Board approved the adoption of the Amended Manual of Corporate Governance of the Corporation, incorporating therein, among others, the amendments pursuant to SEC Memorandum Circular 9, Series of 2014. The Compliance Officer has certified that the Company has substantially adopted all the provisions of its Manual. Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company, its stockholders and other stakeholders.

ACTION WITH RESPECT TO REPORTS

The approval of the following will be considered and acted upon at the meeting:

1. Minutes of the Annual Stockholders' Meeting held on July 9, 2015, with the following items:

    a. Certification of Quorum
    b. Approval of the Minutes of the Annual Stockholders' Meeting held on July 9, 2014
    c. Approval of the Annual Report
    d. Ratification of Acts and Resolutions of the Board of Directors and Corporate Officers
    e. Appointment of External Auditors
    f. Election of the Board of Directors
    g. Other Matters
    h. Adjournment

2. Annual Report of the Company for the year ended December 31, 2015;

3. Ratification of all the acts of the Board of Directors and Officers since the 2015 Annual Stockholders' Meeting which include:

    a. Approval of:

        i. Quarterly financial performance and final position of the Company
        ii. Re-structuring/re-financing of the loan obligations of the Company
        iii. Self-rating form of the Board of Directors
        iv. Record date and other significant dates and details for the 2016 Annual Stockholders Meeting
        v. Report on the qualification of the nominees for election to the Board
        vi. Report on the Corporate Governance Committee validation of the results of the Audit Committee performance assessment and self-rating form of the Board of Directors
        vii. Funding arrangements to cover the outstanding loan obligations of the Company which may be in the form of and include the issuance of convertible perpetual securities

    b. Appointment of officers;

    c. Appointment of Board Committee Members; and

    d. Designation of depository banks, appointment of authorized signatories for banking and other corporate transactions and approval of their signing authorities and limits.

The Minutes of the Stockholders' Meetings held on July 9, 2015, as well as the resolutions of the Board of Directors beginning July 9, 2015, will be available for examination during office hours at the Office of the Corporate Secretary.

VOTING PROCEDURES

For the election of directors, the seven (7) nominees with the greatest number of votes will be elected as directors.

Shareholders vote *viva voce*, unless a motion to cast votes by ballot is made and duly seconded, and approved by the majority of the shareholders present or represented at the meeting as the method of voting for any or all of the proposals or matters submitted to a vote at the meeting.

In all proposals or matters for approval except for election of directors, each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one (1) vote. In case of election of directors, cumulative voting as set out in pages 4-5 of this Information Statement shall be adopted. Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretary with the assistance of the independent auditors and the Company's stock transfer agent.

UNDERTAKING

The Company undertakes to provide any requesting stockholder, free of charge, the following:

- **a printed or electronic copy of the annual report on SEC Form 17-A of the Company, at the stockholder's option, upon written request addressed to the Office of the Corporate Secretary and Compliance Officer, 7/F San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines or via email at smc_stsc@smg.sanmiguel.com.ph; and**

- **a printed copy of this Information Statement [considering that the Company shall be distributing this Information Statement to its stockholders in compact disc (CD) format], upon written request addressed to the SMC Stock Transfer Service Corporation, 2/F San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines or via email at smc_stsc@smg.sanmiguel.com.ph.**

SIGNATURE

After reasonable inquiry and to the best of my knowledge and behalf, I certify that the information set forth in this report is true, complete and correct. This report is signed in Mandaluyong City on June 9, 2016.

TOP FRONTIER INVESTMENT HOLDINGS, INC.

By:

Virgilio S. Jacinto
Corporate Secretary and
Compliance Officer

PROXY

I, the undersigned stockholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** (the "Company"), appoint:

The Chairman of the Board of Directors of the Company, or in his absence

The President and Chief Executive Officer of the Company, or in his absence

The Chairman of the July 14, 2016 Annual Meeting of the Stockholders

as my proxy, to represent me at the regular meeting of the stockholders of the Company scheduled for **July 14, 2016** (**Thursday**) at **2:00 p.m.** at the **Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines**, and any of its adjournment(s), as fully as I could do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). I direct my proxy to vote shares which I own, or may hereafter own, and such shares as I am authorized to vote in my capacity as Administrator, Executor or Attorney-in Fact, on the agenda items I have indicated with "X" below. **If I fail to indicate my vote on the items specified below, my proxy shall vote in accordance with the recommendation of Management. Management recommends a "FOR ALL" vote for proposal 1, and a "FOR" vote for proposals 2 through 5.**

PROPOSAL	**ACTION**		
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION
1. Election of Management's Nominees as Directors			
Management's Nominees for Directors are Iñigo U. Zobel, Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, and Nelly A. Favis-Villafuerte. The nominees for Independent Directors are Consuelo M. Ynares-Santiago and Minita V. Chico-Nazario. **INSTRUCTIONS:** *To withhold authority to vote for any individual nominee(s) of Management, please mark Exception box and list the name(s) under.*			
	FOR	AGAINST	ABSTAIN
2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 9, 2015			
3. Approval of the Annual Report of the Company for year ended December 31, 2015			
4. Ratification of all the acts and proceedings of the Board of Directors and Officers since the Annual Stockholders' Meeting held on July 9, 2015			
5. Appointment of R.G. Manabat & Co. as external auditors of the Company for fiscal year 2016			

Signed this _____ day of _____________ 2016.

______________________________ PRINTED NAME OF SHAREHOLDER

______________________________ SIGNATURE OF SHAREHOLDER/ AUTHORIZED SIGNATORY

Revocability of Proxies. A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked by any of the following means: (1) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (2) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Persons Making the Solicitation. This solicitation is being made by the Company. Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation, approximately P1,000,000.00, will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon. No director, officer, or nominee for election as director of the Company, or any of their associates, at any time since the beginning of the last fiscal year, has any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

ANNEX "A-1"

COVER SHEET

C S 2 0 0 8 0 3 9 3 9

S. E. C. Registration Number

T O P F R O N T I E R

I N V E S T M E N T

H O L D I N G S I N C .

(Company's Full Name)

5 th F l o o r , E N Z O B l d g .

S e n . G i l J . P u y a t

A v e n u e , M a k a t i C i t y

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

Virgilio S. Jacinto	632-3143
Contact Person	Company Telephone Number

1 2	3 1	Certification of Qualification of Independent Director (Justice Consuelo M. Ynares-Santiago)	0 7	0 9
Month	Day	FORM TYPE	Month	Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

- - - - - - - - - - - - - - - - - -

STAMPS

- - - - - - - - - - - - - - - - - -

Remarks = pls. Use black ink for scanning purposes

ICTD
JUL 09 2015
BY
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **CONSUELO YNARES-SANTIAGO**, Filipino, of legal age with address at No. 4 Queensville cor. Derby Streets, White Plains, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** (the "Corporation").

2. I am affiliated with the companies and organizations listed in Annex "A" hereof.

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Done this JUL 09 2015 at Mandaluyong City.

CONSUELO YNARES-SANTIAGO
Affiant

SUBSCRIBED AND SWORN to before me this JUL 09 2015 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Passport with No. EC2448352 issued on October 17, 2014 at DFA NCR East.

Doc. No.: 350;
Page No.: 71;
Book No.: VI
Series of 2015.

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

ANNEX "A"

AFFILIATIONS

Independent Director
Top Frontier Investment Holdings, Inc.
SMC Global Power Holdings Corp.
Anchor Insurance Brokerage Corporation
South Luzon Tollway Corporation
Phoenix Petroleum Phil. Inc.

Organizations
National Sandigan Foundation of the Philippines – Legal Consultant
Philippine Judicial Academy – Consultant
Tahanan Outreach Program Services (TOPS) – Member, Board of Directors
UP Women Lawyers' Circle (WILOCI)
Women Lawyers' Association of the Philippines
Federacion International de Abogadas
Apostleship of Prayer Association
Retired Justices Association of the Philippines

ANNEX "A-2"

COVER SHEET

CS200803939

S. E. C. Registration Number

TOP FRONTIER INVESTMENT HOLDINGS INC.

(Company's Full Name)

5th Floor, ENZO Bldg. Sen. Gil J. Puyat Avenue, Makati City

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

Virgilio S. Jacinto	632-3143
Contact Person	Company Telephone Number

12	31	Certification of Qualification of Independent Director (Justice Minita V. Chico-Nazario)	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

STAMPS

Remarks = pls. Use black ink for scanning purposes

ICTD
JUL 09 2015
BY:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MINITA V. CHICO-NAZARIO**, Filipino, of legal age with address at 299 Gov. A. Santos St., BF Homes, Parañaque City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** (the "Corporation").

2. I am affiliated with the companies and organizations listed in Annex "A" hereof.

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Done this JUL 09 2015 at Mandaluyong City.

Minita V. Chico-Nazario

MINITA V. CHICO-NAZARIO
Affiant

SUBSCRIBED AND SWORN to before me this JUL 09 2015 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Passport with No. EC3431310 issued on February 11, 2015 at DFA Manila.

Doc. No.: 357;
Page No.: 72;
Book No.: VI
Series of 2015.

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

ANNEX "A"

AFFILIATIONS

Independent Director
Top Frontier Investment Holdings, Inc.
San Miguel Properties, Inc.
Ginebra San Miguel Inc.
San Miguel Pure Foods Company, Inc.

Director
Banco San Juan

Legal Consultant
Union Bank of the Philippines

Dean
College of Law
The University of Perpetual Help, Las Piñas City

Member
Integrated Bar of the Philippines, Manila IV
Women Lawyers Association of the Philippines
U.P. Women's Club
U.P. Women Lawyers' Circle

ANNEX "B-1"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015, 2014 and 2013

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Top Frontier Investment Holdings, Inc. (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders of the Company.

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders has expressed its opinion on the fairness of presentation upon completion of such audits.

IÑIGO U. ZOBEL
Chairman of the Board

RAMON S. ANG
President and Chief Executive Officer

BELLA O. NAVARRA
Chief Finance Officer

Signed this 17th day of March 2016

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MANDALUYONG PASIG CITY) S.S.

BEFORE ME, a Notary Public for and in the City of ~~Mandaluyong~~ PASIG CITY, Philippines on this 22nd day of March 2016, personally appeared the following with his identification, to wit:

Name	Passport No.	Issue Date	Issued At
Iñigo Zobel	EC0686788	March 27, 2014	DFA NCR East

known to me to be the same person who executed the foregoing instrument and that he acknowledged to me that the same is his free and voluntary act and deed and that of the corporation he represents.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal on the date and place first above written.

Doc. No. 221;
Page No. 48;
Book No. IX;
Series of 2016.

MA. CELESTE J. LEGASPI
Notary Public for Pasig City
Commission until 31 December 20
22nd Floor, JMT Corporate Condomi
ADB Ave., Ortigas Center, Pasig
APPT No. 157 (2015-2016)/Roll No.
IBP No. 1017986; 1/5/2016;
PTR No. 1429354; 1/12/2016; Pasig City

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MANDALUYONG) S.S.

BEFORE ME, a Notary Public for and in the City of Mandaluyong, Philippines on this 13th day of April 2016, personally appeared the following with their respective identification, to wit:

Name	Passport No.	Issue Date	Issued At
Ramon S. Ang	EC3542718	February 27, 2015	DFA Manila
Bella O. Navarra	EB6339121	September 14, 2012	DFA NCR East

known to me to be the same persons who executed the foregoing instrument and that they acknowledged to me that the same is their free and voluntary act and deed and that of the corporation they represent.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal on the date and place first above written.

Doc. No. 302;
Page No. 62;
Book No. III;
Series of 2016.

PAULA KATHERINA A. GAN
Commission No. 0308-15
Notary Public for Mandaluyong City
Until Dec. 31, 2016
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 2599895; 01/04/16; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15; Q.C.

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail ph-inquiry@kpmg.com

Branches: Subic · Cebu · Bacolod · Iloilo

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Top Frontier Investment Holdings, Inc.
5th Floor, ENZO Building
399 Sen. Gil J. Puyat Avenue, Makati City

We have audited the accompanying consolidated financial statements of Top Frontier Investment Holdings, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information. The consolidated statement of income for the year ended December 31, 2013 consists of the financial performance of Top Frontier Investment Holdings, Inc. for twelve months and the financial performance of Clariden Holdings, Inc. and San Miguel Corporation for the period from August 30 and October 17, 2013, respectively, to December 31, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Top Frontier Investment Holdings, Inc. and Subsidiaries as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period December 31, 2015, in accordance with Philippine Financial Reporting Standards.

R.G. MANABAT & CO.

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-4, Group A, valid until August 24, 2018
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2013
Issued May 9, 2013; valid until May 8, 2016
PTR No. 5321509MD
Issued January 4, 2016 at Makati City

March 17, 2016
Makati City, Metro Manila

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015, 2014 AND 2013
(In Millions)

	Note	**2015**	2014 As restated	2013 As restated
ASSETS				
Current Assets				
Cash and cash equivalents	*5, 9, 41, 42*	**P181,134**	P258,763	P191,813
Trade and other receivables - net	*4, 5, 6, 10, 34, 36, 40, 41, 42*	**97,984**	126,658	160,781
Inventories	*4, 5, 11*	**64,148**	85,846	83,315
Current portion of biological assets - net	*5, 17*	**3,319**	3,320	3,427
Prepaid expenses and other current assets	*4, 5, 12, 14, 35, 41, 42*	**73,826**	53,025	38,618
		420,411	527,612	477,954
Assets held for sale	*8, 13*	**-**	554	13
Total Current Assets		**420,411**	528,166	477,967
Noncurrent Assets				
Investments and advances - net	*4, 5, 13*	**27,154**	46,870	69,275
Available-for-sale financial assets	*4, 5, 14, 41, 42*	**5,948**	5,717	6,168
Property, plant and equipment - net	*4, 5, 15, 35*	**561,107**	521,648	495,988
Investment property - net	*4, 5, 16*	**6,810**	5,796	6,418
Biological assets - net of current portion	*4, 5, 17*	**2,177**	1,973	1,911
Goodwill	*4, 5, 18, 39*	**49,230**	30,626	30,619
Other intangible assets - net	*4, 5, 18, 39*	**246,999**	152,144	143,242
Deferred tax assets	*4, 5, 24*	**17,007**	14,982	15,793
Other noncurrent assets - net	*4, 5, 19, 34, 35, 36, 40, 41, 42*	**32,822**	34,095	49,173
Total Noncurrent Assets		**949,254**	813,851	818,587
		P1,369,665	P1,342,017	P1,296,554

	Note	**2015**	2014 As restated	2013 As restated
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable	*5, 20, 31, 34, 41, 42*	**P148,026**	P180,712	P143,740
Accounts payable and accrued expenses	*4, 5, 21, 34, 35, 36, 41, 42*	**114,297**	132,482	127,838
Finance lease liabilities - current portion	*4, 5, 31, 35, 41, 42*	**16,339**	15,642	13,248
Income and other taxes payable	*5*	**13,992**	13,382	13,131
Dividends payable	*5*	**1,446**	2,584	2,994
Current maturities of long-term debt - net of debt issue costs	*5, 22, 31, 34, 41, 42*	**69,394**	25,153	72,150
Total Current Liabilities		**363,494**	369,955	373,101

Forward

	Note	2015	2014 As restated	2013 As restated
Noncurrent Liabilities				
Long-term debt - net of current maturities and debt issue costs	*5, 22, 31, 34, 41, 42*	**P332,436**	P310,297	P268,842
Deferred tax liabilities	*5, 24*	**56,785**	48,748	50,996
Finance lease liabilities - net of current portion	*4, 5, 31, 35, 41, 42*	**183,195**	194,450	209,335
Other noncurrent liabilities	*4, 5, 23, 34, 35, 36, 41, 42*	**45,167**	24,089	25,506
Total Noncurrent Liabilities		**617,583**	577,584	554,679
Equity	*25, 37, 38*			
Equity Attributable to Equity Holders of the Parent Company				
Capital stock - common		**490**	490	490
Capital stock - preferred		**260**	260	260
Additional paid-in capital		**120,501**	120,501	120,501
Reserve for retirement plan		**(2,271)**	(714)	921
Equity reserve	*6*	**(1,184)**	(152)	(228)
Cumulative translation adjustments		**(261)**	424	116
Retained earnings:				
Appropriated		**13,874**	15,964	276
Unappropriated		**36,759**	34,497	46,533
Treasury stock		**(76,780)**	(76,780)	(76,780)
		91,388	94,490	92,089
Non-controlling Interests	*2, 5, 6*	**297,200**	299,988	276,685
Total Equity		**388,588**	394,478	368,774
		P1,369,665	P1,342,017	P1,296,554

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(In Millions, Except Per Share Data)

	Note	**2015**	2014 As restated	2013* As restated
SALES	*7, 26, 34*	**P673,913**	P773,710	P204,720
COST OF SALES	*27*	**534,845**	662,834	173,517
GROSS PROFIT		**139,068**	110,876	31,203
SELLING AND ADMINISTRATIVE EXPENSES	*28*	**(63,468)**	(58,142)	(22,695)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*12, 20, 22, 31, 34, 35*	**(31,102)**	(27,097)	(7,934)
INTEREST INCOME	*32*	**4,319**	4,016	894
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	*13*	**(386)**	1,701	423
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*8, 13, 15, 16, 18, 19*	**(81)**	610	30,756
OTHER INCOME (CHARGES) - Net	*5, 13, 14, 22, 33, 41, 42*	**(6,423)**	6,170	(5,072)
INCOME BEFORE INCOME TAX		**41,927**	38,134	27,575
INCOME TAX EXPENSE	*24, 43*	**17,250**	11,152	2,169
NET INCOME		**P24,677**	P26,982	P25,406
Attributable to:				
Equity holders of the Parent Company		**P172**	P3,652	P11,578
Non-controlling interests	*6*	**24,505**	23,330	13,828
		P24,677	P26,982	P25,406
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*38*	**P0.52**	P11.06	P23.12

*The consolidated statement of income for the year ended December 31, 2013 consists of the financial performance of Top Frontier Investment Holdings, Inc. for twelve months and the consolidated financial performance of Clariden Holdings, Inc. and San Miguel Corporation for the period from August 30 and October 17, 2013, respectively, to December 31, 2013.

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(In Millions)

	Note	**2015**	2014 As restated	2013* As restated
NET INCOME		**P24,677**	P26,982	P25,406
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*36*	**(4,529)**	(4,108)	1,648
Income tax benefit (expense)		**1,320**	1,233	(380)
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	**(121)**	552	(586)
		(3,330)	(2,323)	682
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		**(3,335)**	368	(755)
Net gain (loss) on available-for-sale financial assets	*14*	**944**	(777)	(12,008)
Income tax benefit (expense)		**(95)**	4	60
		(2,486)	(405)	(12,703)
OTHER COMPREHENSIVE LOSS - Net of tax		**(5,816)**	(2,728)	(12,021)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P18,861**	P24,254	P13,385
Attributable to:				
Equity holders of the Parent Company		**(P2,070)**	P2,325	(P1,112)
Non-controlling interests	*6*	**20,931**	21,929	14,497
		P18,861	P24,254	P13,385

*The consolidated statement of comprehensive income for the year ended December 31, 2013 consists of the comprehensive income of Top Frontier Investment Holdings, Inc. for twelve months and the consolidated comprehensive income of Clariden Holdings, Inc. and San Miguel Corporation for the period from August 30 and October 17, 2013, respectively, to December 31, 2013.

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company													
							Cumulative Translation Adjustments		Retained Earnings						
		Capital Stock		Additional Paid-in	Reserve for Retirement	Equity	Translation	Fair Value	Appro-	Unappro-	Treasury Stock			Non-controlling	Total
	Note	**Common**	**Preferred**	**Capital**	**Plan**	**Reserve**	**Reserve**	**Reserve**	**priated**	**priated**	**Common**	**Preferred**	**Total**	**Interests**	**Equity**
As of January 1, 2015, As previously reported		**P490**	**P260**	**P120,501**	**(P703)**	**(P152)**	**(P345)**	**P626**	**P15,964**	**P33,937**	**(P28,457)**	**(P48,323)**	**P93,798**	**P299,839**	**P393,637**
Adjustments due to reclassification of an asset held for sale to investment in an associate	*13*	**-**	**-**	**-**	**(11)**	**-**	**(7)**	**150**	**-**	**560**	**-**	**-**	**692**	**149**	**841**
As of January 1, 2015, As restated		**490**	**260**	**120,501**	**(714)**	**(152)**	**(352)**	**776**	**15,964**	**34,497**	**(28,457)**	**(48,323)**	**94,490**	**299,988**	**394,478**
Loss on exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**(1,165)**	**-**	**-**	**-**	**-**	**-**	**(1,165)**	**(2,170)**	**(3,335)**
Share in other comprehensive loss of associates and joint ventures - net	*13*	**-**	**-**	**-**	**(40)**	**-**	**-**	**(30)**	**-**	**-**	**-**	**-**	**(70)**	**(51)**	**(121)**
Net gain on available-for-sale financial assets	*14*	**-**	**-**	**-**	**-**	**-**	**-**	**510**	**-**	**-**	**-**	**-**	**510**	**339**	**849**
Equity reserve for retirement plan	*36*	**-**	**-**	**-**	**(1,517)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,517)**	**(1,692)**	**(3,209)**
Other comprehensive income (loss)		**-**	**-**	**-**	**(1,557)**	**-**	**(1,165)**	**480**	**-**	**-**	**-**	**-**	**(2,242)**	**(3,574)**	**(5,816)**
Net income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**172**	**-**	**-**	**172**	**24,505**	**24,677**
Total comprehensive income (loss)		**-**	**-**	**-**	**(1,557)**	**-**	**(1,165)**	**480**	**-**	**172**	**-**	**-**	**(2,070)**	**20,931**	**18,861**
Net reduction to non-controlling interests and others	*5 ,6, 13*	**-**	**-**	**-**	**-**	**(1,032)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,032)**	**(3,413)**	**(4,445)**
Reversal of appropriations - net	*25*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,090)**	**2,090**	**-**	**-**	**-**	**-**	**-**
Cash dividends and distributions:	*37*														
Common		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,671)**	**(8,671)**
Preferred		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,577)**	**(6,577)**
Undated subordinated capital securities		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,058)**	**(5,058)**
As of December 31, 2015	*25*	**P490**	**P260**	**P120,501**	**(P2,271)**	**(P1,184)**	**(P1,517)**	**P1,256**	**P13,874**	**P36,759**	**(P28,457)**	**(48,323)**	**P91,388**	**P297,200**	**P388,588**

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company												Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Equity Reserve	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock		Total		
		Common	Preferred				Translation Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Common	Preferred			
As of January 1, 2014, As previously reported		P490	P260	P120,501	P913	(P228)	(P1,121)	P1,362	P276	P46,267	(P28,457)	(P48,323)	P91,940	P276,816	P368,756
Adjustments due to reclassification of an asset held for sale to investment in an associate	*13*	-	-	-	8	-	(4)	(121)	-	266	-	-	149	(131)	18
As of January 1, 2014, As restated		490	260	120,501	921	(228)	(1,125)	1,241	276	46,533	(28,457)	(48,323)	92,089	276,685	368,774
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	-	776	-	-	-	-	-	776	(408)	368
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	-	-	-	(19)	-	(3)	391	-	-	-	-	369	183	552
Net gain (loss) on available-for-sale financial assets	*14*	-	-	-	-	-	-	(856)	-	-	-	-	(856)	83	(773)
Equity reserve for retirement plan	*36*	-	-	-	(1,616)	-	-	-	-	-	-	-	(1,616)	(1,259)	(2,875)
Other comprehensive income (loss)		-	-	-	(1,635)	-	773	(465)	-	-	-	-	(1,327)	(1,401)	(2,728)
Net income		-	-	-	-	-	-	-	-	3,652	-	-	3,652	23,330	26,982
Total comprehensive income (loss)		-	-	-	(1,635)	-	773	(465)	-	3,652	-	-	2,325	21,929	24,254
Net addition to non-controlling interests and others	*5 ,6, 13*	-	-	-	-	76	-	-	-	-	-	-	76	23,034	23,110
Appropriations	*25*	-	-	-	-	-	-	-	15,688	(15,688)	-	-	-	-	-
Cash dividends and distributions:	*37*														
Common		-	-	-	-	-	-	-	-	-	-	-	-	(8,937)	(8,937)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	(8,420)	(8,420)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(4,303)	(4,303)
As of December 31, 2014	*25*	P490	P260	P120,501	(P714)	(P152)	(P352)	P776	P15,964	P34,497	(P28,457)	(P48,323)	P94,490	P299,988	P394,478

Forward

		Equity Attributable to Equity Holders of the Parent Company													
		Capital Stock		Additional Paid-in	Reserve for Retirement	Equity	Cumulative Translation Adjustments		Retained Earnings		Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Plan	Reserve	Translation Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Equity
As of January 1, 2013		P490	P260	P92,500	P -	P -	P -	P13,727	P -	P35,497	P -	(P12,899)	P129,575	P -	P129,575
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	-	(1,121)	-	-	-	-	-	(1,121)	366	(755)
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	-	-	-	8	-	(4)	(531)	-	-	-	-	(527)	(59)	(586)
Net gain (loss) on available-for-sale financial assets	*14*	-	-	-	-	-	-	(11,955)	-	-	-	-	(11,955)	7	(11,948)
Equity reserve for retirement plan	*36*	-	-	-	913	-	-	-	-	-	-	-	913	355	1,268
Other comprehensive income (loss)		-	-	-	921	-	(1,125)	(12,486)	-	-	-	-	(12,690)	669	(12,021)
Net income		-	-	-	-	-	-	-	-	11,578	-	-	11,578	13,828	25,406
Total comprehensive income (loss)		-	-	-	921	-	(1,125)	(12,486)	-	11,578	-	-	(1,112)	14,497	13,385
Receipt of own shares as property dividends	*5, 25*	-	-	28,001	-	-	-	-	-	-	(28,001)	-	-	-	-
Own shares held by a subsidiary	*25*	-	-	-	-	-	-	-	-	-	(456)	(35,424)	(35,880)	-	(35,880)
Net addition to non-controlling interests and others	*5, 6, 13*	-	-	-	-	(228)	-	-	-	-	-	-	(228)	267,112	266,884
Appropriations - net	*25*	-	-	-	-	-	-	-	276	(276)	-	-	-	-	-
Cash dividends:	*37*														
Common		-	-	-	-	-	-	-	-	-	-	-	-	(1,570)	(1,570)
Preferred		-	-	-	-	-	-	-	-	(266)	-	-	(266)	(3,354)	(3,620)
As of December 31, 2013*	*25*	P490	P260	P120,501	P921	(P228)	(P1,125)	P1,241	P276	P46,533	(P28,457)	(P48,323)	P92,089	P276,685	P368,774

*The consolidated statement of changes in equity for the year ended December 31, 2013 consists of the changes in equity of Top Frontier Investment Holdings, Inc. for twelve months and the consolidated changes in equity of Clariden Holdings, Inc. and San Miguel Corporation for the period from August 30 and October 17, 2013, respectively, to December 31, 2013.

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Millions)

	Note	**2015**	2014 As restated	2013* As restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P41,927**	P38,134	P27,575
Adjustments for:				
Depreciation, amortization and others - net	*7, 29*	**41,885**	28,014	17,754
Interest expense and other financing charges	*31*	**31,102**	27,097	7,934
Interest income	*32*	**(4,319)**	(4,016)	(894)
Equity in net losses (earnings) of associates and joint ventures	*13*	**386**	(1,701)	(423)
Loss (gain) on sale of investments and property and equipment	*13, 15*	**81**	(610)	(30,756)
Operating income before working capital changes		**111,062**	86,918	21,190
Changes in noncash current assets, certain current liabilities and others	*39*	**(5,221)**	(15,226)	17,915
Cash generated from operations		**105,841**	71,692	39,105
Interest and other financing charges paid		**(26,963)**	(22,489)	(10,181)
Income taxes paid		**(14,526)**	(12,152)	(1,408)
Net cash flows provided by operating activities		**64,352**	37,051	27,516
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	*39*	**(7,633)**	(243)	-
Cash and cash equivalents acquired from business combination, net of cash paid	*39*	**14,415**	-	177,574
Additions to investments and advances and available-for-sale financial assets	*13, 14*	**(3,549)**	(6,313)	(16,773)
Additions to property, plant and equipment	*7, 15*	**(60,094)**	(38,989)	(13,857)
Increase in other noncurrent assets and others		**(8,610)**	(7,822)	(3,348)
Proceeds from sale of investments and property and equipment	*6, 8, 13, 14, 15, 16, 19*	**2,607**	66,945	41,572
Interest received		**4,140**	3,486	727
Dividends received from associates and available-for-sale financial assets	*13, 14*	**96**	102	1,791
Net cash flows provided by (used in) investing activities		**(58,628)**	17,166	187,686

Forward

	Note	2015	2014 As restated	2013* As restated
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P763,119**	P831,178	P190,184
Long-term borrowings		**77,070**	77,085	8,463
Payments of:				
Short-term borrowings		**(796,741)**	(793,213)	(203,857)
Long-term borrowings		**(73,092)**	(83,467)	(9,572)
Proceeds from reissuance of treasury shares of a subsidiary	*6*	**54,201**	-	-
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	*6*	**28,708**	23,008	-
Redemption of preferred shares of subsidiaries	*6*	**(94,718)**	-	-
Payments of finance lease liabilities		**(22,296)**	(20,152)	(4,897)
Cash dividends paid	*37*	**-**	-	(266)
Cash dividends and distributions paid to non-controlling shareholders		**(21,446)**	(22,071)	(4,044)
Increase (decrease) in non-controlling interests		**(342)**	212	(608)
Net cash flows provided by (used in) financing activities		**(85,537)**	12,580	(24,597)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**2,184**	153	1,005
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(77,629)**	66,950	191,610
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**258,763**	191,813	203
CASH AND CASH EQUIVALENTS AT END OF YEAR	*9*	**P181,134**	P258,763	P191,813

*The consolidated statement of cash flows for the year ended December 31, 2013 consists of the cash flows of Top Frontier Investment Holdings, Inc. for twelve months and the consolidated cash flows of Clariden Holdings, Inc. and San Miguel Corporation for the period from August 30 and October 17, 2013, respectively, to December 31, 2013.

See Notes to the Consolidated Financial Statements.

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

1. Reporting Entity

Top Frontier Investment Holdings, Inc. (Top Frontier or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 11, 2008. On December 18, 2013, The Philippine Stock Exchange, Inc. (PSE) approved the application for the listing by way of introduction of all the common shares of Top Frontier. The shares were listed on the PSE on January 13, 2014.

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the "Group") and the Group's interests in associates and joint ventures.

The Group is engaged in various businesses, including beverage, food and packaging, energy, mining, fuel and oil, infrastructure, telecommunications and real estate property management and development.

The registered office address of the Parent Company is 5th Floor, ENZO Building, 399 Sen. Gil J. Puyat Avenue, Makati City, Philippines.

2. Basis of Preparation

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 17, 2016.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting except for the following items which are measured on an alternative basis at each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Available-for-sale (AFS) financial assets	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of Incorporation
	2015		2014		
San Miguel Corporation and subsidiaries [(a)]**, namely:**	**66.14**		66.15		Philippines
Beverage Business:					
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) and subsidiary, San Miguel Brewing International Ltd. and subsidiaries {including San Miguel Brewery Hong Kong Limited and subsidiaries, PT Delta Djakarta Tbk [(b)] and subsidiary, San Miguel (Baoding) Brewery Company Limited (SMBB) [(b)], San Miguel Brewery Vietnam Limited [(b)], San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited}]		**51.17**	-	51.17	Philippines
Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc. (EPSBPI), Ginebra San Miguel International, Ltd. (GSMIL), GSM International Holdings Limited (GSMIHL), Global Beverage Holdings Ltd. and Siam Holdings Ltd. (SHL)]	**-**	**78.27**	-	78.27	Philippines

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of Incorporation
	2015		2014		
Food Business:					
San Miguel Pure Foods Company Inc. (SMPFC) [(b)] and subsidiaries [including San Miguel Foods, Inc. (SMFI), San Miguel Mills, Inc. and subsidiaries {including Golden Avenue Corp. and Golden Bay Grain Terminal Corporation (GBGTC)}, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries {including Golden Food & Dairy Creamery Corporation and Sugarland Corporation}, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited (SMPFIL) and subsidiaries {including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Pure Foods (VN) Co., Ltd., formerly San Miguel Hormel (VN) Co. Ltd. (SMHVN)}] [(b)]	-	**85.37**	-	85.37	Philippines
Packaging Business:					
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries, SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (CAI)	-	**65.00**	-	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited [(b)], Zhaoqing San Miguel Yamamura Glass Co. Ltd., Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty. Ltd. (SMYA) [(b)] and subsidiaries and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary]	-	**65.00**	-	65.00	British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc.	-	**100.00**	-	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	-	**60.00**	-	60.00	Philippines
Energy Business:					
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI) and subsidiary, SMC Power Generation Corp., PowerOne Ventures Energy Inc. (PVEI), Albay Power and Energy Corp. (APEC), SMC Consolidated Power Corporation (SCPC) and San Miguel Consolidated Power Corporation (SMCPC)]	-	**100.00**	-	100.00	Philippines

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of Incorporation
	2015		2014		
Fuel and Oil Business:					
SEA Refinery Corporation and subsidiary, Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation , Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation Ltd. (Ovincor) [(b)], Limay Energen Corporation, New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Singapore Trading Pte., Ltd. (PSTPL), Petron Global Limited (PGL), Petron Oil & Gas International Sdn. Bhd. including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Berhad (PMRMB) (collectively Petron Malaysia) [(b)], Petron Finance (Labuan) Limited, and Petrochemical Asia (HK) Limited (PAHL) and subsidiaries]	**-**	**100.00**	-	100.00	Philippines
Infrastructure Business:					
San Miguel Holdings Corp. (SMHC) [(b)] and subsidiaries [including Rapid Thoroughfares Inc. (Rapid) [(b)] and subsidiary, Private Infra Dev Corporation (PIDC) [(b)], Trans Aire Development Holdings Corp. (TADHC) [(b)], Optimal Infrastructure Development, Inc. (Optimal) [(b)], Vertex Tollways Devt. Inc. (Vertex) [(b)], Universal LRT Corporation (BVI) Limited (ULC) [(b)], Terramino Holdings, Inc. (THI) [(b)] and subsidiary, Alloy Manila Toll Expressways Inc. (AMTEX) [(b)], Manila North Harbour Port, Inc. (MNHPI) [(c)] and Sleep International (Netherlands) Cooperatief U.A. (Sleep) [(b)] and Wiselink Investment Holdings, Inc. (Wiselink) [(b)] {collectively own Cypress Tree Capital Investments, Inc. (Cypress) including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (collectively the Cypress Group)}[(b)], Atlantic Aurum Investments B.V. (AAIBV) [(b)] and subsidiaries {including Stage 3 Connector Tollways Holdings Corporation (S3CTH) and subsidiary, Citra Central Expressway Corp. (CCEC), Atlantic Aurum Investments Philippines Corporation (AAIPC) and subsidiary, Citra Metro Manila Tollways Corporation (CMMTC) and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. (MTDME) and subsidiaries, Manila Toll Expressway Systems Inc. (MATES) and South Luzon Tollway Corporation (SLTC)} [(b)(d)]]	**-**	**100.00**	-	100.00	Philippines

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of
	2015		2014		Incorporation
Telecommunications Business:					
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc. (TCCI), Perchpoint Holdings Corp. (PHC), Power Smart Capital Ltd. (PSCL) *(b)* {collectively own Bell Telecommunication Philippines, Inc. (BellTel) and subsidiaries}, Trans Digital Excel Inc. (TDEI) and subsidiary, CobaltPoint Telecom, Inc. (CTI), formerly, Express Telecommunications Company, Inc.*(e)*, A.G.N. Philippines, Inc. and San Miguel Equity Securities Inc. {collectively own Eastern Telecommunications Philippines, Inc. (ETPI) and subsidiary, Telecommunications Technologies Phils., Inc. (TTPI)}, Liberty Telecoms Holdings, Inc. (LTHI) and subsidiaries,wi-tribe Telecoms, Inc. (wi-tribe) and Skyphone Logistics, Inc. *(f)*]	**-**	**100.00**	-	100.00	Philippines
Real Estate Business:					
San Miguel Properties, Inc. (SMPI) *(b)* and subsidiaries [including Excel Unified Land Resources Corporation, SMPI Makati Flagship Realty Corp. (SMPI Flagship), Bright Ventures Realty, Inc. and Carnell Realty, Inc.] *(b)*	**-**	**99.70**	-	99.70	Philippines
Others:					
San Miguel Foods and Beverage International Limited *(b)* and subsidiaries [including PT San Miguel Indonesia Foods & Beverages and San Miguel (Guangdong) Foods & Beverages Co. Ltd. (SMGFB)] *(b)*	**-**	**100.00**	-	100.00	BVI
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries [including SL Harbour Bulk Terminal Corporation, MG8 Terminal Inc., SMC Cebu Shipyard Land, Inc. and Mactan Shipyard Corporation]	-	**70.00**	-	70.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	**-**	**58.33**	-	58.33	Philippines
SMC Stock Transfer Service Corporation	**-**	**100.00**	-	100.00	Philippines
ArchEn Technologies Inc.	**-**	**100.00**	-	100.00	Philippines
SMITS, Inc. and subsidiaries *(b)*	**-**	**100.00**	-	100.00	Philippines
San Miguel Equity Investments Inc. (SMEII) and subsidiaries [including South Western Cement Corporation (SWCC) *(g)*]	**-**	**100.00**	-	100.00	Philippines

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of
	2015		2014		Incorporation
Clariden Holdings, Inc. (Clariden) and subsidiaries [(h)], namely:	**100.00**	-	100.00	-	Philippines
Mining Business: V.I.L. Mines, Incorporated, Asia-Alliance Mining Resources Corp., Prima Lumina Gold Mining Corp., Excelon Asia Holding Corporation, New Manila Properties, Inc. and Philnico Holdings Limited [(b)] and subsidiaries [including Pacific Nickel Philippines, Inc. (PNPI), Philnico Industrial Corporation (PIC) and Philnico Processing Corp. (PPC) (collectively the Philnico Group)]					

(a) Consolidated effective October 17, 2013 (Note 5).
(b) The financial statements of these subsidiaries were audited by other auditors.
(c) Consolidated to SMHC effective December 9, 2015 (Note 5).
(d) Consolidated to SMHC effective March 5, 2015 (Note 5).
(e) Consolidated to Vega effective December 4, 2015 (Note 5).
(f) Consolidated to Vega effective September 2, 2015 (Note 5).
(g) Acquired by SMEII from Clariden on October 15, 2014 (Note 6).
(h) Consolidated effective August 30, 2013 (Note 5).

A subsidiary is an entity controlled by the Group. The Group controls an entity if, and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in SMC and subsidiaries, namely: SMB, GSMI, SMPFC, SMYPC, SMYPIL, SMYAC, Petron, TADHC, ULC, ETPI, SMPI, AIBC, SMCSLC, PIDC and AMTEX in 2015 and 2014; AAIBV, MNHPI, LTHI and CTI in 2015; and Sleep, Cypress and Wiselink in 2014 (Notes 5 and 6).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards and Interpretation Adopted in 2015

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

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

    - Meaning of 'Vesting Condition' *(Amendment to PFRS 2, Share-based Payment)*. PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition. The adoption of the amendment did not have an effect on the consolidated financial statements.

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

- Disclosures on the Aggregation of Operating Segments *(Amendments to PFRS 8, Operating Segments)*. PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The adoption of the amendments did not have an effect on the consolidated financial statements.

- Scope of Portfolio Exception *(Amendment to PFRS 13, Fair Value Measurement)*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9, *Financial Instruments,* regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments: Presentation* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The adoption of the amendment did not have an effect on the consolidated financial statements.

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

- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40)*. PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Classification and Measurement of Contingent Consideration *(Amendments to PFRS 3)*. The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, rather than to any other PFRS. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in the consolidated statements of income. Consequential amendments are also made to PAS 39 and PFRS 9 to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is amended to exclude provisions related to contingent consideration. The adoption of the amendments did not have an effect on the consolidated financial statements.

Additional disclosures required by the amended standards were included in the consolidated financial statements, where applicable.

New and Amended Standards and Interpretation Not Yet Adopted

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

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

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

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

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

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

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

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

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

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- IFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

The Group's derivative assets and financial assets at FVPL are classified under this category (Notes 12, 41 and 42).

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

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

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

The Group's cash and cash equivalents, trade and other receivables, option deposit, noncurrent receivables and deposits, and restricted cash are included under this category (Notes 9, 10, 12, 19, 41 and 42).

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

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

The Group's investments in equity and debt securities are classified under this category (Notes 12, 14, 41 and 42).

Financial Liabilities

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

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

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

The Group's derivative liabilities are classified under this category (Notes 21, 41 and 42).

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

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities are included under this category (Notes 20, 21, 22, 23, 35, 41 and 42).

<u>Derivative Financial Instruments and Hedging</u>
Freestanding Derivatives
For the purpose of hedge accounting, hedges are classified as either:

(a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);

(b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or

(c) hedges of a net investment in foreign operations.

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

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

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

The Group discontinues fair value hedge accounting if:

(a) the hedging instrument expires, is sold, is terminated or is exercised;

(b) the hedge no longer meets the criteria for hedge accounting; or

(c) the Group revokes the designation.

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

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

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

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

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

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

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

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of income.

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

The Group has not bifurcated any embedded derivatives as of December 31, 2015 and 2014.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of changes in equity, is transferred to the consolidated statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial asset. Such impairment loss shall not be reversed.

Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Costs

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

Offsetting Financial Instruments

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

Inventories

Finished goods, goods in process, materials and supplies, raw land inventory and real estate projects are valued at the lower of cost and net realizable value (NRV).

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Finished goods and goods in process	-	at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Petroleum products (except lubes and greases, waxes and solvents), crude oil, and other products	-	at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the first-in, first-out method.
Lubes and greases, waxes and solvents	-	at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the moving-average method.
Raw land inventory	-	at cost, which includes acquisition costs of raw land intended for sale or development and other costs and expenses incurred to effect the transfer of title of the property; costs are determined using the specific identification of individual costs.
Real estate projects	-	at cost, which includes acquisition costs of property and other costs and expenses incurred to develop the property; costs are determined using the specific identification of individual costs.
Materials, supplies and others	-	at cost, using the moving-average method.
Coal	-	at cost, using the first-in, first-out method.

Finished Goods. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Goods in Process. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Petroleum Products, Crude Oil, and Tires, Batteries and Accessories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

Materials and Supplies, including Coal. Net realizable value is the current replacement cost.

Containers (i.e., Returnable Bottles and Shells). These are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented as "Deferred containers" under "Other noncurrent assets" account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

Real Estate Projects. Net realizable value is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Raw Land Inventory. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Biological Assets and Agricultural Produce
The Group's biological assets include breeding stocks, growing hogs, cattle and poultry livestock and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group, in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using the straight-line method over the following estimated productive lives of breeding stocks:

	Amortization Period
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Business Combination
Business combinations are accounted for using the acquisition method as at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

▪ *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8.

  Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

<u>Transactions under Common Control</u>
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

<u>Non-controlling Interests</u>
The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

<u>Investments in Shares of Stock of Associates and Joint Ventures</u>
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group’s investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Equity in net earnings (losses) of associates and joint ventures" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income (loss) of associates and joint ventures" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture. Such impairment loss is recognized as part of "Equity in net earnings (losses) of associates and joint ventures" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in shares of stock of an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	10 - 43
Refinery and plant equipment	5 - 33
Service stations and other equipment	3 - 33
Equipment, furniture and fixtures	2 - 40
Leasehold improvements	5 - 50 or term of the lease, whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the period of retirement and disposal.

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Machinery and equipment	3 - 40

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in the consolidated statements of income in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Toll road concession rights	25 - 35 or unit of usage
Leasehold and land use rights	20 - 50 or term of the lease, whichever is shorter
Mineral rights and evaluation assets	19 - 30
Airport concession right	25
Power concession right	25
Port concession right	25
Computer software and licenses	2 - 10

The Group assessed the useful lives of licenses and trademarks and brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

Service Concession Arrangements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12*, Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (a) infrastructure that the entities in the Group construct or acquire from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entities in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11 and PAS 18 for the services it performs. If an entity performs more than one service under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (a) to maintain the infrastructure to a specified level of serviceability; or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Intangible Asset - Airport Concession Right. The Group's airport concession right pertains to the right granted by the Republic of the Philippines (ROP) to TADHC: (a) to operate the Caticlan Airport (the Airport Project or the Boracay Airport); (b) to design and finance the Airport Project; and (c) to operate and maintain the Boracay Airport during the concession period. This also includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the ROP over the concession period of 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by the Group as the project progresses (Note 4).

The airport concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The airport concession right is amortized using the straight-line method over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

The airport concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the airport concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Intangible Assets - Toll Road Concession Rights. The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects:

- South Luzon Expressway (SLEX);
- Ninoy Aquino International Airport (NAIA) Expressway Project (NAIA Expressway Project);
- Metro Manila Skyway (Skyway);
- Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) Project (TPLEX Project); and
- Stage 1 and Stage 2 Phase I of the Southern Tagalog Arterial Road (STAR).

In exchange for the fulfillment of the Group's obligations under the Concession Agreement, the Group is given the right to operate the toll road facilities over the concession period. Toll road concession rights are recognized initially at the fair value of the construction services. Following initial recognition, the toll road concession rights are carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures or replacement of part of it are normally charged to profit or loss as these are incurred to maintain the expected future economic benefits embodied in the toll road concession rights. Expenditures that will contribute to the increase in revenue from toll operations are recognized as an intangible asset.

The toll road concession rights are amortized using the straight-line method over the term of the Concession Agreement. The toll road concession rights are assessed for impairment whenever there is an indication that the toll road concession rights may be impaired.

The amortization period and method are reviewed at least at each reporting date. Changes in the terms of the Concession Agreement or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

The toll road concession rights will be derecognized upon turnover to the ROP. There will be no gain or loss upon derecognition of the toll road concession rights as these are expected to be fully amortized upon turnover to the ROP.

Intangible Asset - Power Concession Right. The Group's power concession right pertains to the right granted by the ROP to SMC Global to operate the Albay Electric Cooperative (ALECO). The power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The power concession right is amortized using the straight-line method over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Intangible Asset - Port Concession Right. The Group's port concession right pertains to the right granted by the ROP to MNHPI to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. Port concession right is recognized initially at cost. Following initial recognition, the port concession right is carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures related to port facility arising from the concession contracts or that increase future revenues are recognized as additions to the intangible asset and are stated at cost.

The port concession right is amortized using the straight-line method over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

The port concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the port concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Intangible Asset - Mineral Rights and Evaluation Assets. The Group's mineral rights and evaluation assets have finite lives and are carried at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mineral rights and evaluation assets is recognized in the consolidated statements of income on a straight-line basis over the estimated useful lives. The estimated useful lives of mineral rights and evaluation assets pertain to the period from commercial operations to the end of the operating contract. Amortization method and useful lives are reviewed at each reporting date and adjusted as appropriate.

Gain or loss from derecognition of mineral rights and evaluation assets is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs
Deferred exploration and development costs comprise expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mineral rights and evaluation assets, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets
The carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cylinder Deposits

The Group purchased liquefied petroleum gas cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in the consolidated statements of income.

Fair Value Measurements

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

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

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

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

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

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

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

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

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Capital Stock and Additional Paid-in Capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Parent Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statements of income as accrued.

Additional Paid-in Capital
When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Shares
Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Revenue from Sale of Goods
Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery, and the amount of revenue can be measured reliably.

Revenue from Power Generation and Trading
Revenue from power generation and trading is recognized in the period when actual capacity is generated and/or transmitted to the customers, net of related discounts.

Revenue from Toll Operations
Revenue from toll operations is recognized upon the use of the toll road and the toll is paid by way of cash or charges against an E-Pass or RFID account.

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue from Airport Operations
Landing, take-off and parking fees are recognized upon rendering of the service which is the period from landing to take-off of aircrafts.

Terminal fees are recognized upon receipt of fees charged to passengers on departure.

Construction revenue related to the Group's recognition of intangible asset on the right to operate the Boracay Airport, which is the consideration receivable from the ROP relative to the Airport Project, is earned and recognized as the Airport Project progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate the Boracay Airport.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the Airport Project up to the end of the reporting period as a percentage of total estimated cost of the Airport Project.

Revenue from Agricultural Produce
Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

Revenue from Shipping and Port Operations
Revenue from terminal fees is recognized based on the quantity of items declared by vessels entering the port multiplied by a predetermined rate.

Revenue from freight services is recognized upon completion of every voyage contracted with customers during the period multiplied by a predetermined rate.

Revenue from port services is recognized based on the actual quantity of items handled during the period multiplied by a predetermined rate.

Revenue from Sale of Real Estate
Revenue from sale of real estate projects is recognized under the full accrual method. Under this method, revenue and cost is recognized in full when 10% or more of the contract price is received and development of the real estate property (i.e., lot or house and lot) has reached 100% completion at which point the buyer may already occupy and use the property.

Payments received from buyers which do not meet the revenue recognition criteria are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Revenue and cost relative to forfeited or back-out sales are reversed in the current year as they occur.

Revenue from Sale of Raw Land
Revenue from sale of undeveloped land or raw land is recognized under the full accrual method. Under this method, the Group recognizes in full the revenue and cost from sale of undeveloped land when 10% or more of the contract price is received.

Payments received from buyers which do not meet the revenue recognition criteria are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Revenue from Telecommunications Services
Revenue from telecommunications services is recognized when earned and includes the value of all services provided, net of the share of other telecommunications administrations, if any, under existing correspondence and interconnection agreements.

Inbound revenue represents settlements from telecommunications providers who sent traffic to the Group's network. Inbound revenue is based on agreed payment accounting rates with other carriers. Interconnection charges are based on the rates agreed with other carriers.

Both the inbound revenue and interconnection charges are accrued based on actual volume of traffic. Adjustments are made on the recorded amount for discrepancies between the traffic volume based on the Group's records and the records of the other carriers. These adjustments are recognized as they are determined and agreed with the other carriers.

Installation fees received from landline subscribers are also credited to operating revenues. The related labor costs on installation are recognized in the consolidated statements of income.

Others
Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend income is recognized when the Group's right to receive the payment is established.

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Revenue from customer loyalty programme is allocated between the customer loyalty programme and the other component of the sale. The amount allocated to the customer loyalty programme is deferred, and is recognized as revenue when the Group has fulfilled its obligations to supply the discounted products under the terms of the programme or when it is no longer probable that the points under the programme will be redeemed.

Gain or loss on sale of investments in shares of stock is recognized when the Group disposes of its investment in shares of stock of a subsidiary, associate and joint venture, AFS financial assets and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Cost and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Share-based Payment Transactions
Under SMC's Long-term Incentive Plan for Stock Options (LTIP) and Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of SMC. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease
Group as Lessee. Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective asset. All other borrowing cost are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Research and Development Costs
Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits
Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs
The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:
- Service costs
- Net interest on the defined benefit retirement liability or asset
- Remeasurements of defined benefit retirement liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency
Foreign Currency Translations
Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of AFS financial assets, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statements of income as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the consolidated statements of income.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity.

<u>Taxes</u>
Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Income and other taxes payable" accounts in the consolidated statements of financial position.

<u>Non-cash Distribution to Equity Holders of the Parent Company, Assets Held for Sale and Discontinued Operations</u>
The Group classifies noncurrent assets, or disposal groups comprising assets and liabilities as held for sale or distribution, if their carrying amounts will be recovered primarily through sale or distribution rather than through continuing use. The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell or distribute, except for some assets which are covered by other standards. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale or distribution is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Actions required to complete the sale or distribution should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn.

The Group recognizes a liability to make non-cash distributions to equity holders of the Parent Company when the distribution is authorized and no longer at the discretion of the Parent Company. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurements recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets to be distributed is recognized in the consolidated statements of income.

Intangible assets, property, plant and equipment and investment property once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the consolidated statements of financial position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as "Profit or loss after tax from discontinued operations" in the consolidated statements of income.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

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

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

The Parent Company has no dilutive equity instruments as of December 31, 2015 and 2014.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 7 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Measurement of Biological Assets. Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

SMYA also entered into leases of equipment needed for business operations.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants and equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, equipment and finance lease liabilities at the present value of the agreed monthly payments (Notes 15 and 35).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P199,534 and P210,092 as of December 31, 2015 and 2014, respectively (Note 35).

The combined carrying amounts of power plants and equipment under finance lease amounted to P209,660 and P215,518 as of December 31, 2015 and 2014, respectively (Notes 15 and 35).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,258, P1,672 and P450 in 2015, 2014 and 2013, respectively (Note 35).

Rent expense recognized in the consolidated statements of income amounted to P3,912, P3,681 and P837 in 2015, 2014 and 2013, respectively (Notes 27, 28 and 35).

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with the ROP, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the interpretation since it specifically indicated that the ROP will regulate what services the Group must provide and at what prices those will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the Concession Agreement, will be turned over to the ROP (Note 35).

Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the Group's obligations under the Concession Agreement, is an intangible asset in the form of a right (license) to charge fees to users. Judgment was further exercised by management in determining the components of cost of acquiring the right. Further reference to the terms of the Concession Agreement (Note 35) was made to determine such costs.

a. *Airport Concession Right.* The Group's airport concession right consists of: (i) total Airport Project cost; (ii) present value of infrastructure retirement obligation (IRO); and (iii) present value of total franchise fees over 25 years and its subsequent amortization.

    (i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost to cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to the percentage-of-completion approach.

    (ii) The present value of the IRO will be recognized as part of intangible assets upon completion of the Airport Project because only at that time will significant maintenance of the Boracay Airport also commence. It will be amortized simultaneously with the cost related to the Airport Project. However, since the Group had already started the maintenance of the rehabilitated Boracay Airport, the entire present value of the annual estimated costs had already been recognized in CIP - airport concession arrangements, portion of which representing the actual amount incurred in the current year for the maintenance of the Boracay Airport, had been recognized as part of the cost of intangible assets, subjected to amortization.

(iii) The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and the corresponding obligation has likewise been recognized.

b. *Toll Road Concession Rights*. The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects: (i) SLEX; (ii) NAIA Expressway Project; (iii) Skyway; (iv) TPLEX Project; and (v) STAR.

   Pursuant to the Concession Agreement, any stage or phase or ancillary facilities thereof, of a fixed and permanent nature, shall be owned by the ROP.

c. *Port Concession Right.* The Group's port concession right represents the right to manage, operate, develop and maintain the Manila North Harbor.

d. *Power Concession Right.* The Group's power concession right represents the right to operate ALECO; i.e., license to charge fees to users. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Recognition of Profit Margin on the Airport and Toll Road Concession Arrangements. The Group has not recognized any profit margin on the construction of the airport and toll road projects as it believes that the fair value of the intangible asset reasonably approximates the cost. The Group also believes that the profit margin of its contractors on the rehabilitation of the existing airport and its subsequent upgrade is enough to cover any difference between the fair value and the carrying amount of the intangible asset.

Recognition of Revenue from Sale of Real Estate and Raw Land. The Group recognizes its revenue from sale of real estate projects and raw land in full when 10% or more of the total contract price is received and when development of the real estate property is 100% completed. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in marketing or administrative functions. Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portion can be sold separately (or leased out separately under finance lease), the Group accounts for this portion separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Classification of Redeemable Preferred Shares. Based on the features of TADHC's preferred shares, particularly mandatory redemption, management determined that the shares are, in substance, a financial liability. Accordingly, it was classified as part of "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 23).

Evaluating Control over its Investees. Determining whether the Group has control in an investee requires significant judgment. Although the Group owns less than 50% of the voting rights of BPI, NVRC and PAHL, management has determined that the Group controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Group receives substantially all of the returns related to the BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. The Group controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

The Group has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Group controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Group assessed it has control over PAHL by virtue of the extent of the Group's participation in the BOD and management of PAHL, of which the Group established it has: (i) power over PAHL; (ii) it is exposed and has rights to variable returns from its involvement with PAHL; and (iii) it has ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, the Group considered PAHL a subsidiary beginning January 1, 2013.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in Thai San Miguel Liquor Co. Ltd. (TSML), Thai Ginebra Trading (TGT), Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP) as joint ventures (Note 13).

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 45).

Estimates and Assumptions
The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 11, 13, 16, 18, 36, 41 and 42.

Allowance for Impairment Losses on Trade and Other Receivables, and Noncurrent Receivables and Deposits. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current and noncurrent assets.

The allowance for impairment losses on trade and other receivables, and noncurrent receivables and deposits, included as part of "Other noncurrent assets" account in the consolidated statements of financial position, amounted to P10,314 and P8,528 as of December 31, 2015 and 2014, respectively.

The carrying amounts of trade and other receivables, and noncurrent receivables and deposits amounted to P104,337 and P138,589 as of December 31, 2015 and 2014, respectively (Notes 10 and 19).

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P2,190 and P2,310 as of December 31, 2015 and 2014, respectively.

The carrying amount of inventories amounted to P64,148 and P85,846 as of December 31, 2015 and 2014, respectively (Note 11).

Impairment of AFS Financial Assets. AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized in 2015 and 2014.

The carrying amount of AFS financial assets amounted to P6,018 and P6,148 as of December 31, 2015 and 2014, respectively (Notes 12 and 14).

Estimated Useful Lives of Property, Plant and Equipment, Investment Property and Deferred Containers. The Group estimates the useful lives of property, plant and equipment, investment property and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, investment property and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, investment property and deferred containers would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P573,101 and P531,255 as of December 31, 2015 and 2014, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P204,433 and P183,107 as of December 31, 2015 and 2014, respectively (Note 15).

Investment property, net of accumulated depreciation and amortization amounted to P6,818 and P5,804 as of December 31, 2015 and 2014, respectively. Accumulated depreciation and amortization of investment property amounted to P1,322 and P891 as of December 31, 2015 and 2014, respectively (Note 16).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P7,014 and P6,916 as of December 31, 2015 and 2014, respectively. Accumulated amortization of deferred containers amounted to P11,260 and P9,637 as of December 31, 2015 and 2014, respectively (Note 19).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P129,244 and P53,218 as of December 31, 2015 and 2014, respectively (Note 18).

Estimated Useful Lives of Intangible Assets - Airport, Toll Road, Power and Port Concession Rights. The Group estimates the useful lives of airport, toll road, power and port concession rights based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as of the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The combined carrying amounts of airport, toll road, power and port concession rights amounted to P111,999 and P35,932 as of December 31, 2015 and 2014, respectively (Note 18).

Impairment of Goodwill, Licenses and Trademarks and Brand Names with Indefinite Useful Lives. The Group determines whether goodwill, licenses and trademarks and brand names are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses and trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses and trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P49,230 and P30,626 as of December 31, 2015 and 2014, respectively (Note 18).

The combined carrying amounts of licenses and trademarks and brand names amounted to P117,755 and P98,926 as of December 31, 2015 and 2014 (Note 18).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group, however, is currently completing the purchase price allocation exercise on the acquisition of MNHPI, LTHI and CTI in 2015. The identifiable assets and liabilities at fair value are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3*,* within 12 months from the acquisition date.

The carrying amount of goodwill arising from business combinations amounted to P18,918 and P7 in 2015 and 2014, respectively (Notes 5, 18 and 39).

Estimating Mineral Reserves and Resources. Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holders and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revisions once additional information becomes available.

Pursuant to the Philippine Mineral Reporting Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves which was adopted by the PSE, SEC and Department of Environment and Natural Resources (DENR) Administrative Order No. 2010-09 (Providing for the Classification and Reporting Standards of Exploration Results, Mineral Resources and Ore Reserves), all mineral resources and mineral/ore reserves report is prepared and signed by a person accredited by the relevant professional organization as a Competent Person.

Exploration activities are currently on-going in different projects of Clariden. Exploration drilling planned in PNPI aims to upgrade the mineral resource and reserves previously identified, while in other areas, the objective to define the quality and quantity of the mineral deposits.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group’s mining activities are all in the exploratory stages as of December 31, 2015 and 2014. All related costs and expenses from exploration are currently deferred as mine exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2015 and 2014.

Deferred exploration and development costs included as part of “Other noncurrent assets” account in the consolidated statements of financial position amounted to P867 and P762 as of December 31, 2015 and 2014, respectively (Notes 19 and 35).

Accrual for Mine Rehabilitation and Decommissioning. The cost of mine rehabilitation and decommissioning is based on the estimated costs of rehabilitating fully mined-out areas of the mine site. These costs are adjusted for inflation factor based on the average annual inflation rate as at adoption date or re-evaluation of the asset dismantlement, removal or restoration costs. Such adjusted costs are then measured at present value using the market interest rate for a comparable instrument adjusted for the Group’s credit standing. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group’s accretion and obligation for mine rehabilitation.

Accrual for mine rehabilitation and decommissioning costs amounted to P19 and P18 as of December 31, 2015 and 2014, respectively (Note 23).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group’s assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P17,007 and P14,982 as of December 31, 2015 and 2014, respectively (Note 24).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment and investment property amounted to P12,002 and P9,615 as of December 31, 2015 and 2014, respectively (Notes 15 and 16).

The combined carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets amounted to P735,567 and P637,968 as of December 31, 2015 and 2014, respectively (Notes 13, 15, 16, 17, 18 and 19).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 36 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit retirement obligation.

The present value of defined benefit retirement obligation amounted to P28,061 and P26,929 as of December 31, 2015 and 2014, respectively (Note 36).

Asset Retirement Obligation. The Group has ARO arising from refinery, leased service stations, depots, blending plant and franchised store. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 6.23% to 9.81% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P1,839 and P1,659 as of December 31, 2015 and 2014, respectively (Note 23).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangement. Portion of the amount recognized as airport concession right as of December 31, 2015 and 2014 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in CIP - airport concession arrangements until the completion of the Airport Project.

The present values of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate at 9% which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate.

A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect in profit or loss.

The present value of the annual franchise fees payable to the ROP over 25 years is discounted using the 9% internal borrowing rate, included as part of "Airport concession right" under "Other intangible assets" account amounted to P86 as of December 31, 2015 and 2014 (Note 18).

The cost of infrastructure maintenance and restoration represents the present value of TADHC's IRO recognized and is presented as part of IRO under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P26 and P42 in 2015 and P21 and P44 in 2014, respectively (Notes 21 and 23).

Percentage-of-Completion - Airport and Toll Road Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total airport and toll road project cost. The Group reviews and revises, when necessary, the estimate of airport and toll road project cost as it progresses, to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period (Notes 12, 18 and 33).

Accrual for Repairs and Maintenance - Toll Road Concession Arrangements. The Group recognizes accruals for repairs and maintenance based on estimates of periodic costs, generally estimated to be every five to eight years or the expected period to restore the toll road facilities to a level of serviceability and to maintain its good condition before the turnover to the ROP. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money.

The accrual for repairs and maintenance, included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P641 and P24 as of December 31, 2015 and 2014, respectively (Note 23).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P344 as of December 31, 2015 (Note 21).

5. Business Combinations

The significant acquisitions made by the Group are as follows:

- Clariden

  On August 12, 2013, the BOD of the Parent Company authorized the acquisition of 100% of the outstanding and issued shares of stock of Clariden and all of the rights and interests therein, followed by the execution of the Share Purchase Agreement (the Agreement) between the Parent Company and SMC on August 15, 2013.

On August 30, 2013 (the Closing Date), the Parent Company and SMC executed the following: (i) the Deed of Absolute Sale of Shares covering 100% of the Clariden shares for a total consideration of P2,135; and (ii) the Deed of Assignment of Receivables covering SMC's receivables in Clariden and its subsidiaries amounting to P725.

On September 6, 2013, the Parent Company and SMC, with the conformity of Clariden, executed the Deed of Assignment of Subscription Rights for P604, recognized as advances for investment in shares of stock of Clariden. Transaction costs incurred and capitalized as part of the cost of investment and advances amounted to P4 and P1, respectively.

With the acquisition of 100% of the outstanding and issued shares of stock of Clariden, the Parent Company obtained control and consolidated Clariden effective August 30, 2013.

Clariden is a company incorporated in the Philippines and its primary purpose is to acquire by purchase, exchange, assignment or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, deal in and operate, enjoy and dispose of, all properties of every kind and description and whenever situated and to the extent permitted by law. Clariden holds mining tenements in various areas in the Philippines. These mining tenements, owned by Clariden's various subsidiaries, include: (i) Mineral Production Sharing Agreements (MPSAs) for the Nonoc Nickel Project, Mt. Cadig Nickel Project and Lo-oc Limestone Project; (ii) Exploration Permits for certain areas under the Bango Gold Project; and (iii) pending Application for Production Sharing Agreement and pending Exploration Permit Applications for other areas of the Bango Gold Project.

In 2013, the Group used provisionary fair values of the identifiable net assets in calculating the goodwill as at the acquisition date. In 2014, the Group has completed its purchase price allocation exercise. As a result, the Group restated the amounts of net assets acquired, non-controlling interest and goodwill recognized in 2013, in accordance with PFRS 3.

The following summarizes the final amounts of assets recognized and liabilities assumed at the business combination date:

	Note	2013
Assets		
Cash and cash equivalents		P156
Trade and other receivables		76
Prepaid expenses and other current assets		81
Investments and advances - net		175
Property, plant and equipment		647
Other intangible assets - net		13,656
Deferred tax assets		312
Other noncurrent assets - net		60
Liabilities		
Accounts payable and accrued expenses		(1,850)
Long-term debt - net of debt issue costs		(52)
Deferred tax liabilities		(748)
Other noncurrent liabilities		(11,716)
Total Identifiable Net Assets at Fair Value	*39*	P797

The fair value of the trade and other receivables amounts to P76. None of the receivables has been impaired and it is expected that the full amount can be collected.

Goodwill was recognized based on the final amounts of net assets acquired as follows:

	Note	2013
Total consideration transferred		P2,744
Non-controlling interest measured at proportionate interest in identifiable net assets		(667)
Total identifiable net assets at fair value		(797)
Goodwill	*39*	P1,280

Goodwill arising from the acquisition is attributable to the benefit of expected revenue growth and future development.

- SMC

On October 17, 2013, the BOD of SMC approved the declaration, by way of property dividends, of 240,196,000 common shares of the Parent Company to the SMC common shareholders of record (the "Receiving Shareholders") as of November 5, 2013. The SEC approved the property dividend declaration on November 19, 2013, and the Certificate Authorizing Registration was issued by the Bureau of Internal Revenue (BIR) on December 26, 2013.

The Receiving Shareholder received one common share of the Parent Company for every ten common shares of SMC. Fractional shares below ten were dropped. The fair value of the Parent Company's common shares is P178.00 per share, based on the Valuation and Fairness Opinion rendered by an independent advisor.

The property dividend distribution resulted in SMC's public shareholders owning about 11.8% of the Parent Company.

The Parent Company, being a shareholder of SMC, received 157,310,033 of its own common shares equivalent to P28,001 recognized as "Treasury stock - common" and "Additional paid-in capital" in the consolidated statements of changes in equity (Note 25).

The declaration of the property dividends eliminated the cross ownership between the Parent Company and SMC and changed the control structure in terms of the Parent Company's ability to direct the relevant activities of SMC through interchange of key management personnel. The transaction also resulted in the reclassification of the Parent Company's investment in SMC's common shares from AFS financial assets to investment in shares of stock of subsidiaries and consolidation of SMC effective October 17, 2013.

The following summarizes the final amounts of assets recognized and liabilities assumed at the business combination date:

	Note	2013 As restated
Assets		
Cash and cash equivalents		P179,318
Trade and other receivables - net		135,528
Inventories		89,314
Prepaid expenses and other current assets		35,651
Assets held for sale		42,158
Investments and advances - net		52,037
Available-for-sale financial assets		42,079
Property, plant and equipment - net		481,280
Investment property - net		6,425
Other intangible assets - net		118,595
Biological assets - net		5,745
Deferred tax assets		15,266
Other noncurrent assets - net		45,187
Liabilities		
Loans payable		(155,313)
Accounts payable and accrued expenses		(106,912)
Income and other taxes payable		(10,624)
Dividends payable		(1,880)
Long-term debt - net of debt issue costs		(300,195)
Deferred tax liabilities		(51,237)
Finance lease liabilities		(222,960)
Other noncurrent liabilities		(12,680)
Total Identifiable Net Assets at Fair Value	*39*	P386,782

The fair value of the trade and other receivables amounts to P135,528. The gross amount of the receivables is P141,372, of which P5,844 is expected to be uncollectible at the acquisition date.

Goodwill was recognized based on the final amounts of net assets acquired as follows:

	Note	2013 As restated
Investment cost of the Parent Company		P152,078
Non-controlling interest measured at proportionate interest in identifiable net assets		264,043
Total identifiable net assets at fair value		(386,782)
Goodwill	*39*	P29,339

Goodwill arising from the consolidation of SMC is attributable to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Infrastructure

- AAIBV

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

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

AAIBV has shareholdings in the companies that hold the concession rights to operate and maintain the SLEX, the Skyway Stages 1 and 2 and Skyway Stage 3 which will connect the North Luzon Expressway and SLEX.

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

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

	Note	2015
Assets		
Cash and cash equivalents		**P21,595**
Trade and other receivables - net		**5,956**
Inventories		**22**
Prepaid expenses and other current assets		**2,713**
Property, plant and equipment - net	*15*	**189**
Other intangible assets - net	*18*	**55,166**
Deferred tax assets		**120**
Other noncurrent assets - net		**163**
Liabilities		
Accounts payable and accrued expenses		**(15,689)**
Income and other taxes payable		**(717)**
Dividends payable		**(373)**
Current maturities of long-term debt - net of debt issue costs		**(3,684)**
Long-term debt - net of debt issue costs		**(43,951)**
Deferred tax liabilities		**(4,642)**
Other noncurrent liabilities		**(6,608)**
Total Identifiable Net Assets at Fair Value	*39*	**P10,260**

The fair value of trade and other receivables amounted to P5,956. The gross amount of the receivables is P6,622 of which P666 is expected to be uncollectible as at the acquisition date (Note 10).

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

	Note	2015
Total consideration transferred		**P9,893**
Equity interest held before business combination	*13*	**9,295**
Non-controlling interest measured at proportionate interest in identifiable net assets		**9,435**
Total identifiable net asset at fair value		**(10,260)**
Goodwill	*18, 39*	**P18,363**

Goodwill arising from the acquisition of AAIBV is attributable to the benefit of expected synergies with the Group's infrastructure business, revenue growth and future development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

- MNHPI

On December 9, 2015, SMHC subscribed to 13,000,000 common shares of MNHPI equivalent to 43.33% equity interest for a total consideration of P13,000.

MNHPI holds the concession rights to manage, operate, develop and maintain the Manila North Harbor and other port facilities.

With the 43.33% ownership interest of SMHC and the 35% equity interest held by Petron, the Group obtained control and consolidated MNHPI effective December 9, 2015.

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

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

	Note	2015
Assets		
Cash and cash equivalents		**P1,394**
Trade and other receivables - net		**597**
Inventories		**303**
Prepaid expenses and other current assets		**745**
Property, plant and equipment - net	*15*	**30**
Other intangible assets	*18*	**9,818**
Deferred tax assets		**33**
Other noncurrent assets - net		**264**
Liabilities		
Loans payable		**(2,345)**
Accounts payable and accrued expenses		**(554)**
Long-term debt - net of debt issue costs		**(2,251)**
Finance lease liabilities		**(75)**
Other noncurrent liabilities		**(3,821)**
Total Identifiable Net Assets at Fair Value	*39*	**P4,138**

The fair value of trade and other receivables amounted to P597. The gross amount of the receivables is P676, of which P79 is expected to be uncollectible as at the acquisition date (Note 10).

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

	Note	2015
Total consideration transferred		**P1,300**
Equity interest held before business combination		**1,807**
Non-controlling interest measured at proportionate interest in identifiable net assets		**1,356**
Total identifiable net asset at fair value		**(4,138)**
Goodwill	*18, 39*	**P325**

Telecommunications

- LTHI

On July 14, 2015, the BOD of SMC authorized Vega to acquire the entire interest and participation of West Bay Holding S.P.C. Company, formerly Qtel West Bay Holdings S.P.C., wi-tribe Asia Limited, and White Dawn Solutions Holdings, Inc. (collectively, the "Sellers") in LTHI. In compliance with the Securities Regulation Code, Vega conducted a tender offer of the common shares of LTHI held by the public.

A total of 57,271,369 common shares or 4.43% of the outstanding common shares of LTHI were tendered, and subsequently crossed at the PSE on September 2, 2015. After completion of the tender offer, Vega held 87.18% of the common shares of LTHI.

On September 2, 2015, Vega acquired beneficial ownership in LTHI in a separate share sale transactions from the Sellers for a total of 426,800,168 common shares and 2,907,768,174 preferred shares.

Upon completion of the tender offer and share purchases, Vega effectively owned 97.46% of the total outstanding capital stock of LTHI, inclusive of the common and preferred shares. As such, Vega obtained control and consolidated LTHI effective September 2, 2015.

LTHI is a holding company and owns 100% of shares of stock in wi-tribe. It operates its business through wi-tribe which provides data communications services primarily through broadband internet services. wi-tribe is also authorized to lease capacity from other telecommunication companies and to operate as a virtual network operator and/or as a reseller in the provisioning of its telecommunication services.

On January 28, 2016, the SEC approved the amendment to the articles of incorporation of wi-tribe to change its corporate name to Tori Spectrum Telecom Inc. (Tori Spectrum).

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

The Group recognized gain on remeasurement in step acquisition of LTHI upon consolidation on September 2, 2015 (Note 33).

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

	Note	**2015**
Assets		
Cash and cash equivalents		**P32**
Trade and other receivables - net		**60**
Inventories		**43**
Prepaid expenses and other current assets		**486**
Property, plant and equipment - net	*15*	**1,687**
Other intangible assets - net	*18*	**11,933**
Other noncurrent assets - net		**88**
Liabilities		
Accounts payable and accrued expenses		**(1,892)**
Deferred tax liabilities		**(152)**
Other noncurrent liabilities		**(180)**
Total Identifiable Net Assets at Fair Value	*39*	**P12,105**

The fair value of trade and other receivables amounted to P60. The gross amount of the receivables is P514, of which P454 is expected to be uncollectible as at the acquisition date (Note 10).

Total identifiable net assets at fair value is equal to the consideration transferred, the equity interest held before business combination and non-controlling interest measured at proportionate interest in identifiable net assets.

The Group remeasured it's equity interest held before business combination resulting in the recognition of gain amounting to P3,540, included as part of "Other income (charges)" account in the 2015 consolidated statements of income (Note 33).

- CTI

On December 4, 2015, Vega acquired 88.17% ownership in CTI through the acquisition of 100% equity interest in TDEI, which holds 78.45% equity interest in the total outstanding capital stock of CTI and direct acquisition of 9.72% equity interest for a total consideration of P5,180.

CTI is primarily engaged in the operations and maintenance of a nationwide cellular mobile telephone system using analog advance mobile phone service system. CTI is also authorized to lease capacity from other telecommunication companies and to operate as a virtual network operator and/or as a reseller in the provisioning of its telecommunication services.

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

	Note	2015
Assets		
Cash and cash equivalents		**P3**
Trade and other receivables - net		**3**
Prepaid expenses and other current assets		**20**
Property, plant and equipment - net	*15*	**28**
Other intangible assets - net	*18*	**6,202**
Other noncurrent assets - net		**3**
Liabilities		
Accounts payable and accrued expenses		**(46)**
Other noncurrent liabilities		**(1,170)**
Total Identifiable Net Assets at Fair Value	*39*	**P5,043**

The fair value of trade and other receivables amounted to P3. The gross amount of the receivables is P225, of which P222 is expected to be uncollectible as at the acquisition date (Note 10).

Total identifiable net assets at fair value is equal to the consideration transferred, the amounts deposited for future stock subscription and non-controlling interest measured at proportionate interest in identifiable net assets.

- Somete Logistics & Development Corporation (SLDC) and Dominer Pointe Inc. (DPI)

In May and June 2014, BellTel acquired 100% of the outstanding shares of stock of SLDC and DPI, respectively, for a total consideration of P1,264 .

SLDC and DPI are engaged in the business of conceptualization, construction, installation, establishment, operation, leasing, sale and maintenance, and rendering of specialty technical services for tower infrastructures to be utilized by telecommunication companies.

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

	Note	2014
Assets		
Cash and cash equivalents		P1,017
Trade and other receivables		81
Prepaid expenses and other current assets		135
Property, plant and equipment - net	*15*	1,072
Deferred tax assets		8
Other noncurrent assets - net		1
Liabilities		
Accounts payable and accrued expenses		(1,055)
Income and other taxes payable		(2)
Total Identifiable Net Assets at Fair Value	*39*	P1,257

The fair value of the trade and other receivables amounts to P81. None of the receivables has been impaired and it is expected that the full amount can be collected.

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

	Note	2014
Total cash consideration transferred		P1,264
Total identifiable net asset at fair value		(1,257)
Goodwill	*18, 39*	P7

As discussed in Note 4, the Group is currently completing the purchase price allocation exercise on acquisition of MNHPI, LTHI and CTI in 2015. The identifiable assets and liabilities are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

If the foregoing acquisitions have occurred on January 1, 2015, management estimates that consolidated revenue would have been P678,731 and consolidated net income for the period would have been P24,412. In determining these amounts, management assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2015.

6. Investments in Shares of Stock of Subsidiaries

The following are the developments relating to the Parent Company's investments in shares of stock of subsidiaries:

Fuel and Oil

- Petron

a) Issuance of Series 2 Preferred Shares

On October 17, 2014, the SEC issued in favor of Petron a Permit to Sell for the public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") with a P1.00 par value per share.

On November 3, 2014, Petron issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two subseries, (i) 7,122,320 Series 2A Preferred Shares (the "Series 2A Preferred Shares") and (ii) 2,877,680 Series 2B Preferred Shares (the "Series 2B Preferred Shares").

The Series 2A Preferred Shares may be redeemed by Petron starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the BOD.

All shares rank equally with regard to Petron's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

b) Redemption of the Preferred Shares issued in 2010

On March 5, 2015, Petron redeemed the preferred shares issued in 2010 at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's Articles of Incorporation. On July 6, 2015, the SEC approved the amendment of the Articles of Incorporation of Petron to provide a re-issuability feature on its preferred shares.

- PGL

As of December 31, 2014, PGL has issued an aggregate of 73,559,188 common shares with a par value of US$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares Series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares 2B at an issue price equal to the par value of each share of US$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US$1.00 per share.

On various dates in 2015, SMC through Petron, acquired additional PGL common shares of 12,131,829 for US$1.00 per share or for a total consideration of US$12.

As of December 31, 2015, Petron held a total of 85,691,017 common shares in PGL representing 100% of the voting capital stock of PGL.

Infrastructure

- SMHC

On January 21, 2014, SEC approved the application for the Amendment of the Articles of Incorporation for the increase in authorized capital stock of SMHC from P5,000 divided into 5,000,000 common shares to P35,000 divided into 35,000,000 common shares, both with par value of P1,000.00 per share. The amendment was approved by the BOD and stockholders of SMHC on May 29, 2013 and filed with the SEC on December 27, 2013. Of the total increase in authorized capital stock, SMC subscribed to 10,500,000 common shares for a total subscription price of P15,750 of which P15,422 was paid in 2013 while the remaining balance of P328 was paid in 2014.

On various dates in 2014, SMC entered into Subscription Agreements with SMHC for the subscription of additional 9,500,000 common shares for a total subscription price of P14,250 or P1,500.00 per common share of which P9,874 was paid. The balance of the subscription amounting to P4,376 was paid by SMC in 2015.

On August 6, 2015, SMC subscribed to an additional 9,100,000 common shares of SMHC for a total subscription price of P13,650 or P1,500.00 per common share of which P7,716 was paid.

a) THI

On December 17, 2014, the BOD and stockholders of THI approved the increase in authorized capital stock from P3 divided into 30,000 common shares to P850 divided into 8,501,550 common shares, both with a par value of P100.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was approved by the SEC on February 18, 2015.

b) CMMTC

On September 27, 2013, SMC through THI, a wholly-owned subsidiary of SMHC, sold to AAIPC the 25,409,482 common shares of CMMTC representing 37.33% of its outstanding capital stock for a total consideration of P13,759. The Group derecognized the assets (including goodwill) and liabilities, and the carrying amount of non-controlling interest as a result of the sale.

The Group recognized a net loss amounting to P654, included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

c) Vertex and Optimal

On September 1, 2014, SMHC entered into Subscription Agreements with the following: (a) Vertex - for the subscription of 1,335,268,279 common shares for a total subscription price of P2,003 or P1.50 per share and initially paid P733; and (b) Optimal - for the subscription of 2,000 common shares out of the unissued capital stock for a total subscription price of P2 or P1,000.00 per share.

d) Rapid

On various dates in 2014, SMHC entered into Subscription Agreements with Rapid for the subscription of 14,000,000 common shares for a total subscription price of P2,100 or P150.00 per share.

On various dates in 2014, SMHC made additional deposits for future stock subscription amounting to P579. In 2015, SMHC subscribed to 12,500,000 common shares of Rapid at P150.00 per share for a total consideration of P1,875. As payment for the subscription, SMHC applied its P579 deposit for future stock subscription and paid P531. The balance amounting to P765 remained unpaid as of December 31, 2015.

On December 19, 2014, the BOD and stockholders of Rapid approved the increase in authorized capital stock from P1,800 divided into 18,000,000 common shares to P3,050 divided into 30,500,000 common shares, both with a par value of P100.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2014 and was approved on April 21, 2015.

On September 21, 2015, Rapid and DMCI Holdings, Inc. and D.M. Consuji, Inc. (collectively, "DMCI") entered into a Deed of Sale of Shares wherein Rapid acquired the shares of DMCI in PIDC for a consideration of P1,827.

As of December 31, 2015, Rapid effectively and beneficially owns 70.11% ownership interest in PIDC.

e) TADHC

On March 5, 2014, SMHC executed a Subscription Agreement with TADHC for the subscription of additional 2,714,420 common shares at P100.00 per share.

On November 7, 2014, the BOD and stockholders of TADHC approved the increase in the authorized capital stock from P1,520 divided into 15,000,000 common shares and 200,000 preferred shares to P1,720 divided into 17,000,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share. Of the total increase in authorized capital stock, SMHC subscribed to 1,965,580 common shares at P100.00 per share or a total subscription price of P197. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2014 and was approved on April 29, 2015.

On November 18, 2015, SMHC executed a Subscription Agreement with TADHC for the subscription of 34,420 common shares at P100.00 per share or a total subscription price of P3.

On December 9, 2015, the BOD and stockholders of TADHC resolved and approved the increase in authorized capital stock from P1,720 divided into 17,000,000 common shares and 200,000 preferred shares to P2,520 divided into 25,000,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share of the total increase in authorized capital stock. Of the total increase in authorized capital stock, SMHC subscribed to 3,250,000 common shares at P150.00 per share or a total subscription price of P488. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 22, 2015.

<u>Food</u>

- SMPFC

a) Redemption of Outstanding Preferred Shares

On February 3, 2015, SMPFC's BOD approved the redemption of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share or a total redemption price of P15,000.

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

b) Issuance of Series “2” Perpetual Preferred Shares

On March 12, 2015, SMPFC issued 15,000,000 cumulative, non-voting, non-participating, and non-convertible peso-denominated perpetual Series “2” Preferred Shares with a par value of P10.00 per share at the offer price of P1,000.00 per share. The Series “2” Preferred Shares were issued with a dividend rate set at 5.6569% per annum payable once for every dividend period as follows: (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year calculated on a 30/360-day basis, as and if declared by the BOD of SMPFC.

The Series “2” Preferred Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the third anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The Series “2” Preferred Shares may also be redeemed in whole and not in part, under certain conditions. Unless the Series “2” Preferred Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the three-day average of the seven-year PDST-R2 plus 3.75%.

On March 12, 2015, the SMPFC Series “2” Preferred Shares were listed on the PSE.

The proceeds from the issuance of the Series “2” Perpetual Preferred Share, net of transaction costs amounted to P15,000.

The proceeds of the issuance were used to refinance the redemption of the outstanding 15,000,000 preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share plus any and all accumulated unpaid cash dividends to relevant stockholders of record as of February 17, 2015.

c) Acquisition of the 49% ownership interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)

In January 2015, SMPFIL, a wholly-owned subsidiary of SMPFC, signed an agreement for the purchase from Hormel Netherlands B.V. (Hormel) of the latter’s 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% interest in SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in SMHVN, a company incorporated in Vietnam, which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats.

Following the acquisition, SMPFI Limited became a wholly-owned subsidiary of SMPFIL. Consequently, Hormel’s non-controlling interest amounting to P126 as of January 2015 was derecognized. As part of the agreement, Hormel paid its share of the cash requirement to settle SMHVN’s obligations, including estimated contingent liabilities and costs to temporarily close the farm and feedmill operations. This resulted in the recognition of equity reserves amounting to P384 presented as part of “Equity reserve” account in the 2015 consolidated statement of financial position.

With the divestment made by Hormel, SMHVN changed its corporate name to San Miguel Pure Foods (VN) Co., Ltd., in June 2015 following the issuance of the Binh Duong People’s Committee of the amended business license of SMHVN.

Energy

- SMC Global

  Issuance of Undated Subordinated Capital Securities

  On May 7, 2014, SMC through SMC Global, issued and listed on the Singapore Stock Exchange (SGX-ST), US$300 undated subordinated capital securities (the "Securities") at an issue price of 100% of the face value of the Securities, at the rate of 7.50% per annum with a step-up date on November 7, 2019.

  On August 26, 2015, SMC Global issued and listed in the SGX-ST a Reg S, Unrated Perpetual Non-Call 5.5 years US$300 Undated Subordinated Capital Securities. SMC Global priced the deal at 6.75% per annum with a step-up date on February 26, 2021.

  The holders of the Securities are conferred a right to receive distributions on a semi-annual basis from their issue date at the initial rate of distribution, subject to the step-up rate. SMC Global has a right to defer this distribution under certain conditions.

  The Securities have no fixed redemption date and are redeemable in whole, but not in part, at the option of SMC Global on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events.

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

Real Estate

- The BOD and stockholders of SMPI, in their meetings held on November 5, 2015 and December 17, 2015, respectively, approved to increase its authorized capital stock from P1,280 divided into 128,000,000 common shares to P15,000 divided into 1,500,000,000 common shares, both with a par value of P10.00 per share. Of the total increase in authorized capital stock, SMC subscribed to 450,000,000 common shares for a total subscription price of P9,000. As of December 31, 2015, SMC paid P692 as deposit for subscription of the shares. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on February 2, 2016 and was approved on March 11, 2016.

- SMPI Flagship

  On October 20, 2014, the BOD and stockholders of SMPI Flagship approved to amend its articles of incorporation to change its primary purpose to allow SMPI Flagship to engage in the development, management and administration of condominiums, hotels, condominium hotels, service apartments, residential or buildings, and other horizontal or vertical developments. The amendment was approved by the SEC on November 3, 2014.

  In 2015, SMPI Flagship completed the Makati Diamond Residence, a first class, high-rise serviced apartment, open to the general public, located in Makati City.

Telecommunications

- Vega

  On January 24, 2014, the SEC approved the application for the amendment of articles of incorporation for the increase in authorized capital stock of Vega from P1 divided into 10,000 common shares to P655, divided into 6,550,000 common shares, both with a par value of P100.00 per share. Of the said increase, SMC subscribed to 4,350,000 common shares for a total subscription price of P653 or P150.00 per share.

  On December 1, 2014, the BOD and stockholders of Vega approved to further increase its authorized capital stock from P655 divided into 6,550,000 common shares with a par value of P100.00 per share to P25,000 consisting of 30,000,000 common shares with a par value of P100.00 per share and 22,000,000 preferred shares with a par value of P1,000.00 per share. SMC, in a Deed of Subscription executed on the same date, subscribed to 9,147,500 common shares at P150.00 per share and 13,500,000 preferred shares at P1,500.00 per share or a total subscription price of P21,622. The application for the amendment of articles of incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2014 and was approved on April 6, 2015.

- BellTel

  In December 2014, Vega subscribed to 8,408,000 common shares from the unissued common shares of BellTel for P3,100 equivalent to 45.68% direct ownership interest in BellTell.

  In December 2015, Vega made an additional subscription in BellTel of 1,592,000 unissued common shares amounting to P587 thereby increasing direct ownership interest to 50%.

  BellTel is a grantee of a franchise to install, operate and maintain local exchange networks and Wireless Local Loop (WLL) in several areas including special economic zones, inter-exchange networks, nationwide VSAT network, international gateway facilities, and cellular mobile telecommunications network (Note 35).

  As a result of the subscription, Vega owns 100% equity interest in BellTel, consisting of 45.68% direct ownership interest and 54.32% indirect ownership interest through TCCI, PHC and PSCL.

Mining

- Clariden

  On February 4, 2014, the SEC approved the application for the increase in authorized capital stock of Clariden. On various dates in 2014, the Parent Company entered into various Subscription Agreements with Clariden for the subscription of additional 3,517,600 shares of stock at a total subscription price of P585 or P166.41 per share. Deposit for future stock subscription amounting to P553 were applied for such additional subscription in 2014.

▪ SWCC

On October 15, 2014, SMC through SMEII, as buyer, and Clariden, as seller, executed the following: (i) the Deed of Absolute Sale of Shares covering 100% of the outstanding and issued shares of stock of SWCC for a total consideration of P61; and (ii) the Deed of Assignment of Receivables covering the receivables of Clariden in SWCC amounting to P209.

SWCC is primarily engaged in the business of manufacturing, importing, exporting, buying, selling or otherwise dealing in, at wholesale, of cement and other goods of similar nature, and any and all equipment, materials, supplies, used or employed in or related to the manufacture of such finished goods.

On December 5, 2014, SMC through SMEII subscribed to additional 110,000 common shares of SWCC for P16. The said subscription was fully paid, and the subject shares of stock were issued to SMEII on February 24, 2015.

On April 1, 2015, SMC through SMEII subscribed to additional 770,000 common shares of SWCC for P116. The said subscription was fully paid, and the subject shares of stock were issued to SMEII on April 15, 2015.

<u>Others</u>

▪ SMC

a) Issuance of 446,667,000 Series “2” Preferred Shares - Subseries D, E and F

On September 21, 2015, SMC issued and listed in the PSE 446,667,000 Series “2” Preferred Shares in three sub-series (Subseries “2-D”, Subseries “2-E” and Subseries “2-F”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting. Dividend rates are 5.9431%, 6.3255% and 6.8072% per annum for Subseries “2-D”, “2-E” and “2-F”, respectively.

The proceeds from the issuance of the shares were used to redeem the Subseries “2-A” Preferred Shares.

b) Redemption of Series “2” Preferred Shares - Subseries A

On September 21, 2015, SMC redeemed its 721,012,400 Series “2” Preferred Shares - Subseries “2-A” at a redemption price of P75.00 per share plus any unpaid cash dividends. SMC paid P54,076 to the holders of Subseries “2-A” Preferred Shares.

c) Reissuance of Series “1” Preferred Shares

On April 14, 2015, SMC reissued 279,406,667 Series “1” Preferred Shares in the name of certain subscribers at P75.00 per share. The Series “1” Preferred Shares became tradable at the PSE beginning June 10, 2015.

The details of the Group's material non-controlling interests are as follows:

	December 31, 2015				December 31, 2014			
	SMC	**Petron**	**SMB**	**SMPFC**	SMC	Petron	SMB	SMPFC
Percentage of non-controlling interests	**33.86%**	**31.74%***	**48.83%***	**14.63%***	33.85%	31.74%*	48.83%*	14.63%*
Carrying amount of non-controlling interests	**P151,151**	**P54,235**	**P20,477**	**P19,759**	P151,650	P81,621	P18,729	P19,397
Net income attributable to non-controlling interests	**P7,968**	**P5,335**	**P6,588**	**P1,710**	P9,744	P3,947	P7,018	P1,553
Other comprehensive income (loss) attributable to non-controlling interests	**P1,855**	**P2,363**	**P170**	**P21**	P442	(P1,556)	P201	(P6)
Dividends paid to non-controlling interests	**P6,122**	**P4,970**	**P4,836**	**P1,453**	P7,233	P6,027	P4,570	P2,858

**Pertains to material non-controlling interests of SMC.*

The following are the audited condensed financial information of investments in subsidiaries with material non-controlling interest:

	December 31, 2015				December 31, 2014			
	SMC	**Petron**	**SMB**	**SMPFC**	SMC	Petron	SMB	SMPFC
Current assets	**P422,611**	**P115,725**	**P25,935**	**P40,032**	P530,450	P219,029	P20,413	P48,192
Noncurrent assets	**823,411**	**178,542**	**67,156**	**21,005**	687,039	172,295	68,135	18,463
Current liabilities	**(319,719)**	**(126,579)**	**(10,263)**	**(21,150)**	(354,411)	(202,587)	(9,105)	(29,782)
Noncurrent liabilities	**(541,426)**	**(84,588)**	**(40,837)**	**(871)**	(473,158)	(75,045)	(41,189)	(910)
Net assets	**P384,877**	**P83,100**	**P41,991**	**P39,016**	P389,920	P113,692	P38,254	P35,963
Sales	**P67,925**	**P360,178**	**P82,374**	**P106,860**	P773,723	P482,535	P79,005	P102,999
Net income	**P28,993**	**P6,270**	**P13,518**	**P4,752**	P28,578	P3,009	P13,515	P3,843
Other comprehensive income (loss)	**(8,152)**	**(5,932)**	**(73)**	**(44)**	(3,639)	(4,758)	443	(40)
Total comprehensive income (loss)	**P20,841**	**P338**	**P13,445**	**P4,708**	P24,939	(P1,749)	P13,958	P3,803
Cash flows provided by (used in) operating activities	**P67,039**	**P8,468**	**P18,522**	**P11,995**	P39,432	(P737)	P15,457	P5,739
Cash flows provided by (used in) investing activities	**(58,818)**	**(14,592)**	**(3,052)**	**(5,704)**	17,505	(3,659)	(3,501)	11,535
Cash flows provided by (used in) financing activities	**(88,253)**	**(66,343)**	**(9,713)**	**(11,220)**	9,904	44,488	(16,290)	(10,089)
Effects of exchange rate changes on cash and cash equivalents	**2,184**	**746**	**207**	**(3)**	152	112	22	-
Net increase (decrease) in cash and cash equivalents	**(P77,848)**	**(P71,721)**	**P5,964**	**(P4,932)**	P66,993	P40,204	(P4,312)	P7,185

7. Segment Information

Operating Segments

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

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

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

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

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

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

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

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

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

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

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

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

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31, 2015, 2014 and 2013																													
	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Telecommunications			Mining and Others			Eliminations			Consolidated		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Sales																														
External sales	**P98,386**	P94,230	P25,710	**P106,845**	P102,976	P28,348	**P19,751**	P19,365	P4,895	**P68,704**	P77,586	P17,569	**P356,801**	P475,412	P126,086	**P13,288**	P922	P241	**P1,743**	P1,515	P344	**P8,395**	P1,704	P1,527	**P -**	P -	P -	**P673,913**	P773,710	P204,720
Inter-segment sales	**616**	286	208	**15**	23	12	**5,299**	4,861	2,578	**8,803**	6,708	1,415	**3,377**	7,123	1,619	**-**	-	-	**33**	-	-	**14,900**	5,820	1,008	**(33,043)**	(24,821)	(6,840)	**-**	-	-
Total sales	**P99,002**	P94,516	P25,918	**P106,860**	P102,999	P28,360	**P25,050**	P24,226	P7,473	**P77,507**	P84,294	P18,984	**P360,178**	P482,535	P127,705	**P13,288**	P922	P241	**P1,776**	P1,515	P344	**P23,295**	P7,524	P2,535	**(P33,043)**	(P24,821)	(P6,840)	**P673,913**	P773,710	P204,720
Result																														
Segment result	**P22,599**	P21,784	P6,027	**P7,345**	P6,164	P1,768	**P1,735**	P1,615	(P312)	**P22,958**	P25,154	P4,590	**P13,953**	P2,179	P1,798	**P7,272**	(P373)	(P73)	**(P1,820)**	(P477)	(P81)	**P972**	(P3,791)	(P5,310)	**P586**	P479	P101	**P75,600**	P52,734	P8,508
Interest expense and other financing charges																												**(31,102)**	(27,097)	(7,934)
Interest income																												**4,319**	4,016	894
Equity in net earnings (losses) of associates and joint ventures																												**(386)**	1,701	423
Gain (loss) on sale of investments and property and equipment																												**(81)**	610	30,756
Other income (charges) - net																												**(6,423)**	6,170	(5,072)
Income tax expense																												**(17,250)**	(11,152)	(2,169)
Net income																												**P24,677**	P26,982	P25,406
Attributable to:																														
Equity holders of the Parent Company																												**P172**	P3,652	P11,578
Non-controlling interests																												**24,505**	23,330	13,828
Net income																												**P24,677**	P26,982	P25,406

December 31, 2015, 2014 and 2013

	Beverage			Food			Packaging			Energy			Fuel and Oil		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Other Information															
Segment assets	**P88,682**	P86,392	P92,768	**P58,021**	P64,449	P70,653	**P36,975**	P34,786	P36,423	**P344,640**	P327,883	P320,452	**P287,561**	P383,887	P350,008
Investments in and advances to associates and joint ventures	**525**	659	720	-	-	-	**3,949**	3,782	3,636	**10,613**	10,612	6,012	**1,811**	1,169	892
Goodwill and trademarks and brand names															
Other assets															
Assets held for sale															
Deferred tax assets															
Consolidated Total Assets															
Segment liabilities	**P22,558**	P21,243	P23,574	**P17,233**	P16,220	P15,854	**P5,688**	P5,318	P6,383	**P28,197**	P23,519	P16,941	**P31,756**	P65,165	P72,522
Loans payable															
Long-term debt															
Finance lease liabilities															
Income and other taxes payable															
Dividends payable and others															
Deferred tax liabilities															
Consolidated Total Liabilities															

	Infrastructure			Telecommunications			Mining and Others			Eliminations			Consolidated		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Other Information															
Segment assets	**P170,298**	P62,825	P43,277	**P41,616**	P14,224	P11,527	**P269,960**	P286,049	P294,955	**(P118,324)**	(P107,749)	(P135,841)	**P1,179,429**	P1,152,746	P1,084,222
Investments in and advances to associates and joint ventures	**(624)**	10,769	7,465	**-**	8,873	7,515	**165,816**	11,006	43,035	**(154,936)**	-	-	**27,154**	46,870	69,275
Goodwill and trademarks and brand names													**139,918**	120,881	120,873
Other assets													**6,157**	5,984	6,377
Assets held for sale													-	554	13
Deferred tax assets													**17,007**	14,982	15,793
Consolidated Total Assets													**P1,369,665**	P1,342,017	P1,296,553
Segment liabilities	**P40,487**	P16,811	P31,141	**P22,320**	P25,361	P21,062	**P109,594**	P104,137	P105,001	**(P121,095)**	(P123,850)	(P141,548)	**P156,738**	P153,924	P150,930
Loans payable													**148,026**	180,712	143,740
Long-term debt													**401,830**	335,450	340,992
Finance lease liabilities													**199,534**	210,092	222,583
Income and other taxes payable													**13,992**	13,382	13,131
Dividends payable and others													**4,172**	5,231	5,408
Deferred tax liabilities													**56,785**	48,748	50,996
Consolidated Total Liabilities													**P981,077**	P947,539	P927,780

For the Years Ended December 31, 2015, 2014 and 2013

	Beverage			Food			Packaging			Energy			Fuel and Oil		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Capital expenditures	**P1,319**	P1,138	P750	**P3,128**	P647	P497	**P2,150**	P2,092	P767	**P31,105**	P17,447	P3,581	**P13,474**	P13,038	P6,763
Depreciation and amortization of property, plant and equipment (Note 29)	**2,440**	2,756	787	**1,244**	1,356	328	**2,043**	1,931	490	**7,258**	6,916	1,693	**5,395**	5,525	1,500
Noncash items other than depreciation and amortization of property, plant and equipment	**1,720**	1,235	841	**2,171**	2,089	581	**218**	299	906	**7,930**	1,013	3,799	**3,701**	738	730
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**998**	-	38	**-**	118	-	**-**	19	-	**-**	-	-	**262**	798	-

	Infrastructure			Telecommunications			Mining and Others			Eliminations			Consolidated		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Capital expenditures	**P243**	P34	P19	**P4,209**	P1,599	P547	**P4,466**	P2,994	P933	**P -**	P -	P -	**P60,094**	P38,989	P13,857
Depreciation and amortization of property, plant and equipment (Note 29)	**148**	54	10	**537**	392	111	**1,721**	1,654	438	**-**	-	-	**20,786**	20,584	5,357
Noncash items other than depreciation and amortization of property, plant and equipment	**3,621**	366	(93)	**(3,417)**	(52)	(60)	**2,562**	807	5,559	**-**	-	-	**18,506**	6,495	12,263
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**-**	-	-	**1,333**	-	-	**-**	-	96	**-**	-	-	**2,593**	935	134

8. Assets Held for Sale

Indophil Resources NL (Indophil)

On December 18, 2014, the shareholders of Indophil qualified to vote, approved the scheme of arrangement proposed by Alsons Prime Investments Corporations to purchase all the shares of current shareholders of Indophil, inclusive of the shares held by Coastal View Exploration Corporation (Coastal View) for Australian dollar (A$) 30 cents per share.

Accordingly, the carrying amount of the investment in Indophil, amounting to P527 as of December 31, 2014 was reclassified to "Assets held for sale" account in the 2014 consolidated statement of financial position.

On January 30, 2015, Coastal View received the payment on the sale of investment in shares of stock of Indophil amounting to A$14 (P493).

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2015**	2014
Cash in banks and on hand		**P33,185**	P32,519
Short-term investments		**147,949**	226,244
	41, 42	**P181,134**	P258,763

Cash in banks earn interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates (Note 32).

10. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2015**	2014
Trade		**P55,596**	P57,899
Non-trade	*18, 40*	**40,536**	57,586
Amounts owed by related parties	*34, 36*	**11,794**	19,443
		107,926	134,928
Less allowance for impairment losses	*4, 5, 28*	**9,942**	8,270
	4, 41, 42	**P97,984**	P126,658

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade receivables include claims from the Government, interest receivable, claims receivable, contracts receivable, subscription receivable and others. Claims from the Government pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism.

The movements in the allowance for impairment losses are as follows:

	Note	**2015**	2014
Balance at beginning of year		**P8,270**	P8,467
Charges for the year	*28*	**189**	848
Amounts written off		**(84)**	(348)
Acquisition of subsidiaries	*5*	**1,421**	-
Translation adjustments and others		**146**	(697)
Balance at end of year		**P9,942**	P8,270

The aging of receivables is as follows:

December 31, 2015	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P42,829**	**P29,741**	**P11,724**	**P84,294**
Past due:				
1 - 30 days	**5,613**	**3,637**	**-**	**9,250**
31 - 60 days	**1,440**	**582**	**-**	**2,022**
61 - 90 days	**889**	**1,136**	**-**	**2,025**
Over 90 days	**4,825**	**5,440**	**70**	**10,335**
	P55,596	**P40,536**	**P11,794**	**P107,926**

December 31, 2014	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P46,001	P30,251	P19,377	P95,629
Past due:				
1 - 30 days	5,441	3,642	-	9,083
31 - 60 days	1,671	281	-	1,952
61 - 90 days	631	182	-	813
Over 90 days	4,155	23,230	66	27,451
	P57,899	P57,586	P19,443	P134,928

Various collaterals for trade receivables such as bank guarantees, time deposit and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 41).

11. Inventories

Inventories consist of:

	2015	2014
At NRV:		
Finished goods and goods in process (including petroleum products)	**P37,901**	P60,850
Materials and supplies (including coal)	**20,431**	19,529
Containers	**1,482**	1,212
At Cost:		
Raw land inventory and real estate projects	**4,334**	4,255
	P64,148	P85,846

The cost of finished goods and goods in process amounted to P38,629 and P61,750 as of December 31, 2015 and 2014, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have increased by P2,798 and P618 as of December 31, 2015 and 2014, respectively.

The cost of materials and supplies amounted to P21,295 and P20,372 as of December 31, 2015 and 2014, respectively.

Containers at cost amounted to P2,080 and P1,779 as of December 31, 2015 and 2014, respectively.

The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P649 and P553 as of December 31, 2015 and 2014, respectively, with corresponding costs at point of harvest amounting to P621 and P509, respectively. Net unrealized gain on fair valuation of agricultural produce amounted to P29 and P44 as of December 31, 2015 and 2014, respectively.

The fair values of marketable hogs and cattle, and grown broilers, which comprise the Group's agricultural produce, have been categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as of December 31, 2015 and 2014, based on management's assessment.

The fair value of raw land inventory amounted to P9,740 and P7,318 as of December 31, 2015 and 2014, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory is its current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property, size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2015**	2014
Prepaid taxes and licenses		**P60,341**	P41,426
Restricted cash - current	*41, 42*	**4,230**	1,604
Advances to contractors and suppliers		**1,720**	3,673
CIP - airport concession arrangements	*4, 35*	**974**	857
Prepaid insurance		**603**	453
Catalyst		**454**	-
Prepaid rent		**426**	318
Derivative assets	*41, 42*	**391**	360
Financial assets at FVPL	*41, 42*	**147**	136
AFS financial assets - current portion	*4, 14, 41, 42*	**70**	431
Option deposit	*41, 42*	**-**	1,118
Others		**4,470**	2,649
		P73,826	P53,025

The CIP - airport concession arrangement of the Group includes the accumulated costs incurred on the design of the upgrade component of the Boracay Airport Project. It also includes the cost of a parcel of land earmarked for such upgrade, capitalized borrowing cost and the present value of the obligation to maintain and restore the Boracay Airport prior to its transfer to the ROP at the end of the concession period. The cost included in CIP that relates to the upgrade component of the Project was recognized as construction cost upon commencement of the upgrade (Note 4). The interest expense related to the accretion of the IRO amounting to P4 in 2015, 2014 and 2013, was recognized as part of "Other financing charges" under "Interest expense and other financing charges" account in the consolidated statements of income (Note 31).

"Others" consist of prepayments for various operating expenses and payments for professional services relating to the loan that SCPC is applying for in 2015.

The methods and assumptions used to estimate the fair values of restricted cash, option deposit, financial assets at FVPL, derivative assets and AFS financial assets are discussed in Note 42.

13. Investments and Advances

Investments and advances consist of:

	Note	2015	2014 As restated
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		**P27,129**	P50,946
Additions		**700**	3,578
Disposal		**-**	(21,506)
Reclassification to investments in shares of stock of subsidiaries	*5*	**(13,096)**	-
Others		**-**	(5,889)
Balance at end of year		**14,733**	27,129
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year		**1,709**	(6,240)
Disposal		**-**	5,712
Equity in net earnings (losses)		**(386)**	1,701
Share in other comprehensive income (loss)		**(121)**	552
Reclassification to investments in shares of stock of subsidiaries	*5*	**(695)**	-
Dividends		**(7)**	(5)
Others		**-**	(11)
Balance at end of year		**500**	1,709
		15,233	28,838
Advances		**11,921**	18,032
		P27,154	P46,870

The following are the developments relating to the Group's investments in shares of stock of associates and joint ventures:

Investments in Shares of Stock of Associates

a. Trustmark Holdings Corporation (Trustmark), Zuma Holdings and Management Corporation (Zuma) and Fortunate Star Limited (Fortunate Star)

   On October 23, 2014, the Group received from the Lucio Tan Group, a total of US$874 or an equivalent of P38,616 from the sale of the 49% equity interest in Trustmark and Zuma, including indirect ownership interests of 43.23% and 48.98% in Philippine Airlines, Inc. and Air Philippines Corporation, respectively, and the sale of the equity interest and cancellation of subscription rights on the shares of stock of Fortunate Star. As a result, a gain of P491 was recognized in the 2014 consolidated statement of income, included as part of "Gain on sale of investments and property and equipment" account.

b. Investment in Bank of Commerce (BOC)

   In 2012, SMC through SMPI, started the negotiation for the sale of 44,817,164 common shares of BOC, representing 39.93% equity ownership interest. Accordingly, the investment in BOC with a carrying amount of P8,785, which includes the accumulated share in BOC's total comprehensive income of P983, was reclassified from "Investments and advances" account to "Assets held for sale" account in the 2012 consolidated statements of financial position of SMC.

In 2015, SMPI's management determined that there are no active buyers of its investment. Consequently, SMPI ceased to classify the investment as part of "Assets held for sale". As a result, the Group restated the comparative consolidated financial statements to appropriately recognize and bring back the investment in BOC to its carrying value, using equity method, as if the reclassification did not occur.

The effect of the restatement on the affected assets and equity components is shown below.

	December 31, 2014		
	As Previously Reported	Prior Period Adjustments	As Restated
Changes in assets:			
Investment and advances	P37,646	P9,224	P46,870
Asset held for sale	9,339	(8,785)	554
Goodwill	30,224	402	30,626
Total	P77,209	P841	P78,050
Changes in components of equity:			
Cumulative translation adjustment	P281	P143	P424
Reserve for retirement plan	(703)	(11)	(714)
Unappropriated retained earnings	33,937	560	34,497
Non-controlling interests	299,839	149	299,988
Total	P333,354	P841	P334,195

	December 31, 2013		
	As Previously Reported	Prior Period Adjustments	As Restated
Changes in assets:			
Investment and advances	P60,874	P8,401	P69,275
Asset held for sale	8,798	(8,785)	13
Goodwill	30,217	402	30,619
Total	P99,889	P18	P99,907
Changes in components of equity:			
Cumulative translation adjustment	P241	(P125)	P116
Reserve for retirement plan	913	8	921
Unappropriated retained earnings	46,267	266	46,533
Non-controlling interests	276,816	(131)	276,685
Total	P324,237	P18	P324,255

The effects of the prior year adjustments on the statements of comprehensive income 2014 and 2013 are shown below.

	December 31, 2014		
	As Previously Reported	Prior Period Adjustments	As Restated
Profit or loss:			
Equity in net earnings of associates and joint ventures	P1,255	P446	P1,701
Changes in other comprehensive income:			
Share in other comprehensive income of associates and joint ventures	175	377	552
Net income attributable to:			
Equity holders of the Parent Company	3,358	294	3,652
Non-controlling interest	23,178	152	23,330
	P26,536	P446	P26,982

	December 31, 2013		
	As Previously Reported	Prior Period Adjustments	As Restated
Profit or loss:			
Equity in net earnings of associates and joint ventures	P21	P402	P423
Changes in other comprehensive income:			
Share in other comprehensive loss of associates and joint ventures	(409)	(177)	(586)
Net income attributable to:			
Equity holders of the Parent Company	11,312	266	11,578
Non-controlling interest	13,692	136	13,828
	P25,004	P402	P25,406

The prior year adjustments did not have a material impact on the consolidated statements of cash flows in 2014 and 2013.

c. AAIBV

Upon the execution of a Notarial Deed of Transfer of Shares, Padma transferred to SMHC an additional 48.47% equity interest in AAIBV resulting in the increase in SMHC's ownership to 95%. As such, SMHC gained control and consolidated AAIBV effective March 5, 2015 (Note 5).

d. Northern Cement Corporation (NCC)

SMC through SMYPC, has 35% equity interest in NCC representing 104,500,000 common shares.

NCC is primarily engaged in manufacturing, developing, processing, exploiting, buying and selling cement and/or other products derived therefrom.

e. LTHI

Upon completion of the tender offer and share purchases, Vega effectively owns 97.46% of the total outstanding capital stock of LTHI. As such, Vega gained control and consolidated LTHI effective September 2, 2015 (Note 5).

f. Meralco

On September 30, 2013, SMC, together with SMPFC and SMC Global, entered into a Share Purchase Agreement with JG Summit Holdings, Inc., for the sale of 305,689,397 shares of stock of Meralco for P71,837.

As a result of the sale, the Group recognized a gain of P30,717, included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

Investments in Shares of Stock of Joint Ventures

a. TSML

SMC through GSMI's subsidiary, GSMIL, has an existing Joint Venture (JV) with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which GSMIL owns 40% ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

Through the acquisition by SHL, a subsidiary of GSMI, of the 49% ownership interest in Siam Wine Liquor Co., Ltd. (SWL) and SWL's acquisition of shares representing 10% ownership of the outstanding capital stock of TSML, the Group's share in TSML increased from 40% to 44.9%.

b. TGT

SMC through GSMI's subsidiary, GSMIHL, also has an existing 40% ownership interest in TGT, which was formed as another JV with Thai Life. TGT functions as the selling and distribution arm of TSML.

Through the acquisition of SWL of the 10% ownership interest in TGT, the Group's share in TGT increased from 40% to 44.9%.

c. Angat Hydro and KWPP

PVEI, a subsidiary of SMC Global, and Korea Water Resources Corporation (K-Water) entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 Megawatt (MW) Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US$39 as full payment of the share purchase price.

In accordance with the entry of PVEI in Angat Hydro and KWPP, K-Water and PVEI are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, PVEI agreed to pay K-Water a support fee amounting to 3% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant. This was subsequently reduced to 1.5% of the amount of the bridge loan facility effective August 4, 2015.

Advances:

a. SMPI made deposits to Primeria Commercio Holdings, Inc. (PCHI) amounting to P804 as of December 31, 2015 and 2014. The deposits will be applied against future stock subscriptions of SMPI to the shares of stock of PCHI.

b. The deposits made by Vega amounting to P5,959 as of December 31, 2014 were applied against the acquisition of 88.17% equity interest in CTI in 2015 (Note 5).

c. SMC Global and SMEC made deposits to certain land holding companies for future stock subscriptions amounting to P9,131 and P8,602, as of December 31, 2015 and 2014, respectively.

d. Other advances pertain to deposits made to certain companies which will be applied against future stock subscriptions.

The details of the Group's material investments in shares of stock of associates and joint ventures which are accounted for using the equity method are as follows:

	December 31, 2015						December 31, 2014								
	Angat Hydro and KWPP	NCC	BOC	TGT and TSML	Others	Total	AAIBV	LTHI	NCC	TGT and TSML	Angat Hydro and KWPP	BOC	MNHPI	Others	Total
Country of incorporation	**Philippines**	**Philippines**	**Philippines**	**Thailand**			Netherlands	Philippines	Philippines	Thailand	Philippines	Philippines	Philippines		
Percentage of ownership	**60.00%**	**35.00%**	**39.93%**	**44.90%**			46.53%	45.58%	35.00%	44.90%	60.00%	44.90%	35.00%		
Share in net income (loss)	**(P529)**	**P194**	**P50**	**(P110)**	**P9**	**(P386)**	P1,246	(P389)	P170	(P66)	(P11)	P446	P102	P203	P1,701
Share in other comprehensive income (loss)	**-**	**(27)**	**(324)**	**(25)**	**255**	**(121)**	199	-	(24)	6	-	377	-	(6)	552
Share in total comprehensive income (loss)	**(P529)**	**P167**	**(P274)**	**(P135)**	**P264**	**(P507)**	P1,445	(P389)	P146	(P60)	(P11)	P823	P102	P197	P2,253
Dividends received from associates	**P -**	**P -**	**P -**	**P -**	**P7**	**P7**	P -	P -	P -	P -	P -	P -	P -	P5	P5
Carrying amount of investments in shares of stock of associates and joint ventures	**P1,290**	**P3,950**	**P8,949**	**P525**	**P519**	**P15,233**	P8,732	P2,915	P3,782	P659	P1,819	P9,224	P987	P720	P28,838

The following are the unaudited condensed financial information of the Group's material investments in shares of stock of associates and joint ventures:

	December 31, 2015					December 31, 2014							
	Angat Hydro and KWPP	NCC	BOC	TGT and TSML	Others	AAIBV	LTHI	NCC	TGT and TSML	Angat Hydro and KWPP	BOC	MNHPI	Others
Current assets	**P1,146**	**P1,663**	**P128,320**	**P477**	**P2,825**	P21,293	P936	P1,763	P1,295	P407	P131,846	P1,974	P3,739
Noncurrent assets	**19,736**	**5,754**	**9,154**	**894**	**1,120**	60,669	2,532	4,374	1,330	20,187	8,865	8,091	1,259
Current liabilities	**(20,866)**	**(1,400)**	**(117,673)**	**(84)**	**(853)**	(7,914)	(1,989)	(719)	(30)	(19,714)	(120,131)	(2,590)	(1,498)
Noncurrent liabilities	**(36)**	**(38)**	**(3,071)**	**(950)**	**(889)**	(60,740)	(330)	(178)	(1,300)	(17)	(3,403)	(5,508)	(573)
Net assets (liabilities)	**(P20)**	**P5,979**	**P16,730**	**P337**	**P2,203**	P13,308	P1,149	P5,240	P1,295	P863	P17,177	P1,967	P2,927
Sales	**P1,249**	**P5,042**	**P3,955**	**P704**	**P2,004**	P11,831	P427	P4,545	P848	P154	P4,453	P2,115	P3,052
Net income (loss)	**(P882)**	**P780**	**P330**	**P105**	**P99**	P2,759	(P897)	P761	(P148)	(P19)	P1,330	P278	P192
Other comprehensive income (loss)	**-**	**(40)**	**1,935**	**-**	**-**	(131)	-	(69)	-	-	1,407	-	(21)
Total comprehensive income (loss)	**(P882)**	**P740**	**P2,265**	**P105**	**P99**	P2,628	(P897)	P692	(P148)	(P19)	P2,737	P278	P171

14. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	Note	**2015**	2014
Equity securities		**P5,335**	P5,226
Government and other debt securities		**457**	722
Proprietary membership shares and others		**226**	200
	4, 41, 42	**6,018**	6,148
Less current portion	*12*	**70**	431
		P5,948	P5,717

Government Securities

a) Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 4.47% to 8.88% in 2015 and 2014 (Note 32).

b) Ovincor's corporate bonds are maintained at the HSBC Bank Bermuda Limited and carried at fair value with fixed annual interest rates 6.75% to 7.00% (Note 32).

The movements in AFS financial assets are as follows:

	Note	**2015**	2014
Balance at beginning of the year		**P6,148**	P6,526
Additions		**163**	298
Disposals		**(438)**	(359)
Amortization of premium		**(15)**	(14)
Reclassification	*8*	**-**	(527)
Fair value loss		**142**	224
Currency translation adjustment		**18**	-
Balance at end of the year	*4, 41, 42*	**P6,018**	P6,148

The methods and assumptions used to estimate the fair value of AFS financial assets are discussed in Note 42.

15. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Cost											
January 1, 2014		P56,385	P51,437	P250,054	P49,675	P15,669	P129,191	P2,307	P509	P109,372	P664,599
Additions		771	3,438	5,028	789	1,292	6,055	112	16	21,677	39,178
Disposals/reclassifications/acquisition of subsidiaries		3,090	(180)	-	655	(426)	(80)	(32)	5,005	5,110	13,142
Currency translation adjustments		(428)	(450)	-	(587)	(393)	(489)	(37)	-	(173)	(2,557)
December 31, 2014		59,818	54,245	255,082	50,532	16,142	134,677	2,350	5,530	135,986	714,362
Additions		869	3,743	-	1,177	1,191	9,122	115	47	43,830	60,094
Disposals/reclassifications/acquisition of subsidiaries		3,036	(1,770)	-	(362)	(74)	5,125	(147)	7	2,938	8,753
Currency translation adjustments		(1,158)	(1,263)	-	(1,562)	(1,029)	(317)	-	-	(346)	(5,675)
December 31, 2015		**62,565**	**54,955**	**255,082**	**49,785**	**16,230**	**148,607**	**2,318**	**5,584**	**182,408**	**777,534**
Accumulated Depreciation and Amortization											
January 1, 2014		2,817	18,767	21,311	30,290	9,673	74,588	1,163	57	-	158,666
Depreciation and amortization	*29*	200	2,352	6,548	1,887	1,310	7,923	187	177	-	20,584
Disposals/reclassifications/acquisition of subsidiaries		987	(227)	-	(45)	(274)	279	(21)	4,418	-	5,117
Currency translation adjustments		(31)	(276)	-	86	(238)	(796)	(5)	-	-	(1,260)
December 31, 2014		3,973	20,616	27,859	32,218	10,471	81,994	1,324	4,652	-	183,107
Depreciation and amortization	*29*	224	2,301	6,776	1,730	1,287	8,149	206	113	-	20,786
Disposals/reclassifications/acquisition of subsidiaries		61	(777)	-	(109)	(53)	4,656	(284)	-	-	3,494
Currency translation adjustments		(75)	(722)	-	(751)	(565)	(841)	-	-	-	(2,954)
December 31, 2015		**4,183**	**21,418**	**34,635**	**33,088**	**11,140**	**93,958**	**1,246**	**4,765**	**-**	**204,433**
Accumulated Impairment Losses											
January 1, 2014		266	2,275	-	-	-	7,404	-	-	-	9,945
Impairment	*29*	-	-	-	-	-	19	-	-	-	19
Disposals and reclassifications		-	(403)	-	-	-	(576)	-	573	-	(406)
Currency translation adjustments		-	10	-	-	-	39	-	-	-	49
December 31, 2014		266	1,882	-	-	-	6,886	-	573	-	9,607
Impairment	*29*	-	202	-	-	-	2,129	-	-	-	2,331
Disposals and reclassifications		-	-	-	-	-	(9)	-	-	-	(9)
Currency translation adjustments		-	(22)	-	-	-	87	-	-	-	65
December 31, 2015		**266**	**2,062**	**-**	**-**	**-**	**9,093**	**-**	**573**	**-**	**11,994**
Carrying Amount											
December 31, 2014		P55,579	P31,747	P227,223	P18,314	P5,671	P45,797	P1,026	P305	P135,986	P521,648
December 31, 2015		**P58,116**	**P31,475**	**P220,447**	**P16,697**	**P5,090**	**P45,556**	**P1,072**	**P246**	**P182,408**	**P561,107**

"Equipment, furniture and fixtures" includes machinery, telecommunications equipment, transportation equipment, tools and small equipment and office equipment.

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P23,117, P20,603 and P5,395 in 2015, 2014 and 2013, respectively (Notes 29 and 33). These amounts include annual amortization of capitalized interest amounting to P128, P123 and P117 in 2015, 2014 and 2013, respectively.

The Group has interest amounting to P3,027 and P3,621 which was capitalized in 2015 and 2014, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 4.347% to 6.77% and 4.88% to 8.10% in 2015 and 2014, respectively. The unamortized capitalized borrowing costs amounted to P12,047 and P9,148 as of December 31, 2015 and 2014, respectively.

The combined carrying amounts of power plants and equipment under finance lease amounted to P209,660 and P215,518 as of December 31, 2015 and 2014, respectively (Notes 4 and 35).

On November 4, 2013, SMC, BPI and SMYPC signed respective Sale and Purchase Agreements and Asset Purchase Agreements with Coca-Cola Bottlers Philippines, Inc. and its subsidiary, Luzviminda Land Holdings, Inc., for the sale of the PET Plant and other properties located in Davao for P1,263. The Group recognized a gain amounting to P186, which was included as part of "Gain on sale of investments and property and equipment" account in the 2013 consolidated statement of income.

16. Investment Property

The movements in investment property are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Total
Cost					
January 1, 2014	P3,842	P1,102	P625	P1,631	P7,200
Additions	970	4	6	19	999
Reclassifications	125	-	3	(1,631)	(1,503)
Disposals	-	-	(6)	-	(6)
Currency translation adjustments	2	3	-	-	5
December 31, 2014	4,939	1,109	628	19	6,695
Additions	1,189	-	1	77	1,267
Reclassifications	(272)	412	-	5	145
Disposals	(4)	-	-	-	(4)
Currency translation adjustments	18	19	-	-	37
December 31, 2015	**5,870**	**1,540**	**629**	**101**	**8,140**
Accumulated Depreciation and Amortization					
January 1, 2014	101	219	454	-	774
Depreciation and amortization	8	70	43	-	121
Disposals and reclassifications	-	-	(6)	-	(6)
Currency translation adjustments	1	1	-	-	2
December 31, 2014	110	290	491	-	891
Depreciation and amortization	10	71	37	-	118
Reclassifications	16	284	-	-	300
Currency translation adjustments	5	8	-	-	13
December 31, 2015	**141**	**653**	**528**	**-**	**1,322**
Accumulated Impairment Losses					
December 31, 2014 and 2015	**8**	**-**	**-**	**-**	**8**
Carrying Amount					
December 31, 2014	P4,821	P819	P137	P19	P5,796
December 31, 2015	**P5,721**	**P887**	**P101**	**P101**	**P6,810**

No impairment loss was recognized in 2015 and 2014.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2015, 2014 and 2013.

The fair value of investment property amounting to P21,420 and P6,579 as of December 31, 2015 and 2014, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs
The valuation of investment property applied one or more or a combination of the three approaches below:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

17. Biological Assets

Biological assets consist of:

	Note	**2015**	2014
Current:			
Growing stocks		**P2,950**	P2,977
Goods in process		**369**	343
		3,319	3,320
Noncurrent:			
Breeding stocks - net	*4*	**2,177**	1,973
		P5,496	P5,293

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P1,769, P1,537 and P1,524 in 2015, 2014 and 2013, respectively (Note 29).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	**2015**	2014
Cost			
Balance at beginning of year		**P6,173**	P6,036
Increase (decrease) due to:			
Production		**39,157**	37,560
Purchases		**604**	896
Mortality		**(712)**	(734)
Sales and harvest		**(37,072)**	(36,184)
Retirement		**(1,560)**	(1,401)
Balance at end of year		**6,590**	6,173
Accumulated Amortization			
Balance at beginning of year		**880**	698
Additions	*29*	**1,769**	1,537
Retirement		**(1,555)**	(1,339)
Disposals		**-**	(16)
Balance at end of year		**1,094**	880
Carrying Amount		**P5,496**	P5,293

The Group harvested approximately 477.9 million and 452.9 million kilograms of grown broilers in 2015 and 2014, respectively, and 0.68 million and 0.75 million heads of marketable hogs and cattle in 2015 and 2014, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P42,857 and P37,106 in 2015 and 2014, respectively.

18. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2015	2014 As restated
Goodwill	**P49,230**	P30,626
Other intangible assets	**246,999**	152,144
	P296,229	P182,770

The movements in goodwill are as follows:

	Note	**2015**	2014 As restated
Balance at beginning of year		**P30,626**	P30,619
Additions	*4, 5, 39*	**18,918**	7
Cumulative translation adjustments and others		**(314)**	-
Balance at end of year	*4*	**P49,230**	P30,626

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	**Trademarks and Brand Names**	**Total**
Cost			
January 1, 2014	P8,667	P90,448	P99,115
Currency translation adjustments	4	1	5
December 31, 2014	8,671	90,449	99,120
Additions	-	446	446
Acquisition of subsidiaries	18,465	-	18,465
Currency translation adjustments	(69)	12	(57)
December 31, 2015	**27,067**	**90,907**	**117,974**
Accumulated Impairment Losses			
January 1, 2014	-	193	193
Currency translation adjustments	-	1	1
December 31, 2014	-	194	194
Impairment	-	14	14
Currency translation adjustments	-	11	11
December 31, 2015	**-**	**219**	**219**
Carrying Amount			
December 31, 2014	P8,671	P90,255	P98,926
December 31, 2015	**P27,067**	**P90,688**	**P117,755**

In November 2014, SMC through SMPFC entered into an Intellectual Property Rights Transfer Agreement with Felicisimo Martinez & Co. Inc.'s (FMC) *La Pacita* for the transfer to SMPFC of FMC's trademarks, formulations, recipes and other intangible properties (collectively, the "IP Rights") relating to the *La Pacita* biscuit and flour-based snack business. SMPFC made a refundable deposit on the same date, included as part of "Non-trade" under "Trade and other receivables" account in the 2014 consolidated statement of financial position (Note 10).

In February 2015, the refundable deposit was reversed following the substantial fulfillment of the closing conditions and the payment of the consideration.

The movements in other intangible assets with finite useful lives are as follows:

	Note	Toll Road Concession Rights	Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Airport Concession Right	Computer Software and Licenses	Power Concession Right	Project Development Cost	Port Concession Right	Others	Total
Cost											
January 1, 2014		P14,686	P1,582	P15,385	P1,414	P218	P -	P11,040	P -	P2,119	P46,444
Additions		7,540	-	-	1,402	34	496	-	-	127	9,599
Disposals and reclassifications		11,040	(95)	(15)	-	(11)	-	(11,040)	-	104	(17)
Currency translation adjustments		-	6	-	-	1	-	-	-	(30)	(23)
December 31, 2014		33,266	1,493	15,370	2,816	242	496	-	-	2,320	56,003
Additions		10,052	-	-	1,056	21	47	-	621	388	12,185
Acquisition of subsidiaries	*5, 39*	71,564	-	-	-	4	-	-	10,353	29	81,950
Disposals and reclassifications		9	2	-	-	(31)	-	-	-	70	50
Currency translation adjustments		1,799	14	-	-	-	-	-	-	(84)	1,729
December 31, 2015		**116,690**	**1,509**	**15,370**	**3,872**	**236**	**543**	**-**	**10,974**	**2,723**	**151,917**
Accumulated Amortization and Impairment Losses											
January 1, 2014		258	510	-	25	122	-	-	-	1,209	2,124
Amortization		336	33	-	12	13	15	-	-	289	698
Disposals and reclassifications		-	(22)	-	-	-	-	-	-	(1)	(23)
Currency translation adjustments		-	2	-	-	-	-	-	-	(16)	(14)
December 31, 2014		594	523	-	37	135	15	-		1,481	2,785
Amortization		2,556	32	-	41	12	21	-	28	284	2,974
Acquisition of subsidiaries	*5, 39*	15,994	-	-	-	-	-	-	535	-	16,529
Disposals and reclassifications		-	-	-	-	(15)	-	-	-	190	175
Currency translation adjustments		259	2	-	-	-	-	-	-	(51)	210
December 31, 2015		**19,403**	**557**	**-**	**78**	**132**	**36**	**-**	**563**	**1,904**	**22,673**
Carrying Amount											
December 31, 2014		P32,672	P970	P15,370	P2,779	P107	P481	P -	P -	P839	P53,218
December 31, 2015		**P97,287**	**P952**	**P15,370**	**P3,794**	**P104**	**P507**	**P -**	**P10,411**	**P819**	**P129,244**

Project development cost represents the upfront fee paid by Vertex to the Department of Public Works and Highways (DPWH) for the NAIA Expressway Project which was reclassified to toll road concession rights as of December 31, 2014 (Note 35).

Goodwill, licenses and trademarks and brand names with indefinite lives and mineral rights and evaluation assets with finite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2015			2014		
	Goodwill	**Licenses, Trademarks and Brand Names**	**Mineral Rights and Evaluation Assets**	Goodwill	Licenses, Trademarks and Brand Names	Mineral Rights and Evaluation Assets
Infrastructure	**P18,751**	**P -**	**P -**	P384	P -	P -
Energy	**9,600**	**-**	**1,720**	9,600	-	1,720
Fuel and oil	**8,777**	**38,300**	**-**	8,777	38,300	-
Beverage	**2,189**	**49,897**	**-**	2,189	49,980	-
Food	**1,733**	**5,872**	**-**	1,733	5,425	-
Mining	**1,280**	**-**	**13,650**	1,280	-	13,650
Packaging	**1,187**	**-**	**-**	950	-	-
Telecommunications	**7**	**23,686**	**-**	7	5,221	-
Others	**5,706**	**-**	**-**	5,706	-	-
Total	**P49,230**	**P117,755**	**P15,370**	P30,626	P98,926	P15,370

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 6% to 14% in 2015 and 2014. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized in 2015, 2014 and 2013.

The recoverable amount of licenses, trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The range of the growth rates used is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections ranged from 6.4% to 16.6% in 2015 and 2014. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique.

Impairment loss recognized in 2015 amounted to P14 (Note 33).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins*. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

- *Discount Rates*. The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

19. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2015**	2014
Deferred containers - net	*4, 29*	**P7,014**	P6,916
Noncurrent receivables and deposits - net	*34, 36, 40, 41, 42*	**6,353**	11,931
Advances to contractors and suppliers		**3,939**	-
Retirement assets	*36*	**3,175**	3,830
Noncurrent prepaid rent		**2,228**	2,989
Deposits on land for future development		**1,546**	1,433
Restricted cash	*41, 42*	**1,457**	1,079
Noncurrent prepaid input tax		**1,425**	1,442
Idle assets	*4*	**1,194**	785
Catalyst		**947**	1,540
Deferred exploration and development costs	*4, 35*	**867**	762
Others		**2,677**	1,388
		P32,822	P34,095

Noncurrent receivables and deposits include amounts owed by related parties amounting to P2,735 and P8,390 as of December 31, 2015 and 2014, respectively (Note 34) and the costs related to the capitalized expenditures for the development of the Metro Rail Transit Line 7 (MRT 7) Project amounting to P2,598 and P2,429 as of December 31, 2015 and 2014, respectively (Note 35).

Restricted cash represents: (i) SPI's Cash Flow Waterfall Accounts with a local bank amounting to P1,209 and P1,021 as of December 31, 2015 and 2014, respectively, as part of the provisions in the Omnibus Loan and Security Agreement; and (ii) APEC's reinvestment fund for sustainable capital expenditures and cash collected from customers for membership fees and bill deposits which are refundable amounting to P103 and P34 as of December 31, 2015 and 2014, respectively.

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 42.

"Others" consist of marketing assistance to dealers and other noncurrent prepaid expenses.

20. Loans Payable

Loans payable consist of:

	Note	**2015**	2014
Parent Company			
Peso-denominated		**P571**	P571
Subsidiaries			
Peso-denominated		**130,681**	144,032
Foreign currency-denominated		**16,774**	36,109
	41, 42	**P148,026**	P180,712

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks, and financial institution. Interest rates for peso-denominated loans ranged from 2.00% to 5.50% in 2015 and 2014. Interest rates for foreign currency-denominated loans ranged from 3.00% to 12.60% and from 1.63% to 9.00% in 2015 and 2014, respectively (Note 31).

Loans payable include interest-bearing amounts payable to a related party amounting to P3,988 and P6,400 as of December 31, 2015 and 2014, respectively (Note 34).

Loans payable of the Group are not subject to covenants.

21. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2015**	2014
Trade		**P47,199**	P56,736
Non-trade		**41,954**	57,966
Amounts owed to related parties	*34*	**13,262**	10,068
Accrued payroll		**4,777**	4,531
Accrued interest payable		**2,715**	2,647
Derivative liabilities	*41, 42*	**2,581**	325
Retention payable		**1,213**	-
Current portion of IRO	*4*	**370**	21
Retirement liabilities	*36*	**91**	127
Subscriptions payable		**-**	28
Others		**135**	33
	41, 42	**P114,297**	P132,482

Trade payables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade payables include contract growers/breeders' fees, guarantee deposits, utilities, rent and other expenses payable to third parties.

"Others" include accruals for materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 42.

22. Long-term Debt

Long-term debt consists of:

	2015	2014
Parent Company		
Term notes:		
Foreign currency-denominated:		
Floating interest rate based on LIBOR plus margin, maturing in 2015 and 2016 (a)	**P31,664**	P29,698
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 6.05%, 5.93% and 6.60% maturing in 2017, 2019 and 2022, respectively (b)	**19,889**	19,862
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (c)	**14,881**	14,863
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (d)	**7,217**	-
Fixed interest rate of 10.50% maturing in 2019 (e)	**2,796**	2,793
Foreign currency-denominated:		
Fixed interest rate of 7.00% maturing in 2016 (f)	**13,952**	13,190
Term notes:		
Foreign currency-denominated:		
Fixed interest rate of 4.875% with maturities up to 2023 (g)	**24,044**	35,336
Fixed interest rate of 12.45%, 12.85% and 13.27% maturing in 2016 (h)	**65**	-
Peso-denominated:		
Fixed interest rate of 7.00% maturing in 2017 (i)	**19,926**	19,891
Fixed interest rate based on PDST-F plus margin, with maturities up to 2021 (j)	**14,824**	11,415
Fixed interest rate of 6.2921% and 6.0606% with maturities up to 2023 (k)	**12,056**	13,386
Fixed interest rate of 6.52% maturing in 2021 (l)	**9,163**	-
Fixed interest rate of 8.74899% maturing in 2022 (m)	**8,676**	-
Fixed interest rate of 6.9343%, 6.9983% and 7.5573% maturing in 2027 (n)	**8,579**	-
Fixed interest rate of 6.81768%, 6.8385% and 7.2374% maturing in 2025 (o)	**6,321**	-
Fixed interest rate of 5.4583% plus Gross Receipts Tax (GRT) maturing in 2022 (p)	**4,976**	-
Fixed interest rate of 6.3212% and 7.1827% with maturities up to 2018 and 2021, respectively (q)	**3,433**	3,466
Fixed interest rate of 6.6583% with maturities up to 2023 (r)	**3,384**	3,462
Fixed interest rate of 5.65% with maturities up to 2019 (s)	**2,250**	-
Fixed interest rate of 6.175% and 6.145% maturing in 2016 (t)	**1,500**	1,500
Fixed interest rate of 12.00% (u)	**52**	52
Fixed interest rate of 5.4885% maturing in 2015 (v)	**-**	798

Forward

	Note	2015	2014
Floating interest rate based on PDST-F plus margin or BSP overnight rate plus margin, whichever is higher, with maturities up to 2019 (w)		**P3,243**	P3,240
Floating interest rate based on PDST-F plus margin, with maturities up to 2022 (x)		**3,177**	3,175
Floating interest rate based on PDST-F plus margin, with maturities up to 2021 (y)		**349**	349
Floating interest rate based on PDST-F plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018 (z)		**343**	457
Floating interest rate based on PDST-F plus margin, with maturities up to 2015 (aa)		**-**	7,850
Floating interest rate based on PDST-F plus margin, maturing in 2015 (v)		**-**	3,693
Foreign currency-denominated:			
Floating interest rate based on LIBOR plus margin, with maturities in various dates through 2018 (bb)		**77,749**	73,506
Floating interest rate based on LIBOR plus margin, with maturities up to 2018 (cc)		**32,439**	21,984
Floating interest rate based on LIBOR plus margin, with maturities up to 2020 (dd)		**25,177**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2016 (ee)		**15,850**	-
Floating interest rate LIBOR plus margin, with maturities up to 2019 (ff)		**15,639**	20,821
Floating interest rate based on LIBOR plus margin, with maturities in various dates through 2020 (gg)		**13,210**	-
Floating interest rate based on COF plus margin, with maturities up to 2019 (hh)		**3,269**	3,805
Floating interest rate based on LIBOR plus margin (ii)		**-**	15,094
Floating interest rate based on LIBOR plus margin (jj)		**-**	9,052
	41, 42	**368,429**	303,040
		400,093	332,738
Net adjustment due to purchase price allocation - noncurrent		**1,737**	2,712
		401,830	335,450
Less: Current maturities		**69,270**	25,107
Net adjustment due to purchase price allocation - current		**124**	46
Net current maturities		**69,394**	25,153
		P332,436	P310,297

a. The amount represents drawdowns from the Parent Company's loan facility of up to US$700 for the refinancing of maturing loan. The Parent Company obtained US$125, US$200 and US$350 loans on March 27, 28 and 31, 2014, respectively, or a total of US$675 from three financial institutions. Interest rates range from 3.00% to 5.61% per annum, payable on a quarterly basis. Out of the US$675 loans, US$125 will mature on March 23, 2016 and the remaining balance will mature on March 29, 2016.

   Unamortized debt issue costs amounted to P101 and P488 as of December 31, 2015 and 2014, respectively.

b. The amount represents SMB's Bonds worth P20,000, which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 16, 2012. The Bonds were issued on April 2, 2012 at the issue price of 100.00% of face value in three series: Series D Bonds with fixed interest rate of 6.05% per annum; Series E Bonds with a fixed interest rate of 5.93% per annum; and Series F Bonds with a fixed interest rate of 6.60% per annum. The proceeds were used to refinance SMB's existing financial indebtedness and for general working capital purposes.

   The Series E Bonds and Series F Bonds were listed on the Philippine Dealing & Exchange Corp. (PDEx) on April 2, 2012 while the Series D Bonds were listed for trading on the PDEx effective October 3, 2012.

   Unamortized debt issue costs amounted to P111 and P138 as of December 31, 2015 and 2014, respectively.

c. The amount represents the issuance of SMB of the Philippine Peso fixed rate bonds in the aggregate principal amount of P15,000, consisting of Series G Bonds in the aggregate principal amount of P12,462 with a term of seven years and interest rate of 5.50% per annum and Series H Bonds in the aggregate principal amount of P2,538 with a term of ten years and interest rate of 6.00% per annum (Series GH Bonds).

   Interest on the Series GH Bonds is paid every April 2 and October 2 of each year (each on Interest Payment Date). SMB may (but shall be likewise not obligated to) redeem all (and not a part only) of the outstanding Series GH Bonds on the 11th Interest Payment Date for the Series G Bonds, and on the 14th, 16th or 18th Interest Payment Dates for the Series H Bonds.

   The Series GH Bonds were listed on the PDEx on April 2, 2014.

   Unamortized debt issue costs amounted to P119 and P137 as of December 21, 2015 and 2014, respectively.

d. The amount represents SLTC's peso-denominated fixed rate bonds (SLTC Bonds) worth P7,300. The SLTC Bonds were issued in three series: Series A Bonds amounting to P2,400 with a fixed interest rate of 4.9925% per annum, Series B Bonds amounting to P2,400 with a fixed interest rate of 5.5796% per annum and Series C Bonds amounting to P2,500 with a fixed interest rate of 6.4872% per annum.

   The net proceeds of the bond offering were used to prepay the five-year Peso-denominated Corporate Notes drawn in 2012. The SLTC Bonds were listed on PDEx on May 22, 2015.

   Unamortized debt issue costs amounted to P83 as of December 31, 2015.

e. The amount represents SMB's peso denominated fixed rate Series C Bonds with an aggregate principal amount of P2,810 which was part of the P38,800 SMB Bonds sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 17, 2009. The SMB Bonds were listed on the PDEx for trading on November 17, 2009.

   Unamortized debt issue costs amounted to P14 and P17 as of December 31, 2015 and 2014, respectively.

f. The amount represents US$300, 7%, five-year bond issued by SMC Global in 2011 under the Regulations of the US Securities Act of 1933, as amended. The unsecured bond issue is listed on the SGX-ST.

   Unamortized bond issue costs amounted to P5 and P72 as of December 31, 2015 and 2014, respectively.

g. The amount represents the drawdown of US$800 Notes (the "Notes") issued on April 19, 2013, from SMC's US$2,000 Medium Term Note (MTN) Programme. The Notes which were listed on the SGX-ST on the same date bear interest at the rate of 4.875% per annum, payable semi-annually in arrears every 26th of April and October of each year.

   On March 19, 2015, SMC announced in the SGX-ST the tender offer for the purchase of up to US$400 of the US$800 Notes.

   On April 10, 2015, SMC purchased US$284 of the US$400 Notes offered for purchase in the tender offer. The aggregate cash amount paid by SMC based on the aggregate principal amount of the Notes repurchased is US$278. SMC recognized a gain on redemption amounting to P275 included as part of "Others" under "Other income (charges)" account in the 2015 consolidated statement of income (Note 33).

   Unamortized debt issue costs amounted to P257 and P440 as of December 31, 2015 and 2014, respectively.

h. The amount represents unsecured facility loans entered into by PT SMPFI in 2015 with a foreign bank amounting to P65. PT SMPFI obtained the loans in three tranches with fixed interest rates of 12.85%, 12.45% and 13.27%, all maturing on December 9, 2016. Proceeds were used to refinance capital expenditure requirements including the purchase of machineries.

i. The amount represents P20,000 peso-denominated notes issued by Petron in 2010. The notes bear interest of 7% per annum, payable semi-annually in arrears every 10th of May and November of each year. The notes will mature on November 10, 2017. The principal and interest will be translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment.

   Unamortized debt issue costs amounted to P74 and P109 as of December 31, 2015 and 2014, respectively.

j. The amount represents series of drawdowns by PIDC from the P15,140 loan facility agreement with creditor banks, to finance the TPLEX Project. The loan is payable in 24 quarterly installments commencing on the 51st month from the initial borrowing dates, inclusive of not more than four-year grace period. Final repayment date is 10 years after initial borrowing.

   The loan is subject to repricing on the 5th year from the date of initial drawdown.

   Unamortized debt issue costs amounted to P127 and P85 as of December 31, 2015 and 2014, respectively.

k. The amount represents P12,300 and P1,500 drawn by SPI on September 30, 2013 and 2014, respectively, from the P13,800 ten-year term loan facility agreement with syndicate of banks.

Pursuant to the Facility Agreement, the amount of the loan drawn in 2015 and 2014 will bear interest at the rate of 6.5446% and 6.3131%, respectively, as determined by the Facility Agent. Effective November 28, 2014, step-down interest rate is at 6.2921% and 6.0606% for 2015 and 2014 loans, respectively. The Facility Agreement has a final maturity date of September 2023.

The proceeds of the loan were used for the acquisition of the 2 x 35 MW Co-Generation Coal Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures for the expansion of the capacity. The drawdown includes payable to BOC amounting to P3,103 and P3,451 as of December 31, 2015 and 2014, respectively (Note 34).

Unamortized debt issue costs amounted to P178 and P221 as of December 31, 2015 and 2014, respectively.

l. The amount represents P14,500 Corporate Notes Facility entered into by AAIPC with various banks. Proceeds of the loan were used to finance the acquisition of the shares of stock of CMMTC. The loan is payable semi-annually until September 27, 2021. The drawdown includes payable to BOC amounting to P2,566 as of December 31, 2015 (Note 34).

   Unamortized debt issue costs amounted to P140 as of December 31, 2015.

m. The amount represents P11,500 Corporate Notes Facility with various banks, drawn by MTDME in 2012. Proceeds of the loan were used to refinance the Holding Company Facility Agreement entered into by AAIBV amounting to US$250 in which MTDME was a replacement borrower. The loan is payable semi-annually until 2022. The drawdown includes payable to BOC amounting to P1,338 as of December 31, 2015 (Note 34).

   Unamortized debt issue costs amounted to P116 as of December 31, 2015.

n. The amount represents the P8,700 loan drawn by CCEC in 2015, from the P31,000 Loan Facility with various banks. The loan is payable in 35 unequal consecutive quarterly installments. Proceeds of the loan were used to finance the design, construction and the operation and maintenance of the Stage 3 of Metro Manila Skyway Project. The drawdown includes payable to BOC amounting to P1,038 as of December 31, 2015 (Note 34).

   Unamortized debt issue costs amounted to P121 as of December 31, 2015.

o. The amount represents the P6,400 loan drawn by Vertex in 2015, from the P7,500 Loan Facility with various banks. The loan is payable in quarterly installments up to February 27, 2025. Proceeds of the loan were used to finance the ongoing construction of the NAIA Expressway Project. The drawdown includes payable to BOC amounting to P1,707 as of December 31, 2015 (Note 34).

   Unamortized debt issue costs amounted to P79 as of December 31, 2015.

p. The amount represents P5,000 loan drawn by Petron on October 13, 2015 from the term loan facility agreement signed and executed on October 7, 2015. The facility is amortized over seven years with a two-year grace period and is subject to a fixed rate of 5.4583% plus GRT.

   Unamortized debt issue costs amounted to P24 as of December 31, 2015.

q. The amount represents Fixed Rate Corporate Notes (FXCN) issued by Petron in 2011 consisting of Series A Notes amounting to P690 having a maturity of up to seven years from the issue date and Series B Notes amounting to P2,910 having a maturity of up to ten years from the issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements.

   Unamortized debt issue costs amounted to P23 and P27 as of December 31, 2015 and 2014, respectively.

r. The amount represents the P3,500 loan facility with local banks, entered into by SIDC in 2013. The proceeds of the loan were used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. Repayment period is within 32 unequal consecutive quarterly installments on each repayment date in accordance with the agreement beginning on the earlier of (i) the 27th month from initial drawdown date or (ii) the 3rd month from the date of receipt by SIDC of the financial completion certificate for the Project.

   Unamortized debt issue costs amounted to P31 and P38 as of December 31, 2015 and 2014, respectively.

s. The amount represents the P3,000 loan facility with local banks, which was fully drawn in 2013. The loan is payable within seven years in equal quarterly installments up to 2019. Proceeds of the loan were used to finance the modernization, development and maintenance of MNHPI.

t. The amount represents drawdown by SMCSLC in 2011, from a local bank, which was used for working capital requirements.

u. The amount represents the outstanding loan of PPC with a local bank payable in 16 semi-annual installments over a period of 10 years, inclusive of a two-year grace period, starting from December 1997. PPC was unable to pay the installments. Management is currently developing and discussing a plan with the creditor to amend the loan repayment terms and provisions to enable PPC to continue to meet its obligations from cash generated by operations.

v. The amount represents corporate notes which SMFI offered for sale and subscription to the public in December 2010. These are Philippine peso-denominated fixed rate and floating rate notes with principal amounts of P800 and P3,700, respectively. Both types of notes have a term of five years and one day beginning on December 10, 2010 and ending on December 11, 2015. The fixed rate note bears interest of 5.4885% per annum while the floating rate note bears interest based on 3-month PDST-F plus an agreed margin. Proceeds from the issuance of the notes were used to fund expansion and investment in new businesses by SMFI and for general corporate purposes. SMFI fully paid the said corporate notes on their maturity date.

   Unamortized debt issue costs amounted to P9 as of December 31, 2014.

w. The amount represents drawdown from the loan agreement entered into by SMYPC with BOC in October 2012 amounting to P3,500 used for general financing and corporate requirements maturing on October 11, 2019. In April 2014, SMYPC paid P250 as partial settlement of the loan principal (Note 34).

Unamortized debt issue costs amounted to P7 and P10 as of December 31, 2015 and 2014, respectively.

x. The amount represents series of drawdowns in 2014 and 2013 from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in 28 quarterly installments commencing on the 12th quarter (Note 34).

   Unamortized debt issue costs amounted to P12 and P14 as of December 31, 2015 and 2014, respectively.

y. The amount represents the seven-year bank loan obtained by CAI from BOC in April 2014 amounting to P350. The loan was obtained for capital expenditure purposes (Note 34).

   Unamortized debt issue costs amounted to P1 as of December 31, 2015 and 2014.

z. The amount represents EPSBPI's unsecured loan used to finance the construction of its bottling facilities. The loan is payable in equal quarterly installments starting February 18, 2012, bearing an interest rate equivalent to the higher of benchmark rate (three-month PDST-F rate) plus a spread or the overnight rate (BSP overnight reverse repo rate on interest rate settling date).

aa. The amount represents drawdown of various loans in 2009 and 2010 by SMC used for financing general and corporate requirements.

   On December 14, 2015, SMC paid the remaining balance of the loan amounting to P7,850.

bb. The amount represents drawdown by SMC on various dates in 2013 to pay in full and refinance the US$1,000 loan availed in 2010, to fund infrastructure investments and for general corporate purposes.

   Unamortized debt issue costs amounted to P841 and P1,176 as of December 31, 2015 and 2014, respectively.

cc. The amount represents SMC Global's drawdown of US$500 from the US$650, five-year term loan with a syndicate of banks signed on September 8, 2013. The loan proceeds were used to refinance SMC Global's existing US$200 three-year term loan and to finance new investments in power-related assets. On November 15, 2013, the US$650 facility agreement was amended to increase the facility amount to US$700.

   On March 6, 2015, SMC Global made the final drawdown of US$200 for the financing of ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes.

   Unamortized debt issue costs amounted to P503 and P376 as of December 31, 2015 and 2014, respectively.

dd. The amount represents the US$550 loan drawn by Petron on July 29, 2015, from a US$550 refinancing facility which was signed and executed on July 20, 2015. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. The proceeds were used to pay in full the remaining outstanding balances of about US$206 and US$345 under the US$480 and US$485 term loan facility, respectively. On November 11, 2015, Petron completed the syndication of facility with 29 banks.

Unamortized debt issue costs amounted to P706 as of December 31, 2015.

ee. The amount represents the US$340 loan facility agreement entered into by AAIBV with Standard Chartered Bank in September 17, 2014. Proceeds of the loan were used for payment of the subscription price for S3CTH shares subscribed by AAIBV and payment of the subscription price of CCEC shares provided to Philippine National Construction Corporation. The loan is payable lump sum on September 19, 2016 and bears an interest rate of the sum of 5.375% margin rate and LIBOR rate applicable to the loan payable at the end of each interest period.

    Unamortized debt issue costs amounted to P151 as of December 31, 2015.

ff. The amount represents the US$300 loan facility signed and executed by Petron on May 14, 2014. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. The total amount was drawn in 2014 and the proceeds were used to refinance existing debt and for general corporate purposes. On September 29, 2014, Petron completed the syndication of the facility, raising the facility amount to US$475. Drawdowns related to the additional US$175 were made on October 24 and November 6, 2014. Amortization in seven equal amounts will start in May 2016, with final amortization due in March 2019. In 2015, Petron made partial payments amounting to US$135.

    Unamortized debt issue costs amounted to P361 and P421 as of December 31, 2015 and 2014, respectively.

gg. The amount represents the drawdown of US$287 on September 8, 2015 from SMC's US$800-Term Facility signed in March 2015. Proceeds for the five-year floating rate loan were used for the repayment of the MTN Tender Offer in April 2015.

    Unamortized debt issue costs amounted to P296 as of December 31, 2015.

hh. The amount represents the Malaysian Ringgit (MYR) 300 loan availed by Petron Malaysia in 2014. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of COF plus margin.

    Unamortized debt issue costs amounted to P20 and P33 as of December 31, 2015 and 2014, respectively.

ii. The amount represents the US$485 drawn from the loan facility signed and executed by Petron on October 31, 2012. The facility is amortized over five years with two-year grace period and is subject to a floating interest rate plus a fixed spread. The proceeds were used to finance the capital expenditure requirements of Refinery Master Plan Phase 2 (RMP-2) Project. Petron made partial payments in 2014 amounting to US$140. On July 29, 2015, Petron fully prepaid the remaining balance of US$345 using the proceeds from a US$550 refinancing facility.

    Unamortized debt issue costs amounted to P335 as of December 31, 2014.

jj. The amount represents the US$480 term loan facility signed and executed by Petron on September 30, 2011. The 1st drawdown of US$80 was made on November 25, 2011. Petron availed of the remaining US$400 of the term loan facility on February 15, 2012. The loan proceeds were used to finance the capital expenditure requirements of the RMP-2 Project. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. Petron made partial payments in previous years amounting to US$274. On July 29, 2015, Petron fully prepaid the remaining balance of the loan using the proceeds from a US$550 refinancing facility.

    Unamortized debt issue costs amounted to P148 as of December 31, 2014.

Long-term debt includes interest-bearing amounts payable to a related party amounting to P16,541 and P10,240 as of December 31, 2015 and 2014, respectively (Note 34).

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group is in compliance with the covenants of the debt agreements as of December 31, 2015 and 2014.

The movements in debt issue costs are as follows:

	Note	**2015**	2014
Balance at beginning of year		**P4,295**	P4,113
Additions		**1,341**	1,876
Amortization	*31*	**(1,544)**	(1,253)
Reclassification, capitalized and others		**409**	(441)
Balance at end of year		**P4,501**	P4,295

<u>Repayment Schedule</u>
The annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2016	P69,666	P396	P69,270
2017	41,795	873	40,922
2018	137,356	1,813	135,543
2019	35,531	384	35,147
2020 and thereafter	120,246	1,035	119,211
Total	**P404,594**	**P4,501**	**P400,093**

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 41.

23. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	2015	2014
Payables on the purchase of shares of stock	*5*	**P12,536**	P11,931
Retirement liabilities	*36*	**11,673**	7,974
Subscription deposit		**6,910**	-
Amounts owed to related parties	*34*	**6,222**	54
Obligation to ROP - service concession agreement	*4, 18, 35*	**2,456**	71
ARO	*4*	**1,839**	1,659
IRO	*4*	**683**	68
Cylinder deposits		**454**	442
Cash bonds		**382**	870
Retention payable		**105**	-
Accrual for mine rehabilitation and decommissioning	*4*	**19**	18
Redeemable preferred shares	*4*	**15**	15
Others		**1,873**	987
	41, 42	**P45,167**	P24,089

Payables on the Purchase of Shares of Stock. These amounts include: (a) the unpaid balance of the purchase price of PPC shares and the Tranche B receivables in accordance with the terms of the Amended and Restated Definitive Agreement (ARDA); and (b) advances made by Privatization Management Office (PMO) for the settlement of the liabilities of PPC.

a. The ARDA and Supplemental ARDA were executed on May 10, 1996 and May 2, 1997, respectively, and amended on September 27, 1999, for PIC's acquisition from PMO of the PPC Shares and the Tranche B receivables for a total purchase price of US$334 less US$70, representing the stipulated amount of PPC's liabilities to its creditors excluding the National Government. The said purchase price is payable subject to various provisions of the ARDA as follows: (1) US$260 payable in 23 successive semi-annual installments, the 1st installment of which started in September 2003; and (2) US$4 payable in 171 monthly installments, the 1st installment of which started in August 1996.

   Among others, the payment of the purchase price is subject to the following provisions:

   i. PIC shall pay an installment only if, during the six-month period ending one month prior to an installment payment date (or such applicable date), the average London Metal Exchange (LME) price for nickel shall be higher than PIC's cash break-even price for such period. Notwithstanding the foregoing provision, if PPC's cash available for payments to PMO (as defined in the ARDA) shall not be sufficient to pay the whole installment, then PIC shall pay only such portion of the installment as shall be equal to PPC's cash available for payments to PMO and the unpaid portion shall be deferred to the next succeeding installment payment date.

ii. In the event that the payment of an installment, or a portion thereof, is deferred pursuant to the above provisions, PIC shall accrue interest thereon beginning on the date the installment was originally due until paid in full at an interest rate equivalent to the six-month London Interbank Offered Rate for dollar deposits. All interest accrued on this provision shall be paid by PIC to PMO on the installment payment date immediately following the six months period during which the average LME price for nickel is higher than PPC's cash break-even price.

iii. At least fifty percent of the portion of the purchase price shall be paid by PIC at the end of the 9th year after Final Notice (as defined in the ARDA) and the balance at the end of the 15th year after Final Notice, even if the average LME price for nickel shall be equal or lower than PIC's cash break-even price for such period.

No payments were made for the said purchase price as of December 31, 2015.

As security for the payment of the said purchase price in accordance with the terms of the ARDA, PIC pledged the shares of PPC to PMO on May 2, 1997. PIC shall also pledge to PMO the preferred shares to be received from PPC upon the conversion of the Tranche B receivables to equity.

On September 27, 1999, the cash break-even price formulated on May 2, 1997 was deleted. PIC and PMO shall establish a new cash break-even price formula which reflects the appropriate cost centers for a nickel refinery based on a pressure acid leach technology. As of December 31, 2015, the cash break-even price formula has not yet been established.

b. The amounts owed to PMO also consist of the advances made by PMO for the settlement of the liabilities of PPC amounting to P1,289 as of December 31, 2015. The advances will be paid by PIC in behalf of PPC and will be payable, without interest, in 23 successive semi-annual installments with a three and a half year grace period, from the date of the Amendment Agreement to the ARDA or over a total period of 15 years inclusive of the grace period.

   PIC has not accrued any interest on the unpaid monthly installments as management believes that interest is not due to PMO, since the cash break-even price has not yet been established, and PIC has no cash available for payment to PMO as defined in the ARDA.

   In 2003, PIC filed a case with the Regional Trial Court of Makati (Court) for the suspension of payments, to stop PMO from enforcing the provisions under the ARDA providing for automatic reversion of PPC shares to PMO and for the court to fix a period of payment. The court granted PIC's application and issued a Writ of Preliminary Injunction to enjoin PMO from enforcing the said automatic reversion of clause. The issues relating to the injunction orders and the validity of the automatic reversion clause were subsequently appealed to the Supreme Court, which, in a Decision dated August 27, 2014, declared that the automatic reversion clause constituted pactum commisorium and, thus, null and void. In the meantime, the proceedings before the trial court are on-going. In December 2015, PIC filed a Motion for Summary Judgment praying for the trial court to resolve the only remaining issue of fixing the period for payment and performance by PIC of its obligations under the ARDA.

Accrual for Mine Rehabilitation and Decommissioning. The Group accrues for the future cost of rehabilitating the nickel refinery located in Nonoc Island, Surigao City and the related production facilities for the development of mines or installation of those facilities. The rehabilitation provision represents the present value of rehabilitation costs to be incurred by 2022. The accrual has been created based on the Group's internal estimates and assumptions, based on current economic environment. Management believes that the estimates and assumptions used provide a reasonable basis upon which to estimate the future liability. The estimates and assumptions used are reviewed regularly to take into account any material changes. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This, in turn, will depend upon future ore prices, which are inherently uncertain.

The Contingent Liability and Rehabilitation Fund Steering Committee, having approved the Final Mine Rehabilitation and/or Decommissioning Plan (FMR/DP) of the Group's nickel refinery, granted the Certificate of Approval dated February 24, 2010 to the Group, after the Group has substantially complied with the FMR/DP requirements.

Redeemable Preferred Shares. These represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year PDST-F). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the ten-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

Subscription Deposit. In 2015, Vega received P6,910 as a deposit for future stock subscription from a certain investor.

"Others" include amounts owed by PPC to creditors conforming to debt restructuring and other noncurrent payables. These creditors have agreed to the settlement proposal of PIC which provides for the deferral of payment of the principal obligations over a number of years. These amounts are payable, without interest, over ten years in 17 semi-annual installments commencing two years after the resumption of commercial operations.

24. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2015	2014
Allowance for impairment losses on trade and other receivables and inventory	**P3,619**	P3,643
MCIT	**747**	486
NOLCO	**487**	1,461
Fair market value adjustments on business combination	**(28)**	(38,869)
Undistributed net earnings of foreign subsidiaries	**(828)**	(713)
Unrealized intercompany charges and others	**(2,979)**	226
Acquisition of new subsidiaries	**(40,796)**	-
	(P39,778)	(P33,766)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	2015	2014
Deferred tax assets	*4*	**P17,007**	P14,982
Deferred tax liabilities		**(56,785)**	(48,748)
		(P39,778)	(P33,766)

As of December 31, 2015, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2013	December 31, 2016	P800	P8
2014	December 31, 2017	398	341
2015	December 31, 2018	424	398
		P1,622	**P747**

The components of income tax expense are shown below:

	2015	2014	2013
Current	**P14,996**	P10,930	P3,928
Deferred	**2,254**	222	(1,759)
	P17,250	P11,152	P2,169

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2015	2014 As restated	2013 As restated
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**(3.09%)**	(3.16%)	(0.97%)
Equity in net losses (earnings) of associates and joint ventures	**0.27%**	(1.34%)	(0.46%)
Gain on sale of investments subject to final or capital gains tax	**(0.06%)**	(0.39%)	(33.42%)
Others, mainly income subject to different tax rates - net	**14.02%**	4.13%	12.72%
Effective income tax rate	**41.14%**	29.24%	7.87%

25. Equity

a. *Capital Stock*

Common Shares

On January 6, 2010, SMC acquired a 49% stake via equity infusion in the Parent Company consisting of its subscription to 2,401,960 common shares of the Parent Company's unissued capital stock. On January 7, 2010, the Parent Company issued 2,401,960 common shares to SMC at a price of P18,600.00 per share, resulting in additional paid-in capital of P44,436.

On July 16, 2013, the BOD and stockholders of the Parent Company approved the stock split of the Parent Company's common shares via change of the par value from P100.00 per share to P1.00 per share. As a result of such stock split, the issued and outstanding common shares increased from 4,901,960 to 490,196,000. The new authorized capital stock of the Parent Company amounted to P1,000 divided into 740,000,000 common shares with P1.00 par value per share and 2,600,000 preferred shares with P100.00 par value per share. The SEC approved such corporate action on August 16, 2013.

The movements in the number of issued and outstanding shares of common stock are as follows:

	Note	**2015**	2014	2013
Issued and outstanding shares at beginning of year		**330,325,136**	330,325,136	4,901,960
Effect of stock split		**-**	-	485,294,040
Issuance during the year		**-**	-	200
Treasury shares	*5*	**-**	-	(159,871,064)
Issued and outstanding shares at end of year		**330,325,136**	330,325,136	330,325,136

On December 18, 2013, the PSE approved the application of the Parent Company for the listing by way of introduction of all its common shares. The shares were listed on the PSE on January 13, 2014.

The Parent Company has a total of 519 and 394 common shareholders as of December 31, 2015 and 2014, respectively.

Preferred Shares

On October 22, 2010, the Parent Company issued the stock certificates covering SMC's investment in 2,598,040 preferred shares at a price of P18,600.00 per share, resulting in additional paid-in capital of P48,064.

The preferred shares have a par value of P100.00 per share and are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares.

The preferred shares do not carry the right to vote. These are redeemable in whole or in part, at the sole option of the Parent Company, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

The preferred shares are entitled to participate and share in the retained earnings remaining after payment of the preferential dividends at the same rate as the common shares and shall have pre-emptive right to issues or dispositions of any share of any class of the Parent Company.

There were no movements in the number of issued and outstanding preferred shares of stock of the Parent Company in 2015 and 2014.

b. *Treasury Shares*

As of December 31, 2015 and 2014, treasury stock consist of:

	Note	
Common:		
Receipt of own shares as property dividends	*5*	P28,001
Common shares of the Parent Company held by SMC		456
		28,457
Preferred:		
Redemption of preferred shares		12,899
Preferred shares of the Parent Company held by SMC		35,424
		48,323
		P76,780

There were no movements in the treasury shares of the Parent Company in 2015.

As discussed in Note 5, on October 17, 2013, the BOD of SMC approved the declaration, by way of property dividends, of 240,196,000 common shares of stock of the Parent Company to SMC common shareholders of record as of November 5, 2013, distributed on December 26, 2013.

The declaration of the property dividends eliminated the cross ownership between the Parent Company and SMC, which resulted in the consolidation of SMC effective October 17, 2013. The Parent Company, being a shareholder of SMC, received 157,310,033 of its own common shares equivalent to P28,001 recognized as "Treasury stock - common" and "Additional paid-in capital" accounts in the consolidated statements of changes in equity as of December 31, 2015 and 2014 (Note 5).

The remaining investments in the Parent Company held by SMC consisting of 2,561,031 common shares amounting to P456 and 1,904,540 preferred shares amounting to P35,424 recognized by SMC as AFS financial assets were recognized as "Treasury stock" account in the consolidated statements of financial position as of December 31, 2015 and 2014.

On June 18, 2012, the Parent Company partially redeemed a total of 693,500 preferred shares out of the 2,598,040 preferred shares issued to SMC, at the total redemption price of P12,899, corresponding to the original issue price of the said preferred shares. The redeemed preferred shares are presented as part of "Treasury stock" account in the consolidated statements of financial position as of December 31, 2015 and 2014.

c. *Unappropriated Retained Earnings*

The unappropriated retained earnings of the Parent Company is restricted in the amount of P28,457 as of December 31, 2015 and 2014, representing the cost of common shares held in treasury.

The Parent Company's debt agreements contain, among others, restriction on payments of dividends to common stockholders.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures are not available for declaration as dividends until declared by the respective investees.

d. *Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P13,733, P15,688 and P276 in 2015, 2014 and 2013, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P15,823 in 2015.

26. Sales

Sales consist of:

	2015	2014	2013
Goods	**P656,862**	P770,271	P203,341
Services	**16,773**	3,414	1,371
Others	**278**	25	8
	P673,913	P773,710	P204,720

27. Cost of Sales

Cost of sales consist of:

	Note	**2015**	2014	2013
Inventories		**P360,577**	P515,125	P134,528
Taxes and licenses		**44,794**	40,088	10,126
Freight, trucking and handling		**23,968**	11,653	5,125
Energy fees	*35*	**23,224**	30,776	8,150
Depreciation, amortization and impairment	*29*	**19,988**	17,475	4,226
Communications, light and water		**12,603**	8,933	2,321
Contracted services		**10,825**	2,479	678
Fuel and oil		**8,827**	11,834	2,858
Power purchase		**8,331**	6,046	837
Personnel	*30*	**7,295**	6,484	1,543
Tolling fees		**7,029**	6,748	1,767
Repairs and maintenance		**3,496**	2,934	879
Rent	*4, 35*	**998**	690	165
Others		**2,890**	1,569	314
		P534,845	P662,834	P173,517

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2015	2014	2013
Selling	**P29,870**	P28,823	P9,611
Administrative	**33,598**	29,319	13,084
	P63,468	P58,142	P22,695

Selling expenses consist of:

	Note	**2015**	2014	2013
Personnel	*30*	**P7,716**	P7,330	P1,601
Freight, trucking and handling		**7,323**	7,194	1,814
Advertising and promotions		**5,370**	5,035	2,650
Depreciation, amortization and impairment	*29*	**3,305**	3,076	737
Rent	*4, 35*	**2,498**	2,807	600
Repairs and maintenance		**1,129**	1,071	516
Taxes and licenses		**564**	621	147
Professional fees		**529**	562	148
Communications, light and water		**384**	451	138
Others		**1,052**	676	1,260
		P29,870	P28,823	P9,611

Administrative expenses consist of:

	Note	2015	2014	2013
Personnel	*30*	**P14,554**	P13,834	P4,135
Depreciation, amortization and impairment	*29*	**5,374**	5,297	1,732
Professional fees		**3,314**	2,703	846
Taxes and licenses		**2,964**	2,115	606
Advertising and promotion		**1,685**	1,175	332
Impairment loss		**1,061**	1,093	3,175
Repairs and maintenance		**997**	784	215
Communications, light and water		**738**	846	366
Supplies		**527**	649	432
Rent	*4, 35*	**416**	184	72
Freight, trucking and handling		**264**	265	114
Research and development		**161**	134	45
Others		**1,543**	240	1,014
		P33,598	P29,319	P13,084

"Others" consist of entertainment and amusement, gas and oil and other administrative expenses.

29. Depreciation, Amortization and Impairment

Depreciation, amortization and impairment are distributed as follows:

	Note	2015	2014	2013
Cost of sales:				
Property, plant and equipment	*7, 15*	**P15,199**	P15,144	P3,774
Deferred containers, biological assets and others	*17, 19*	**4,789**	2,331	452
	27	**19,988**	17,475	4,226
Selling and administrative expenses:				
Property, plant and equipment	*7, 15*	**5,587**	5,440	1,621
Deferred containers and others	*19*	**3,092**	2,933	848
	28	**8,679**	8,373	2,469
		P28,667	P25,848	P6,695

"Others" include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

30. Personnel Expenses

Personnel expenses consist of:

	Note	**2015**	2014	2013
Salaries and wages		**P14,537**	P13,333	P3,114
Retirement costs - net	*36*	**1,565**	1,192	524
Other employee benefits	*40*	**13,463**	13,123	3,641
		P29,565	P27,648	P7,279

Personnel expenses are distributed as follows:

	Note	**2015**	2014	2013
Cost of sales	*27*	**P7,295**	P6,484	P1,543
Selling expenses	*28*	**7,716**	7,330	1,601
Administrative expenses	*28*	**14,554**	13,834	4,135
		P29,565	P27,648	P7,279

31. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	**2015**	2014	2013
Interest expense		**P27,868**	P24,270	P6,711
Other financing charges	*12, 22*	**3,234**	2,827	1,223
		P31,102	P27,097	P7,934

Amortization of debt issue costs included in "Other financing charges" amounted to P1,544, P1,253 and P402 in 2015, 2014 and 2013, respectively (Note 22).

Interest expense on loans payable, long-term debt, finance lease liabilities and other liabilities is as follows:

	Note	**2015**	2014	2013
Loans payable	*20*	**P8,952**	P5,046	P2,077
Long-term debt	*22*	**11,486**	10,857	2,784
Finance lease liabilities	*35*	**6,499**	6,905	1,196
Other liabilities	*34*	**931**	1,462	654
		P27,868	P24,270	P6,711

32. Interest Income

Interest income consists of:

	Note	**2015**	2014	2013
Interest from short-term investments, cash in banks and others	*9, 14*	**P3,758**	P3,082	P581
Interest on amounts owed by related parties	*34, 36*	**561**	934	313
		P4,319	P4,016	P894

33. Other Income (Charges)

Other income (charges) consists of:

	Note	**2015**	2014	2013
Construction revenue	*12, 18, 35*	**P11,003**	P8,735	P627
Gain on derivatives - net	*42*	**3,971**	7,513	1,241
Gain on remeasurement on step acquisition	*5*	**3,540**	-	-
PSALM monthly fees reduction		**1,859**	815	340
Gain on return of donated property (a)		**495**	-	-
Dividend income	*14*	**89**	97	1,721
Additional provision on impairment (b, c)		**(2,833)**	-	-
Construction costs	*12, 18, 35*	**(11,003)**	(8,735)	(627)
Loss on foreign exchange - net	*41*	**(15,188)**	(2,850)	(8,166)
Others (d)	*22*	**1,644**	595	(208)
		(P6,423)	P6,170	(P5,072)

a. *Donation to Philippine Foundation of the Blessed Mary Mother of Poor (Foundation)*

On January 11, 2011, SMPI signed a deed of donation (the “Deed of Donation”) in favor of the Foundation, a non-profit religious organization, to transfer a 33-hectare parcel of land owned by SMPI (the Montemaria Property), with a carrying amount of P141. The land title of the Montemaria Property was transferred in the name of the Foundation on April 28, 2011.

In accordance with the Deed of Donation, the Montemaria Property shall be used and devoted exclusively by the Foundation for the construction, operation and maintenance of its project, the Montemaria Oratory of the Blessed Virgin Mary (the Montemaria Project). The Montemaria Project was planned to consist of the Shrine of the Blessed Virgin Mary, churches and chapels, Way of the Cross and such other structures and facilities for Roman Catholic religious purposes, and socio-civic and nonprofit activities and program of the Foundation. Further, the Deed of Donation requires that the Montemaria Project must be at least 50% completed by 2015 and fully completed by 2020. If the Foundation will not be able to comply with this requirement, the Montemaria Property will revert to SMPI.

On February 24, 2014, the Board of Trustees of the Foundation resolved to return the Montemaria Property to SMPI.

On October 2, 2015, SMPI and the Foundation signed a Deed of Rescission and Reconveyance of Property wherein the ownership over the Montemaria Property reverted back to SMPI. The title to the Donated Property was transferred back to SMPI on November 9, 2015. Accordingly, the Group recognized a gain amounting to P495, equivalent to the fair value of the Montemaria Property at the time of rescission of donation and reconveyance of property. The Montemaria Property is included as part of the additions to the "Investment Property" account in the 2015 consolidated statement of financial position (Note 16).

b. *SMBB.* In 2015, the Group noted that fierce market competition resulted in the decline in the demand for its products in SMB's North China compared to previous sales forecasts. Consequently, operating losses were incurred. These factors are indications that non-current assets of SMB's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other tangible assets, may be impaired.

   The Group assessed the recoverable amounts of SMBB, the cash-generating unit to which these assets belong, and as the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of US$41.1 or P1,923, an impairment loss of US$21.6 or P1,011, was recognized as part of "Other Income (Charges)" account in the 2015 consolidated statement of income.

   The recoverable amount of SMBB has been determined based on its value in use calculation. That calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 18 years, which is the remaining estimated useful life of the assets. Cash flows beyond the ten-year period are kept constant. Sales volume growth rate and pre-tax discount rate used for value in use calculations were 4.20% and 8.86%, respectively.

   Management determined the growth rate and gross contribution rate based on past experiences, future expected market trends and an intermediate holding company's import plan of beer brewed by the Group.

   As SMBB has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

c. In line with the Group's ongoing development of new products to cater to the evolving needs of its market, certain telecommunication equipment can no longer generate the expected cash inflow. The Group recognized a provision for impairment losses on the equipment amounting to P1,333.

d. "Others" consist of gain on redemption of Notes, rent income, commission income, changes in fair value of financial assets at FVPL, gain on settlement of ARO and insurance claims.

34. Related Party Disclosures

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

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

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Shareholders of the Parent Company	*21*	**2015**	**P -**	**P -**	**P -**	**P10,077**	On demand; interest bearing	Unsecured; no impairment
		2014	-	-	-	9,348		
		2015	**-**	**-**	**-**	**221**	On demand; non-interest bearing	Unsecured; no impairment
		2014	-	-	-	221		
Retirement Plans	*10, 19, 36*	**2015**	**485**	**-**	**13,194**	**-**	On demand; interest bearing	Unsecured; no impairment
		2014	216	-	12,686	-		
Associates	*10, 19, 21, 23*	**2015**	**1,940**	**119**	**452**	**28**	On demand; interest and non-interest bearing	Unsecured; no impairment
		2014	2,066	98	7,473	159		
	20, 22	**2015**	**-**	**-**	**-**	**20,529**	Less than 1 to 10 years; interest bearing	Unsecured and secured
		2014	-	-	-	16,640		
JVC	*10, 19, 21*	**2015**	**3**	**416**	**665**	**162**	On demand; non-interest bearing	Unsecured; no impairment
		2014	-	83	674	1		
Shareholders in Subsidiaries	*10, 21, 23*	**2015**	**222**	**77**	**178**	**2,765**	On demand; non-interest bearing	Unsecured; no impairment
		2014	107	15	90	348		
Others	*10, 21, 23*	**2015**	**92**	**-**	**40**	**6,231**	On demand; non-interest bearing	Unsecured; no impairment
		2014	54	-	6,910	45		
Total		**2015**	**P2,742**	**P612**	**P14,529**	**P40,013**		
Total		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 amounted to P266, P258, and P463 for the years ended December 31, 2015, 2014, and 2013, respectively (Note 31).

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 BOC presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

e. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	**2015**	2014	2013
Short-term employee benefits		**P552**	P606	P135
Retirement benefits	*36*	**11**	(2)	(5)
Share-based payments	*40*	**-**	-	3
		P563	P604	P133

35. Significant Agreements and Lease Commitments

Significant Agreements:

- **Energy**

a. *Independent Power Producer (IPP) Administration (IPPA) Agreements*

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

i. the right and obligation to manage and control the contracted capacity of the power plant for its own account and at its own cost and risks;

ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the corporation period or in case of buy-out;

iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest to existing short-term bilateral power supply contracts;

v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. maintain the performance bond in full force and effect with a qualified bank; and

vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly fees for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees for 2015, 2014 and 2013 amounted to P23,224, P30,776 and P8,150, respectively (Note 27). SMEC, SPDC and SPPC renewed their performance bonds in US dollar amounting to US$58, US$20 and US$60, which will expire on November 3, 2016, January 25, 2016 and June 16, 2016, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2017.

b. *Market Participation Agreements (MPA)*

SMEC, SPDC and SPPC have entered into a MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by Energy Regulatory Commission (ERC). In 2015 and 2014, PEMC's market fees charged to SMEC, SPDC and SPPC amounted to P220 and P234, respectively.

SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2016, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. *Power Supply Agreements*

SMEC, SPPC, SPDC, SMELC and SPI have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions of the parties.

Certain customers, like electric cooperatives, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. As stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity even if there is no associated energy taken during the month.

SMEC, SPPC and SPDC purchases power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements.

d. *Coal Supply Agreements*

SMEC and SPI, through its operations and maintenance service provider, have supply agreements with various coal suppliers for their power plants' coal requirements.

e. *Retail Supply Agreements*

SMELC has retail supply agreements with customers to supply or sell electricity purchased from WESM and a related party. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. As stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy with adjustments if customer has not fully taken or failed to consume the contracted capacity.

f. *Retail Electricity Supplier's (RES) License*

On August 22, 2011, SMELC was granted an RES License by the ERC pursuant to Section 29 of RA No. 9136 or the EPIRA Law which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of five years from the time it was granted and renewable thereafter.

g. *Concession Agreement*

SMC Global entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 24, 2014, SMC Global through its subsidiary, APEC, entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the SMC Global under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations: i) as Concession Fee, APEC shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement; (b) the amount of P2 every quarter beginning January 1, 2014 for the upkeep of residual ALECO (fixed concession fee); ii) if the net cash flow of APEC is positive within five years or earlier from the date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,049; iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO turned over the operations to APEC on February 26, 2014.

h. *MOA with San Roque Power Corporation (SRPC)*

On December 6, 2012, SPDC entered into a five-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant.

Under the MOA: i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties.

i. *Coal Operating Contracts (COC)*

DAMI's coal property covered by COC No. 126, issued by the Department of Energy (DOE), is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 94 million metric tons as of December 31, 2015.

SEPC's coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of seven coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2015, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE, is located in Sarangani Province and South Cotabato consisting of eight coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 23 million metric tons as of December 31, 2015.

Status of Operations
The DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

**The term is followed by another 10-year extension, and thereafter, renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On January 26, 2015, DOE granted the request by DAMI, SEPC and BERI for further extension of the moratorium of their work commitments under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium is retrospectively effective from January 1, 2013 and is valid until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

- **Fuel and Oil**

a. *Supply Agreement*

Petron has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron's crude oil requirements from Saudi Arabian American Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices. The contract is for a period of one year from November 1, 2013 to December 1, 2014 with automatic annual extension thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron for such purchases are included as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as of December 31, 2015 and 2014 (Note 21).

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with EXTAP, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

b. *Supply Contract with NPC and PSALM*

Petron entered into various fuel supply contracts with NPC and PSALM. Under these contracts, Petron supplies the bunker fuel, diesel fuel oil and engine lubricating oil requirements of selected NPC and PSALM plants, and NPC-supplied IPP plants.

- **<u>Infrastructure</u>**

a. Airport Concession Agreement

The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its revised implementing rules and regulations.

On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the Department of Transportation and Communication (DOTC) and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the extension or expansion of the Boracay Airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years, and to collect the fees, rentals and other charges as may be agreed from time to time based on the Parametric Formula as defined in the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.

2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2015, TADHC has yet to pay the OMPS since it is payable only after the completion of the construction of the Airport Project.

3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the Concession Agreement are fulfilled or waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.

4. TADHC shall finance the cost of the Airport Project, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to third party loans. TADHC's estimated capital commitment to develop the Airport Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC fully issued its authorized capital stock as a leverage to the loan obtained from a related party (Notes 22 and 34).

5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC to develop the Airport Project. This performance security shall be partially released by the ROP from time to time to the extent of the percentage-of-completion of the Airport Project. TADHC has paid P1 premium both in 2015 and 2014, for the Work Performance Security. The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 12).

6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The 1st payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTC was accepted by TADHC on December 18, 2009.

The Concession Agreement may be renewed or extended for another 25 years upon written agreement of the parties through the execution of a renewal or extension contract.

In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway is currently ongoing and various pre-construction work is being done for the new terminal, such as project design, clearing and acquisition of the right of way.

b. MRT 7 Concession Agreement

In 2008, the ROP awarded ULC the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is proposed to be an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme which is a modified Build-Transfer-Operate arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its revised implementing rules and regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC entered into a Concession Agreement with the ROP, through the DOTC, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC has been granted the right to finance, construct and operate and maintain the proposed MRT 7 Project, which consists of 44-km of rail transportation (from North Avenue station in EDSA, Quezon City passing through Commonwealth Avenue, Regalado Avenue, Quirino Highway up to Intermodal Transportation Terminal in San Jose del Monte, Bulacan) and road (from San Jose del Monte, Bulacan to Bocaue Interchange of the North Luzon Expressway).

The salient features of the Concession Agreement are presented below:

1. The MRT 7 Project cost shall be financed by ULC through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC's estimated capital commitment to develop the MRT 7 Project amounts to US$1,235.60, adjusted to 2008 prices at US$1,540 per National Economic and Development Authority Board approval of June 2013. ULC shall endeavor to have signed the financing agreements not later than 18 months from the signing of the Concession Agreement.

2. ULC shall post a Performance Security for Construction and Operation and Maintenance (O&M) in favor of the ROP as guarantee for faithful performance by ULC to develop the MRT 7 Project. This performance security for O&M shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.

3. In the event that the MRT 7 Project is not completed by the end of the grace period, which is 100 calendar days following the project completion target as defined in the Concession Agreement, ULC shall pay the ROP liquidated damages of US$0.1 for every calendar day of delay.

4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC shall start when the MRT 7 Project is substantially completed.

5. Net passenger revenue shall be shared by the ROP and ULC on a 30:70 basis.

6. All rail-based revenues above 11.90% internal rate of return of ULC for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.

7. The ROP grants ULC the exclusive and irrevocable commercial development rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the development rights granted, ULC or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the development rights.

On July 23, 2014, the ROP through the ROP/DOTC confirmed their obligations under the MRT 7 Agreement dated June 18, 2008. On August 19, 2014, ULC received the Performance Undertaking issued by the Department of Finance. The Performance Undertaking is a recognition of the obligations of the ROP thru the DOTC under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC. The financial close on the Performance Undertaking was achieved in February 2016, which rendered the contract on the construction of the MRT 7 Project effective.

c. Toll Road Concession Agreements

(i) SLEX

On February 1, 2006, SLTC executed the Supplemental Toll Operation Agreement (STOA) with MATES, Philippine National Construction Corporation (PNCC) and the ROP through the TRB. The STOA authorizes SLTC by virtue of a joint venture to carry out the rehabilitation, construction and expansion of the SLEX, comprising of: Toll Road (TR)1 (Alabang viaduct), TR2 (Filinvest to Calamba, Laguna), TR3 (Calamba, Laguna to Sto. Tomas, Batangas) and TR4 (Sto. Tomas, Batangas to Lucena City). The concession granted shall expire 30 years from February 1, 2006.

On December 14, 2010, the TRB issued the Toll Operations Certificate for Phase 1 of the SLEX i.e., TR1, TR2 and TR3, and approved the implementation of SLTC's initial toll rate, for the said Phase 1. The initial toll rate had been implemented on a staggered basis from January to March 2011, with full implementation starting April 1, 2011.

SLTC entered into a MOA on the Interoperability of the Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang Hari-SLEX Connector Road) and the SLEX (MOA on Interoperability) and an accompanying Addendum to the MOA on Interoperability, both on July 21, 2015, with Ayala Corporation (Ayala). Ayala is the concession holder of MCX while Muntinlupa Cavite Expressway, Inc. is the facility operator of MCX.

The MOA on Interoperability and the addendum provide the framework that will govern the interface and integration of the technical operations and toll operation systems between the MCX and the SLEX, to ensure seamless travel access into MCX and SLEX for road users.

(ii) NAIA Expressway Project

On July 8, 2013, Vertex entered into a Concession Agreement with the ROP, through DPWH, for a 30-year concession period subject to extensions, as may be provided for under the Concession Agreement. Vertex has been granted the right to finance, construct, and operate and maintain the NAIA Expressway Project, which consists of a 4-lane, 7.75 km elevated expressway and 2.22 km At-Grade feeder road that will provide access to NAIA Terminals 1, 2 and 3, and link the Skyway and the Manila-Cavite Toll Expressway.

The salient features of the Concession Agreement are presented below:

1. Vertex shall at all times during the concession period maintain a leverage ratio not exceeding 80%.

2. Vertex shall post a Performance Security for Construction and O&M in favor of the ROP as guarantee for faithful performance to develop the NAIA Expressway Project. The Performance Security for Construction shall be reduced on the date of expiry of the At-Grade Works and Phase II(a) Defects Liability Period to the amounts as specified in the Concession Agreement.

   Throughout the construction period, the DPWH and the TRB shall be allowed to monitor, inspect and check progress and quality of the activities and works undertaken by Vertex to ensure compliance with the Concession Agreement's Minimum Performance Standards and Specifications, Detailed Engineering Design (DED) or At-Grade Works DED. Vertex shall directly pay for the cost of the Project Overhead Expenses incurred by the DPWH or the TRB until the end of the construction period. The liability of Vertex for the project overhead expenses due to the TRB and DPWH shall not exceed P25 and P50, respectively.

3. If by the Completion Deadline, the Independent Consultant has not issued written notice that all conditions in the Concession Agreement in relation to the At-Grade Works, Phase II(a) and Phase II(b) have been fulfilled, Vertex shall be liable to the DPWH for the payment of liquidated damages in the amount of P0.2, P1.5 and P2 for every day of delay beyond the At-Grade Works, Phase II(a) and Phase II(b) Construction Completion Deadline, respectively.

4. The toll revenues collected from the operations of the NAIA Expressway Project are the property of Vertex. Vertex has the right to assign or to enter into such agreements with regard to the toll revenues and their collection, custody, security and safekeeping.

5. The equity structure of Vertex shall comply with the equity requirements set out in the Concession Agreement. During the lock-up period, which is from the signing date until the end of the third year of the Operation Period, Vertex shall not register or otherwise permit any transfer of its equity or any rights in relation to its equity except: (a) if after the transfer, (i) the Qualifying Initial Stockholders continue to meet its Equity Requirement; (ii) the Initial Shareholders collectively continue to meet its Equity Requirements, and in each case any new shareholder is approved by the DPWH such consent not to be unreasonably withheld; (b) with the DPWH's prior written consent; (c) by way of the grant of a Permitted Security Interest or the exercise of rights under a Permitted Security Interest; or such transfer is necessary to comply with any applicable foreign ownership restrictions and the transferee and the terms of the transfer are both approved by the DPWH.

6. At the end of the concession period, Vertex shall turnover to the DPWH the NAIA Expressway in the condition required for turnover as described in the Minimum Performance Standards Specifications.

(iii) Skyway

- Skyway Stages 1 and 2

  On June 10, 1994, PNCC, the franchise holder for the construction, O&M of the proposed Metro Manila Expressway, including any and all extensions, linkages or stretches thereof, such as the proposed Skyway, and PT Citra Lamtoro Gung Persada (PT Citra), as joint proponents, submitted to the ROP through the TRB, the Joint Investment Proposal covering not only the proposed Skyway but also the planned Metro Manila Tollways. The said proposal embodied, among others, that PT Citra in cooperation with PNCC committed itself to finance, design and construct the skyway in three stages, consisting of: (a) South Metro Manila Skyway (SMMS) as Stages 1 and 2; (b) North Metro Manila Skyway and the Central Metro Manila Skyway as Stage 3; and (c) Metro Manila Tollways as Stage 4. The Joint Investment Proposal was approved by the TRB on November 27, 1995 and the STOA was executed on the same date by and among CMMTC, PNCC and the ROP acting through the TRB.

  Under the STOA, the design and the construction of the SMMS and the financing thereof, shall be the primary and exclusive privilege, responsibility and obligation of CMMTC as investor. On the other hand, the O&M of the SMMS shall be the primary and exclusive privilege, responsibility and obligation of PNCC, through its wholly owned subsidiary, the PNCC Skyway Corporation (PSC).

  On July 18, 2007, the STOA was amended, to cover among others, the implementation of Stage 2 of the SMMS (Stage 2); the functional and financial integration of Stage 1 of the SMMS (Stage 1) and Stage 2 upon the completion of the construction of Stage 2; and the grant of right to CMMTC to nominate to the TRB a qualified party to perform the O&M of the Project Roads to replace PSC. CMMTC, PNCC and PSC then entered into a MOA for the successful and seamless turnover of the O&M responsibilities for the SMMS from PSC to SOMCO.

  The Project Roads shall be owned by the Philippine Government, without prejudice to the rights and entitlement of the Investor and the Operator under the STOA. The legal transfer of ownership of the Project Roads to the Philippine Government shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction. The toll revenues are shared or distributed among the CMMTC, SOMCO for the O&M of the Project Roads, and PNCC.

  The 30-year franchise period for the Integrated Stage 1 and Stage 2 commenced on April 25, 2011.

Under the STOA, CMMTC may file an application to adjust the toll rates which shall be of two kinds, namely periodic and provisional adjustments. Periodic adjustments for the Integrated Stage 1 and Stage 2 may be applied for every year. CMMTC may file an application for provisional adjustment upon the occurrence of a force majeure event or significant currency devaluation. A currency devaluation shall be deemed "significant" if it results in a depreciation of the value of the Philippine peso relative to the US dollar by at least 10%. The applicable exchange rate shall be the exchange rate between the currencies in effect as of the date of approval of the prevailing preceding toll rate.

- Skyway Stage 3 Project

  On June 10, 1994, PNCC, the franchise holder for the construction, operation, and maintenance of the proposed Skyway and Metro Manila Tollways, including any and all extensions, linkages, or stretches thereof, and PT Citra, as joint proponents, submitted to the ROP, through the TRB, the Joint Investment Proposal covering the proposed Skyway and Metro Manila Tollways. The Joint Investment Proposal embodied, among others, the commitment of PT Citra, in cooperation with PNCC, through their Business and Joint Venture Agreement (BJVA) dated August 30, 1995, to finance, design, and construct the Skyway in three stages, consisting of: (a) South Metro Manila Skyway (SMMS) as Stages 1 and 2; (b) North Metro Manila Skyway and the Central Metro Manila Skyway as Stage 3; and (c) Metro Manila Tollways as Stage 4. The Joint Investment Proposal was approved by the TRB on November 27, 1995, and was updated through the Updated Joint Investment Proposal for the construction of the Project Road dated May 3, 2011, which was also approved by the TRB. On September 6, 2012, PNCC and PT Citra executed a Restated Second Supplement to the Business and Joint Venture Agreement for the implementation of the Project Road through CCEC, their new joint venture company.

  The Stage 3 STOA was executed on July 8, 2013 by and among the ROP as the Grantor, acting by and through the TRB, PNCC, CCEC as the Investor, and Central Metro Manila Skyway Corporation (CMMSC) as the Operator, wherein CCEC was granted the primary and exclusive privilege, responsibility, and obligation to design and construct the Project Road, and to finance the same, while CMMSC was granted the primary and exclusive privilege, responsibility, and obligation to operate and maintain the Project Road.

  The Project Road shall be owned by the Philippine Government, without prejudice to the rights and the entitlements of the Investor and of the Operator under the Stage 3 STOA. The legal transfer of ownership of the Project Road to the Philippine Government shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof.

  The franchise period for the Project Road is 30 consecutive years commencing from the issuance of the Toll Operation Certificate (TOC) for the entire Project Road to the Investor and/or the Operator. As at December 31, 2015, CCEC is in the construction stage of the Project Road.

Under the Stage 3 STOA, CCEC may apply for two kinds of adjustments on the toll rate for the Project Road, namely: (a) periodic and (b) provisional. A periodic adjustment may be applied for every two years, while a provisional adjustment may be applied upon the occurrence of an event of Force Majeure.

CCEC and CMMSC shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Project Road.

(iv) TPLEX

PIDC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain and impose and collect tolls from the users of the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 88.85 km. The four-lane expressway will have nine toll plazas from start to end.

The initial toll rate was submitted by PIDC as part of its bid and was duly confirmed by the DPWH and incorporated as part of the Concession Agreement. Toll rate shall be collected using the close-system which may be changed into an open-system whenever there is a new interchange required to be built as per Concession Agreement.

The toll revenue collected from the operation of the TPLEX Project is the property of PIDC. PIDC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

The concession period shall be for a term of 35 years starting from the effectivity of the Concession Agreement and any approved extension thereof.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of PIDC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each section of the TPLEX Project.

On October 31, 2013, PIDC opened the first section of the TPLEX Project from Tarlac to Gerona. The Section 1B from Gerona to Rosales was opened to motorists on December 23, 2013. The 49-km stretch from Gerona to Carmen was fully operational on April 16, 2014. The 14-km stretch from Carmen to Urdaneta was fully operational starting March 17, 2015. On the other hand, the last section from Urdaneta to Rosario is targeted for completion by 2017.

On January 18, 2014, PIDC obtained approval from the TRB to collect toll fares (inclusive of VAT) for the use of the three segments of section one.

(v) STAR

On June 18, 1998, SIDC and the ROP, individually and collectively, acting by and through the DPWH and the TRB, entered into a Concession Agreement covering the STAR Project.

Under the Concession Agreement, the following are the components and related activities of the STAR Project:

1. The preliminary and final engineering design, financing and construction of Stage II of the STAR Project.

2. The design and construction of all ancillary toll road facilities, toll plazas, interchanges and related access facilities of Stage I of the STAR Project, a ROP-constructed toll road, and for Stage II of the STAR Project road to be constructed by SIDC.

3. The operation and maintenance of the STAR Project as toll road facilities within the concession period of 30 years from January 1, 2000 up to December 31, 2029.

   However, based on the Concession Agreement amendatory agreement dated December 2006, the concession period is extended for an additional six years, to compensate for the delay in the commencement of the construction of the Stage II, Phase II of the STAR Project toll road. Accordingly, the concession period is until December 31, 2035.

4. The financing of the STAR Project is through equity and debt instruments until its full satisfaction and for the operation and maintenance of the toll road and its facilities within the concession period.

Also pursuant to the Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. Provided, that the right of way shall be titled in the ROP's name regardless of the construction thereon.

The STAR Project consists of two stages as follows:

Stage I	O&M of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas
Stage II	Finance, design, construction, O&M of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas

SIDC started its commercial operations on August 1, 2001 after the issuance by the TRB to SIDC of the TOC for the O&M of the Stage I toll road facility of the STAR Project on July 31, 2001.

The TRB issued to SIDC the TOC for the O&M of the Stage II, Phase I toll road facility of the STAR Project on April 16, 2008. SIDC started the construction of the remaining portion of Stage II in 2013 and was completed in October 17, 2014.

d. Port Concession Agreements

On November 19, 2009, MNHPI entered into a Contract for the Development, Operation and Maintenance of the Manila North Harbor (the "Contract") with the Philippine Ports Authority (PPA), a Government agency. Under the Contract, the PPA grants MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor (MNH) for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. In consideration, MNHPI shall remit a fixed fee every quarter and submit a performance security to the PPA.

In this regard, MNHPI shall provide services and development based on the operation and volume requirement of the port and shall be allowed to collect fees and charges, as approved by the PPA. The fees to be charged by MNHPI shall be in accordance with the price policy and rate setting mechanism adopted by PPA and the laws and regulations promulgated by the government. Upon the expiration of the Contract or in the event of its termination or cancellation prior to its expiration, all existing improvements, structures, building and facilities at MNH permanent, constructed by or belonging to MNHPI shall automatically become the property of the PPA without any obligation to reimburse therefore, except for port equipment purchased five years prior to expiration or termination of the Contract wherein the PPA has option to either purchase or lease the same from MNHPI.

On April 12, 2010, the PPA turned over the operations of the MNH to MNHPI. MNHPI recognized as concession assets all costs directly related to the Contract and development of the port.

On March 21, 2011, MNHPI and the PPA entered into a Clarificatory Agreement to the Contract related to the implementation of some terms and conditions to harmonize and be consistent with the date of the turnover, which was on April 12, 2010, and ensure fairness to both parties concerned as follows: (a) the fixed fee is exclusive of VAT; (b) the performance security shall be equivalent to 60% of the annual fixed fee, which shall be reckoned from April 12, 2010; (c) establishment of the Portworker's Retirement and Separation Fund (PRSF) shall be within one year from April 12, 2010; (d) all rentals within the area of management, operation, development and maintenance of MNHPI from April 12, 2010 and thereafter shall accrue to MNHPI; and (e) applicable terms and conditions of the Contract shall become operative on April 12, 2010.

- **<u>Telecommunications</u>**

Congressional Franchises and Licenses Issued by the National Telecommunications Commission (NTC)

- BellTel

On March 25, 1994, the Philippine Congress passed RA No. 7692 which granted a 25-year franchise to BellTel to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

On October 28, 1997, the NTC, under NTC Case No. 94-229, granted a Provisional Authority (PA) to BellTel, valid for 18 months, or until April 27, 1999, to install, operate and maintain the following telecommunication services:

- international gateway facility;
- inter-exchange carrier facility;
- VSAT system nationwide;
- telephone systems in the selected cities and municipalities in the Luzon area;
- Wireless Local Loop telephone systems in the cities of Muntinlupa, Las Piñas, Pasig, Mandaluyong, Makati, Pasay, Parañaque, Taguig and Marikina; and in the municipalities of Pateros and San Juan; and
- telephone systems in all economic zones identified under RA No. 7916.

Since then, this PA had been extended several times, the latest extension of which is valid until March 5, 2018.

In an Order dated October 19, 2007 (CCC Case No. 94-223), the NTC granted BellTel a PA, valid for 18 months or until April 19, 2009, to install, operate and maintain a Mobile Telecommunication Network as set forth in the said Order. Since then, this PA had been extended, the latest extension of which is valid until April 17, 2018.

o ETPI

On October 3, 2002, RA No. 9172 entitled "An Act Renewing and Amending the Franchise Granted to ETPI (Eastern Extension Australasia and China Telegraph Company Limited) under RA No. 808, as Amended" extended for another 25 years ETPI's legislative franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, throughout the Philippines and between the Philippines and other countries and territories, the following telecommunications services:

- wire and/or wireless telecommunications systems, including but not limited to mobile, cellular, paging, fiber optic, multi-channel distribution system, local multi-point distribution system, satellite transmit and receive systems, switches, and their value-added services such as, but not limited to, transmission of voice, data, facsimile, control signs, audio and video, information services bureau and all other telecommunications systems technologies as are at present available or will be made available through technological advances or innovations in the future; and construct, acquire, lease and operate or manage transmitting and receiving stations, lines, cables or systems, as is, or are, convenient or essential to efficiently carry out the purpose of the franchise.

o TTPI

a. Local Exchange Carrier (LEC)

TTPI has an approved congressional franchise granted under RA No. 7671, as amended by RA No. 7674, to install, operate and maintain telecommunications systems throughout the Philippines.

On September 25, 1996, the NTC granted TTPI a PA to install, operate and maintain LEC services in the provinces of Batanes, Cagayan, Isabela, Kalinga, Apayao, Nueva Vizcaya, Ifugao and Quirino and the cities of Manila and Caloocan as well as the municipality of Navotas in order to commence compliance with the requirements of Executive Order No. 109 (s. 1993), which required ETPI to put up a minimum of 300,000 LEC lines. TTPI is allowed to deploy Public Calling Offices in municipalities and barangays within its authorized service area in lieu of rolling out LEC lines.

On January 18, 2006, the NTC granted TTPI a Certificate of Public Convenience and Necessity (CPCN) to install, operate and maintain LEC services in the cities of Manila and Caloocan, as well as in the provinces of Cagayan and Isabela. In addition, in a letter dated August 14, 2006, the NTC confirmed that TTPI has already completely served the remaining areas it needs to serve under the PA of September 25, 1996. On January 8, 2010, TTPI was granted a CPCN to install, operate and maintain LEC services in the municipality of Navotas and the provinces of Cagayan, Isabela, Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

On September 25, 1996, October 16, 2006 and December 23, 2008, the NTC issued separate PAs in favor of TTPI to install, operate and maintain LEC services in the remaining cities and municipalities of Metro Manila, in the provinces of Cavite, Laguna, Batangas, Rizal and Quezon (CALABARZON) and in the provinces of Apayao, Batanes, Ifugao, Kalinga, Nueva Vizcaya and Quirino.

The NTC granted TTPI a PA to install, operate and maintain LEC service in the rest of the Greater Manila Area on October 16, 2006. The PA was extended by the NTC on September 11, 2008 for three years but not beyond April 16, 2011. The motion for an extension of the PA is still pending with the NTC as of December 31, 2015.

b. *Tori Spectrum*

On September 21, 2012, Tori Spectrum was granted an extension of its congressional franchise through 2037, including appropriate licenses, which allows it to provide various types of domestic and international communication service to the public.

Tori Spectrum's operations are regulated by the NTC. Consequently, certain service offering and rate settings are approved by the NTC. Tori Spectrum has various radio-based stations nationwide.

- CTI

On September 3, 2009, CTI was granted an extension of its congressional franchise for another 25 years.

On October 28, 1997, the NTC, under NTC Case No. 87-39, granted a Certificate of Public Convenience and Necessity (CPCN) to CTI, co-terminus with its Franchise, to construct, install and operate CMTS nationwide.

- **Mining**

a. *MPSA*

PNPI, PPC and PIC

The MPSA provides for the exclusive possession of and the privilege and right to exploit, utilize, process and dispose of all minerals, mineral products and by-products that may be derived from the total contract area of 23,877 hectares in Parcels II and III of the Surigao Mineral Reservation in Surigao City, Province of Surigao del Norte and Dinagat Islands Province (the Mining Property).

In May 1997, PIC assigned its rights and obligations under the MPSA to PNPI and PNPI, in turn, assigned all mineral processing rights under the MPSA in favor of PPC. As a result of the assignment, PNPI holds exclusive rights to explore, develop, mine, and commercially utilize nickel, cobalt, chrome, iron and other mineral deposits within the contract area for a period of 25 years, renewable for another 25 years. On the other hand, PPC holds exclusive rights with respect to the processing of minerals and resources under the MPSA.

As part of the consideration for the assignment of the MPSA, PNPI assigned to PPC the exclusive Mineral Processing Rights (MPR) granted under the MPSA. The assignment of the MPSA by PIC to PNPI and the assignment of the MPR by PNPI to PPC were approved by the DENR on August 7, 1997. The assignment of the MPSA was subject to the following conditions:

a. PNPI shall enter into an exclusive 25 year ore supply contract with PPC, to provide PPC with its nickel ore requirements;

b. The MPSA shall be deemed automatically assigned to PPC in the event that PIC shall be in default under the ARDA and the ARDA is terminated in accordance with its terms;

c. PNPI shall be jointly and severally liable for the payments due to the PMO under the ARDA and all profits earned by PNPI will be used to pay PIC's obligations to PMO under the ARDA as and when necessary; and

d. All of the outstanding capital stock of PNPI shall be pledged to PMO as security for the obligations of PNPI to PMO as well as the obligations of PIC to PMO under the ARDA.

On August 7, 1997, MPSA 072-97-XIII (SMR) was reinstated in favor of PNPI. The term of the MPSA is for a period of twenty-five (25) years until 2022.

The request for an additional two year exploration period filed by PNPI was approved by the MGB on February 25, 2015. Activities covered by the said additional two year exploration period include exploration drilling, metallurgical testing, conduct of environmental and social studies and preparation of a feasibility study. Exploration drilling in Nonoc Island has been completed. Drilling activities in the south Dinagat area of the MPSA are continuing. Rehabilitation of some mine site facilities such as the geochemical laboratory, main warehouse and staff houses have been completed while others are being scheduled for rehabilitation. Certain continuing activities in compliance with mandatory requirements under the MPSA and mining regulations such as the Environmental Protection and Enhancement Program and Social Development and Management Program are also being implemented.

On September 21, 2015, PNPI executed two Deeds of Partial Assignment and Transfer with VIL Mines, Inc. (VMI) and Prima Lumina Gold Mining Corp. (PLGMC) covering certain areas of MPSA-072-97-XIII (SMR). An area of 7,035 hectares was assigned to PLGMC while an area of 6,264 hectares was assigned to VMI. The Deeds were filed at DENR's Mines and Geosciences Bureau (MGB) Regional Office No. XIII (CARAGA) last December 11, 2015 for review and evaluation and transmittal to the MGB Central Office. Per mining rules and regulations, the MGB Central Office will recommend their approval to the DENR Secretary.

b. SWCC

SWCC has mining rights under MPSA Nos. 059-96-VII and 060-96-VII issued by the DENR on November 18, 1996. The MPSAs cover a total area of 812.2529 hectares located in Lo-oc, Malabuyoc, Cebu. The term of the MPSA is for a period of 25 years until 2021.

On October 15, 2014, the Clariden sold its 100% ownership interest in SWCC.

c. VMI

VMI has mining rights under MPSA No. 346-2010-IVA issued by the DENR on June 25, 2010. The MPSA covers a total area of 11,126.3576 hectares located in Tagkawayan, Quezon, Labo and Sta. Elena, Camarines Norte. The term of the MPSA is for a period of 25 years until 2035.

Joint Operating Agreement
On June 21, 2007, PPC and PNPI executed a Deed of Assignment to assign the rights and obligations of the Joint Operating Agreement entered by Philippine Mining Development Corporation (PMDC) and PPC to PNPI. The assignment was approved by the PMDC on January 11, 2008.

On July 27, 2009, DENR approved the Mines Operating Agreement between PNPI and Shuley Mines, Incorporated (SMI) pursuant to which SMI will undertake mining operations in certain portions of the mining property. In consideration, SMI will pay PNPI a fixed fee per Weight Metric Ton based on the grade of the nickel ore as stated in the Mines Operating Agreement. The Mines Operating Agreement is effective for a period of 48 months subject to renewal for the same period upon mutual agreement of both parties.

Under the supplemental agreement to the Mines Operating Agreement dated September 29, 2009, the effectivity of the Mines Operating Agreement will start on the date of approval of the partial declaration of the Mining Project Feasibility by Mines and Geosciences Bureau (MGB). On April 8, 2010, the MGB approved the Second Partial Declaration of PNPI's mining project.

In April 2013, SMI filed a case with the Regional Trial Court of Surigao City to enjoin PNPI from stopping the mining, shipping and other operations of SMI under the Mines Operating Agreement. In May 2014, SMI and PNPI entered into a Compromise Agreement to amicably settle the pending case, which was approved by the court in a Judgment dated June 2, 2014. The Compromise Agreement states, among others, that SMI shall immediately cease all mining operations and shall be allowed to ship out mineral ores only until July 31, 2014, provided that SMI shall not ship out any and all ores with grading 1.00% to 1.40% nickel.

Special Economic Zone
On May 1, 1999, PIC and the City of Surigao entered into a Memorandum of Agreement in relation to a proposed plan of establishing, developing, and operating a Special Economic Zone (Ecozone) in a 106-hectare portion of Nonoc Island, Surigao City (the Property), which area is covered by the MPSA.

Pursuant to the Memorandum of Agreement, the lease contract between the City of Surigao and PIC was executed on September 21, 1999 and took effect on December 10, 1999, for an initial period of 25 years, renewable for another 25 years at the option of PIC. The lease contract provides that the payment of the stipulated rental shall only start after 2 years from the execution of the contract or after the commissioning of the Nonoc Nickel Refinery, whichever comes later.

As of December 31, 2015, Clariden is currently conducting metallurgical tests and additional technical studies to determine the optimal processing option for the nickel deposits.

Lease Commitments:

- Finance Leases

  Group as Lessee

  a. IPPA Agreements

     The IPPA Agreements are with the conformity of NPC, a government-owned and controlled corporation created by virtue of RA No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

     The IPPA Agreements provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group's IPPA Agreements with PSALM, the Group's management has made a judgment that the IPPA Agreements are agreements that contains a finance lease. The Group's management has also made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the carrying amount of the Group's capitalized asset and related liability of P182,946 and P179,193 as of December 31, 2015 and P188,133 and P186,304 as of December 31, 2014, respectively, (equivalent to the present value of the minimum lease payments using the Group's incremental borrowing rates for US dollar and Philippine peso payments) are presented as part of "Property, plant and equipment" and "Finance lease liabilities" accounts in the consolidated statements of financial position (Notes 4 and 15).

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at the inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P6,499, P6,905 and P1,196 in 2015, 2014 and 2013, respectively (Note 31).

The future minimum lease payments for each of the following periods are as follows:

2015

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$250**	**P11,774**	**P11,981**	**P23,755**
More than one year and not later than five years	**1,072**	**50,446**	**51,334**	**101,780**
Later than five years	**1,119**	**52,643**	**53,617**	**106,260**
	2,441	**114,863**	**116,932**	**231,795**
Less: Future finance charges on finance lease liabilities	**300**	**14,107**	**18,240**	**32,347**
Present values of finance lease liabilities	**US$2,141**	**P100,756**	**P98,692**	**P199,448**

2014

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$239	P10,668	P11,423	P22,091
More than one year and not later than five years	1,027	45,928	49,178	95,106
Later than five years	1,413	63,225	67,753	130,978
	2,679	119,821	128,354	248,175
Less: Future finance charges on finance lease liabilities	361	16,170	21,939	38,109
Present values of finance lease liabilities	US$2,318	P103,651	P106,415	P210,066

The present values of minimum lease payments for each of the following periods are as follows:

2015

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$193**	**P9,104**	**P8,570**	**P17,674**
More than one year and not later than five years	**902**	**42,442**	**41,030**	**83,472**
Later than five years	**1,046**	**49,209**	**49,093**	**98,302**
	US$2,141	**P100,755**	**P98,693**	**P199,448**

2014

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$177	P7,905	P7,723	P15,628
More than one year and not later than five years	833	37,267	37,481	74,748
Later than five years	1,308	58,479	61,211	119,690
	US$2,318	P103,651	P106,415	P210,066

b. Equipment

The Group's finance leases cover equipment needed for business operations. The agreements do not allow subleasing. The net carrying amount of leased assets is P96 and P22 as of December 31, 2015 and 2014, respectively (Notes 4 and 15).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2015

	Minimum Lease Payable	**Interest**	**Principal**
Within one year	**P27**	**P6**	**P21**
After one year but not more than two years	**28**	**5**	**23**
More than two years	**47**	**4**	**43**
	P102	**P15**	**P87**

2014

	Minimum Lease Payable	Interest	Principal
Within one year	P16	P2	P14
After one year but not more than two years	14	2	12
	P30	P4	P26

- Operating Leases

Group as Lessor
The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 16). The non-cancellable leases have remaining terms of 3 to 14 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The future minimum lease receipts under non-cancellable operating leases are as follows:

	2015	2014	2013
Within one year	**P4,511**	P4,317	P322
After one year but not more than five years	**7,722**	12,003	544
After five years	**14**	25	43
	P12,247	P16,345	P909

Rent income recognized in the consolidated statements of income amounted to P1,258, P1,672 and P450 in 2015, 2014 and 2013, respectively (Notes 4 and 33).

Group as Lessee
The Group leases a number of office, warehouse and factory facilities under operating leases. The leases typically run for a period of 1 to 16 years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Non-cancellable operating lease rentals are payable as follows:

	2015	2014	2013
Within one year	**P2,317**	P1,930	P1,684
After one year but not more than five years	**4,592**	3,946	4,052
More than five years	**11,080**	10,706	9,357
	P17,989	P16,582	P15,093

Rent expense recognized in the consolidated statements of income amounted to P3,912, P3,681 and P837 in 2015, 2014 and 2013, respectively (Notes 4, 27 and 28).

36. Retirement Plans

SMC and majority its subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of SMC and majority of its subsidiaries pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. SMC and majority of its subsidiaries' latest actuarial valuation date is December 31, 2015. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the BIR as tax-qualified plans under RA No. 4917, as amended. The control and administration of the Retirement Plans are vested in the Board of Trustees of each Retirement Plan. The Board of Trustees of the Group's Retirement Plans exercises voting rights over the shares and approve material transactions. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of SMC.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Balance at beginning of year	**P25,444**	P29,235	**(P26,929)**	(P26,019)	**(P2,786)**	(P4,051)	**(P4,271)**	(P835)
Benefit asset (obligation) of newly-acquired and disposed subsidiaries	**20**	-	**(312)**	-	**-**	-	**(292)**	-
Recognized in profit or loss								
Service costs	**-**	-	**(1,334)**	(1,259)	**-**	-	**(1,334)**	(1,259)
Interest expense	**-**	-	**(1,198)**	(1,148)	**-**	-	**(1,198)**	(1,148)
Interest income	**1,102**	1,297	**-**	-	**-**	-	**1,102**	1,297
Interest on the effect of asset ceiling	**-**	-	**-**	-	**(114)**	(178)	**(114)**	(178)
Settlements	**-**	-	**(21)**	96	**-**	-	**(21)**	96
	1,102	1,297	**(2,553)**	(2,311)	**(114)**	(178)	**(1,565)**	(1,192)
Recognized in other comprehensive income								
Remeasurements:								
Actuarial (gains) losses arising from:								
Experience adjustments	**-**	-	**(922)**	(1,166)	**-**	-	**(922)**	(1,166)
Changes in financial assumptions	**-**	-	**435**	(166)	**-**	-	**435**	(166)
Changes in demographic assumptions	**-**	-	**395**	537	**-**	-	**395**	537
Return on plan asset excluding interest	**(5,399)**	(4,756)	**-**	-	**-**	-	**(5,399)**	(4,756)
Changes in the effect of asset ceiling	**-**	-	**-**	-	**962**	1,443	**962**	1,443
	(5,399)	(4,756)	**(92)**	(795)	**962**	1,443	**(4,529)**	(4,108)
Others								
Contributions	**1,830**	1,692		-	**-**	-	**1,830**	1,692
Benefits paid	**(1,601)**	(2,040)	**1,657**	2,146	**-**	-	**56**	106
Transfers from other plans	**-**	-	**-**	-	**-**	-	**-**	-
Transfers to other plans	**-**	-	**6**	-	**-**	-	**6**	-
Other adjustments	**14**	16	**162**	50	**-**	-	**176**	66
	243	(332)	**1,825**	2,196	**-**	-	**2,068**	1,864
Balance at end of year	**P21,410**	P25,444	**(P28,061)**	(P26,929)	**(P1,938)**	(P2,786)	**(P8,589)**	(P4,271)

The Group's annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement costs recognized in the consolidated statements of income by the Group amounted to P1,565, P1,192 and P524 in 2015, 2014 and 2013, respectively (Note 30).

As of December 31, 2015, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,175 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P91 and P11,673, respectively (Notes 21 and 23).

As of December 31, 2014, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,830 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P127 and P7,974, respectively (Notes 21 and 23).

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2015 and 2014.

The Group's plan assets consist of the following:

	In Percentages	
	2015	2014
Investments in marketable securities and shares of stock	**72.74**	70.11
Investments in pooled funds:		
Fixed income portfolio	**8.68**	7.47
Stock trading portfolio	**6.11**	5.78
Investments in real estate	**0.54**	0.49
Others	**11.93**	16.15

Investments in Marketable Securities

As of December 31, 2015, the plan assets include:

- 25,146,517 common shares and 32,511,970 Subseries "2-B", 2,666,700 Subseries "2-D", 4,000,000 Subseries "2-E" and 8,000,000 Subseries "2-F" Preferred Shares of the SMC with fair market value per share of P49.90, P77.40, P85.00, P76.00 and P79.90, respectively;

- 731,516,097 common shares and 290,470 preferred shares of Petron with fair market value per share of P6.99 and P1,070.00, respectively;

- 20,459,785 common shares of GSMI with fair market value per share of P12.28;

- 226,998 common shares and 300,000 preferred shares of SMPFC with fair market value per share of P129.00 and P1,029.00, respectively;

- 33,635,700 common shares of SMB with fair market value per share of P20.00; and

- 2,170,861 common shares of the Parent Company with fair market value per share of P67.60.

As of December 31, 2014, the plan assets include:

- 21,733,617 common shares and 6,661,840 Subseries "2-A" and 32,511,970 Subseries "2-B" Preferred Shares of SMC with fair market value per share of P73.80, P75.60 and P78.15, respectively;

- 731,516,097 common shares and 2,945,000 preferred shares of Petron with fair market value per share of P10.60 and P101.80, respectively;

- 18,959,785 common shares of GSMI with fair market value per share of P15.88;

- 226,998 common shares and 54,835 preferred shares of SMPFC with fair market value per share of P208.00 and P1,009.00, respectively;

- 33,635,700 common shares of SMB with fair market value per share of P20.00; and

- 2,170,861 common shares of the Parent Company with fair market value per share of P124.00.

The fair market value per share of the above marketable securities is determined based on quoted market prices in active markets as of the reporting date (Note 4).

The Group's Retirement Plans recognized losses on the investment in marketable securities of the Parent Company, SMC and its subsidiaries amounting to P3,183 and P3,993 in 2015 and 2014, respectively.

Dividend income from the investment in shares of stock of SMC and its subsidiaries amounted to P350, P365 and P713 in 2015, 2014 and 2013, respectively.

Investments in Shares of Stock

a. BOC

   San Miguel Corporation Retirement Plan (SMCRP) has 39.94% equity interest in BOC representing 44,834,286 common shares, accounted for under the equity method amounting to P9,938 and P10,164 as of December 31, 2015 and 2014, respectively. SMCRP recognized its share in total comprehensive income (loss) of BOC amounting to (P226) and P1,093 in 2015 and 2014, respectively (Note 13).

b. PAHL

   Petron Corporation Employees Retirement Plan (PCERP) has an investment in PAHL with a carrying amount of P1,472 and P1,553 equivalent to 53% and 54% equity interest as of December 31, 2015 and 2014, respectively.

   PCERP recognized its share in net losses amounting to P81 and P107 in 2015 and 2014, respectively.

c. BPI

   The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in BPI representing 4,708,494 preferred shares as of December 31, 2015 and 2014.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Approximately 6% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2015 and 2014.

Approximately 64% and 49% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2015 and 2014, respectively.

Investments in Real Estate

The Retirement Plans' of the Group have investments in real estate properties as of December 31, 2015 and 2014.

Others

Others include the Retirement Plans' investments in trust account, government securities, bonds and notes, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute P2,329 to the Retirement Plans in 2016.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

Longevity and Salary Risks. The present value of the defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of the plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2015	2014
Discount rate	**4.11 - 9.00**	3.44 - 8.80
Salary increase rate	**4.00 - 8.00**	4.00 - 8.00

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation ranges from 1.5 to 31.36 years and 1.5 to 27.78 years as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2015		2014	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P1,085)**	**P1,263**	(P1,108)	P1,281
Salary increase rate	**1,141**	**(1,002)**	1,138	(1,009)

The outstanding balances of the Group's receivables from the retirement plans are as follows:

a. Petron has advances to PCERP amounting to P6,597 and P6,263 as of December 31, 2015 and 2014, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 10 and 19). The advances are subject to interest of 5% in 2015 and 2014 (Note 32).

b. SMC has advances to SMCRP amounting to P6,597 and P6,423 as of December 31, 2015 and 2014, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10). The advances are subject to interest of 5.75% in 2015 and 2014 (Note 32).

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as of December 31, 2015 and 2014 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from the Retirement Plans for the years ended December 31, 2015, 2014 and 2013.

37. Cash Dividends

In 2014, the Parent Company's BOD approved the declaration and payment of the following cash dividends to preferred stockholders as follows:

Date of Approval	Date of Record	Amount	Dividend Per Share
July 9, 2014	July 9, 2014	P266	P139.50
November 10, 2014	November 10, 2014	266	139.50
		P532	

The Parent Company has no dividend declaration in 2015.

38. Basic and Diluted Earnings Per Share

Basic and diluted EPS per share is computed as follows:

	Note	**2015**	2014	2013
Income attributable to equity holders of the Parent Company		**P172**	P3,652	P11,578
Dividends on preferred shares for the year	*25, 37*	**-**	-	(847)
Net income attributable to common shareholders of the Parent Company (a)		**P172**	P3,652	P10,731
Issued and outstanding common shares at beginning of year (in millions)		**330**	330	5
Stock split approved in 2013 including retroactive adjustments (in millions)		**-**	-	485
Weighted average number of treasury shares (in millions)		**-**	-	(26)
Weighted average number of common shares outstanding (in millions) (b)		**330**	330	464
Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b)		**P0.52**	P11.06	P23.12

As of December 31, 2015, 2014 and 2013, the Group has no dilutive debt or equity instruments.

39. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2015	2014	2013
Trade and other receivables - net	**P24,306**	(P432)	(P4,720)
Inventories	**21,854**	(3,757)	9,487
Prepaid expenses and other current assets	**(14,055)**	(8,121)	(1,376)
Accounts payable and accrued expenses	**(31,177)**	274	8,629
Income and other taxes payable and others	**(6,149)**	(3,190)	5,895
Changes in noncash current assets, certain current liabilities and others	**(P5,221)**	(P15,226)	P17,915

b. Acquisition of subsidiaries (Note 5)

	Note	**2015**	2014	2013
Cash and cash equivalents		**P23,183**	P1,021	P180,319
Trade and other receivables - net		**7,496**	86	137,205
Inventories		**508**	-	89,314
Prepaid expenses and other current assets		**4,020**	213	36,783
Assets held for sale		**-**	-	42,158
Investments and advances - net		**-**	-	52,212
Available-for-sale financial assets		**-**	-	42,079
Property, plant and equipment - net		**4,969**	1,080	481,991
Investment property - net		**-**	-	6,425
Biological assets - net		**-**	-	5,745
Other intangible assets - net		**83,886**	-	142,903
Deferred tax assets		**160**	8	15,578
Other noncurrent assets - net		**813**	1	45,290
Loans payable		**(2,345)**	-	(155,313)
Accounts payable and accrued expenses		**(21,093)**	(1,097)	(110,068)
Income and other taxes payable		**(726)**	(2)	(10,624)
Dividends payable		**(373)**	-	(1,880)
Long-term debt - net of debt issue costs		**(49,886)**	-	(307,188)
Deferred tax liabilities		**(5,165)**	-	(51,985)
Finance lease liabilities		**(75)**	-	(222,960)
Other noncurrent liabilities		**(12,872)**	-	(24,396)
Non-controlling interests		**(10,715)**	(32)	(266,681)
Net assets		**21,785**	1,278	126,907
Cash and cash equivalents		**(23,183)**	(1,021)	(180,319)
Goodwill in subsidiaries	*4, 5, 18*	**18,918**	7	30,619
Investments and advances		**(24,302)**	(21)	(154,781)
Net cash flows		**(P6,782)**	P243	(P177,574)

40. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of SMC's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

The current portion of receivable from employees amounted to P54 and P109 as of December 31, 2015 and 2014, respectively, presented as part of "Non-trade" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10).

The noncurrent portion of P70 and P157 as of December 31, 2015 and 2014, respectively, is presented as part of "Noncurrent receivables and deposits" under "Other noncurrent assets" account in the consolidated statements of financial position (Note 19).

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock. As of December 31, 2015 and 2014, 3,478,400 common shares under the ESPP were cancelled and held in treasury (Note 25).

There were no shares offered under the ESPP in 2015 and 2014.

LTIP

SMC also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of SMC shares as of the date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its ten-year life. The LTIP is administered by the Executive Compensation Committee of SMC's BOD.

There were no LTIP offered to executives in 2015 and 2014.

Options to purchase 6,801,369 shares and 13,278,578 shares in 2015 and 2014, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 6,477,209 shares and 382,278 shares in 2015 and 2014, respectively.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the 2nd year and the remaining option lot is fully vested on the 3rd year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

Share-based payment charged to operations, included under "Administrative expenses - personnel expenses" account, amounted to P1 in 2015 and 2014 and P10 in 2013 (Note 28).

41. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

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

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

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

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

<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.

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 P2,251, P1,957 and P1,868 in 2015, 2014 and 2013, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

December 31, 2015	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P6,112**	**P29,399**	**P9,643**	**P23,426**	**P13,730**	**P58,854**	**P141,164**
Interest rate	**5.65% - 12.00%**	**5.65% - 8.74899%**	**5.65% - 8.74899%**	**5.50% - 10.50%**	**4.9925% - 8.74899%**	**5.50% - 8.74899%**	
Foreign currency-denominated (expressed in Philippine peso)	**14,021**	**-**	**-**	**-**	**-**	**24,301**	**38,322**
Interest rate	**7% - 13.27%**	**-**	**-**	**-**	**-**	**4.875%**	
Floating Rate							
Philippine peso-denominated	**1,096**	**1,215**	**1,303**	**1,059**	**545**	**1,915**	**7,133**
Interest rate	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or 5.75%, whichever is higher**	**PDST-R + margin or 5.75%, whichever is higher**	
Foreign currency-denominated (expressed in Philippine peso)	**48,437**	**11,181**	**126,410**	**11,046**	**20,901**	**-**	**217,975**
Interest rate	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin**		
	P69,666	**P41,795**	**P137,356**	**P35,531**	**P35,176**	**P85,070**	**P404,594**

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

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

	December 31, 2015		December 31, 2014	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,766**	**P83,084**	US$2,761	P123,582
Trade and other receivables	**807**	**37,320**	841	37,624
Prepaid expenses and other current assets	**56**	**2,578**	26	1,150
Noncurrent receivables	**43**	**2,007**	184	8,199
	2,672	**124,989**	3,812	170,555
Liabilities				
Loans payable	**356**	**16,774**	808	36,109
Accounts payable and accrued expenses	**1,073**	**50,511**	1,431	64,014
Long-term debt (including current maturities)	**5,445**	**256,298**	5,053	225,943
Finance lease liabilities (including current portion)	**2,058**	**96,843**	2,319	103,677
Other noncurrent liabilities	**297**	**13,963**	978	43,763
	9,229	**434,389**	10,589	473,506
Net foreign currency-denominated monetary liabilities	**(US$6,557)**	**(P309,400)**	(US$6,777)	(P302,951)

The Group reported losses on foreign exchange - net amounting to P15,188, P2,850, and P8,166 in 2015, 2014 and 2013, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 33). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2015	**47.060**
December 31, 2014	44.720
December 31, 2013	44.395

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
December 31, 2015	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P1,457)**	**(P1,329)**	**P1,457**	**P1,329**
Trade and other receivables	**(630)**	**(621)**	**630**	**621**
Prepaid expenses and other current assets	**(47)**	**(42)**	**47**	**42**
Noncurrent receivables	**(34)**	**(36)**	**34**	**36**
	(2,168)	**(2,028)**	**2,168**	**2,028**
Loans payable	**240**	**284**	**(240)**	**(284)**
Accounts payable and accrued expenses	**751**	**848**	**(751)**	**(848)**
Long-term debt (including current maturities)	**5,035**	**3,935**	**(5,035)**	**(3,935)**
Finance lease liabilities (including current portion)	**2,058**	**1,441**	**(2,058)**	**(1,441)**
Other noncurrent liabilities	**297**	**208**	**(297)**	**(208)**
	8,381	**6,716**	**(8,381)**	**(6,716)**
	P6,213	**P4,688**	**(P6,213)**	**(P4,688)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2014	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P2,242)	(P2,091)	P2,242	P2,091
Trade and other receivables	(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.

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.

December 31, 2015	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P181,134**	**P131,134**	**P131,134**	**P -**	**P -**	**P -**
Trade and other receivables - net	**97,984**	**97,984**	**97,984**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**391**	**391**	**391**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**147**	**147**	**147**	**-**	**-**	**-**
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**6,018**	**6,049**	**85**	**5,574**	**213**	**177**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**6,353**	**6,437**	**-**	**2,587**	**1,089**	**2,761**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**5,687**	**5,687**	**4,230**	**1,457**	**-**	**-**
Financial Liabilities						
Loans payable	**148,026**	**148,809**	**148,809**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	**111,255**	**111,524**	**111,524**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**2,581**	**2,581**	**2,581**	**-**	**-**	**-**
Long-term debt (including current maturities)	**401,830**	**471,811**	**86,864**	**56,767**	**232,745**	**95,435**
Finance lease liabilities (including current portion)	**199,534**	**231,882**	**23,776**	**24,040**	**77,806**	**106,260**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	**30,953**	**30,958**	**-**	**30,413**	**4**	**541**

December 31, 2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P258,763	P258,763	P258,763	P -	P -	P -
Trade and other receivables - net	126,658	126,658	126,658	-	-	-
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 exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

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

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

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

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

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

	Note	**2015**	2014
Cash and cash equivalents (excluding cash on hand)	*9*	**P178,851**	P255,943
Trade and other receivables - net	*10*	**97,984**	126,658
Option deposit	*12*	**-**	1,118
Derivative assets	*12*	**391**	360
Financial assets at FVPL	*12*	**147**	136
AFS financial assets	*12, 14*	**6,018**	6,148
Noncurrent receivables and deposits - net	*19*	**6,353**	11,931
Restricted cash	*12, 19*	**5,687**	2,683
		P295,431	P404,977

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

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

Financial and Other Risks Relating to Livestock

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

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

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

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

Other Market Price Risk

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

Capital Management

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

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

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

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

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

42. Financial Assets and Financial Liabilities

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

	December 31, 2015		December 31, 2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P181,134**	**P181,134**	P258,763	P258,763
Trade and other receivables - net	**97,984**	**97,984**	126,658	126,658
Option deposit (included under "Prepaid expenses and other current assets" account)	**-**	**-**	1,118	1,118
Derivative assets (included under "Prepaid expenses and other current assets" account)	**391**	**391**	360	360
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**147**	**147**	136	136
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**6,018**	**6,018**	6,148	6,148
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**6,353**	**6,353**	11,931	11,931
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**5,687**	**5,687**	2,683	2,683
Financial Liabilities				
Loans payable	**148,026**	**148,026**	180,712	180,712
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	**111,255**	**111,255**	132,009	132,009
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**2,581**	**2,581**	325	325
Long-term debt (including current maturities)	**401,830**	**426,143**	335,450	359,539
Finance lease liabilities (including current portion)	**199,534**	**199,534**	210,092	210,092
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	**30,953**	**30,953**	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 2.4% to 4.6% and 2.5% to 4.3% as of December 31, 2015 and 2014, respectively. The discount rates used for foreign currency-denominated loans range from 0.4% to 9.1% and 0.2% to 2.1% as of December 31, 2015 and 2014, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

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

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

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Interest Rate Swap

As of December 31, 2015, the Group has outstanding interest rate swap with notional amount of US$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P632 as of December 31, 2015. The Group has no outstanding interest rate swap as of December 31, 2014.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,013 and US$1,673 as of December 31, 2015 and 2014, respectively, and with various maturities in 2016 and 2015. The net negative fair value of these currency forwards amounted to P202 as of December 31, 2015 while the fair value of currency forwards as of December 31, 2014 is minimal.

Currency Options

As of December 31, 2015 and 2014, the Group has outstanding currency options with an aggregate notional amount of US$565 and US$245, respectively, and with various maturities in 2016 and 2015. The net negative fair value of these currency options amounted to P1,232 and P140 as of December 31, 2015 and 2014, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2016 and 2015. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 1,150 and 610 metric tons as of December 31, 2015 and 2014, respectively. The net negative fair value of these swaps amounted to P2 as of December 31, 2015 and 2014.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2016 and 2015. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 10.9 and 6.6 million barrels as of December 31, 2015 and 2014, respectively. The positive (negative) fair value of these swaps amounted to (P39) and P1,398 as of December 31, 2015 and 2014, respectively.

Commodity Options

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

As of December 31, 2015 and 2014, the Group has no outstanding commodity options on the purchase of soybean meals.

The Group has no outstanding 3-way options designated as hedge of forecasted purchases of crude oil as of December 31, 2015 and 2014.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

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

Embedded Currency Forwards
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$173 and US$152 as of December 31, 2015 and 2014, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P83 and P54 as of December 31, 2015 and 2014, respectively.

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

The Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P3,971, P7,513 and P1,241 in 2015, 2014 and 2013, respectively (Note 33).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2015	2014
Balance at beginning of year	**P35**	P226
Net change in fair value of non-accounting hedges	**3,971**	7,513
	4,006	7,739
Less fair value of settled instruments	**6,196**	7,704
Balance at end of year	**(P2,190)**	P35

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

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

	December 31, 2015			December 31, 2014		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P391**	**P391**	P -	P360	P360
Financial assets at FVPL	**-**	**147**	**147**	-	136	136
AFS financial assets	**233**	**5,785**	**6,018**	215	5,933	6,148
Financial Liabilities						
Derivative liabilities	**-**	**2,581**	**2,581**	-	325	325

The Group has no financial instruments valued based on Level 3 as of December 31, 2015 and 2014. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

43. Registration with the Board of Investments (BOI)

a. SMC Global

SEPC
On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-Pioneer Status and was entitled to certain incentives that include, among others, an Income Tax Holiday (ITH) for four years from June 2011 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMEC, SPDC and SPPC
SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plant on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

SMCPC and SCPC
SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. As of December 31, 2015, SMCPC and SCPC have pending requests with the BOI to move the start of commercial operations. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plants.

On September 3, 2013 and January 28, 2014, the BOI issued a Certificate of Authority to SMCPC and SCPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". Authority shall be valid for one year from the date of issuance. For the subsequent years, BOI issued new Certificates of Authority dated March 6 and September 4, 2014 and June 9 and August 26, 2015 to SMCPC and February 6, 2015 and February 11, 2016 to SCPC, with a validity of one year from the date of issuance.

b. SMPFC

Certain operations of consolidated subsidiaries of SMPFC are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives.

<u>GBGTC</u>
GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in the Investments Code, GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

<u>SMFI</u>
SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Project) was registered with the BOI on a pioneer status as New Producer of Hogs on July 30, 2008 under Registration No. 2008-192. In accordance with the provisions of the Investments Code, the Sumilao Project was entitled to incentives which include, among others, ITH for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao Project ended in January 31, 2015. As of reporting date, SMFI is completing the requirements to avail of the two-year ITH bonus year.

c. Petron

<u>Benzene, Toluene and Propylene Recovery Units</u>
On October 20, 2005, Petron registered with the BOI under the Investments Code as: (1) a pioneer, new export producer status of Benzene and Toluene; and (2) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 50% of the combined production of Benzene and Toluene.

As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

a. ITH: (1) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (2) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for 10 years from start of commercial operations.

c. Simplification of custom procedures.

d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to custom rules and regulations provided firm exports at least 50% of combined production of Benzene and Toluene.

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten-year period from the date of registration.

f. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.

g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 50% of combined production of Benzene and Toluene.

h. Petron may qualify to import capital equipment, spare parts, and accessories at zero (1% for Propylene) duty from date of registration up to June 5, 2006 pursuant to Executive Order No. 313 and its implementing rules and regulations.

The BOI extended Petron's ITH incentive for its Propylene sales from December 2013 to November 2014 and for its Benzene and Toluene sales from May 2014 to April 2015.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment in its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from December 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the percentage share of product that are subject to retooling.

b. Minimum duty of 3% and VAT on imported capital equipment and accompanying spare parts.

c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the 3% duty imposed on the imported counterpart.

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten-year period from date of registration.

f. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.

g. Exemption from real property tax on production equipment or machinery.

h. Exemption from contractor's tax.

PetroFCC entitlement period ended in February 2013 and registration with BOI was cancelled on July 4, 2013.

<u>70 MW Coal-Fired Power Plant (Limay, Bataan)</u>
On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Investments Code. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, is limited to the revenue generated from the electricity sold to the grid.

b. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.

c. Petron may qualify to import capital equipment, spare parts and accessories at 0% duty from date of registration up to June 16, 2011 pursuant to Executive Order No. 528 and its implementing rules and regulations.

The power plant started commercial operations on May 10, 2013 and Petron availed of ITH from May to September 2013.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration No. 2010-181 covering the 70 MW Coal-Fired Power Plant Project to SPI, the new owner of the said facility.

<u>RMP-2 Project</u>
On June 3, 2011, the BOI approved Petron's application under RA No. 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration is based on the formula of the ITH rate of exemption.

b. Minimum duty of 3% and VAT on imported capital equipment and accompanying spare parts.

c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the 3% duty imposed on the imported counterpart.

e. Exemption from real property tax on production equipment or machinery.

f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016.

<u>70 MW Solid Fuel-Fired Power Plant</u>
On February 14, 2013, Petron registered with the BOI as an expanded operator of a 70 MW Solid Fuel-Fired Power Plant on a pioneer status under Investments Code. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for three years from December 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, is limited to the revenue generated from the electricity sold to the grid, other entities and/or communities.

b. Importation of capital equipment, spare parts and accessories at zero duty from the date of effectivity of Executive Order No. 70 and its implementing rules and regulations for a period of five years reckoned from the date of registration or until the expiration of Executive Order No. 70, whichever is earlier.

c. Importation of consigned equipment for a period of 10 years from the date of registration subject to the posting of re-export bond.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration No. 2013-047 covering the 70 MW Solid Fuel-Fired Power Plant Project to SPI, the new owner of the said plant.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

d. SMCSLC

SMCSLC is registered with the BOI for the operation of domestic cargo vessels and motor tankers with the following incentives:

a. *Operation of Motor Tanker (Samho Snipe).* The project was registered on May 26, 2009, where SMCSLC is entitled to ITH for six years from July 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

b. *Operation of Two Brand New Double-Hulled Oil Tanker Vessels (SL Tanglad and SL Banaba).* The project was registered on December 23, 2009, where SMCSLC is entitled to ITH for six years from August 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

c. *Operation of Brand New Non-Propelled Barge (M/V Kalusugan 2).* The project was registered on July 22, 2010, where SMCSLC is entitled to ITH for six years from August 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

d. *Operation of Leased Oil Tanker Vessel (SL Maple).* The project was registered on September 16, 2010, where SMCSLC is entitled to ITH for six years from September 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

e. *Operation of Brand New Non-Propelled Barge (M/V Katarungan 2).* The project was registered on November 11, 2010, where SMCSLC is entitled to ITH for six years from November 2010 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

f. *Operation of Brand New Oil Tanker (SL Bignay).* The project was registered on August 13, 2010, where SMCSLC is entitled to ITH for six years from June 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

g. *Operation of Brand New Non-Propelled Barge (M/V Katapatan 2).* The project was registered on June 9, 2011, where SMCSLC is entitled to ITH for six years from July 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

h. *Operation of Double-Hulled Marine Tanker Vessel (MMM Ashton).* The project was registered on January 6, 2012, where SMCSLC is entitled to ITH for four years from January 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

i. *Operation of Brand New Domestic/Inter-Island Shipping Vessel (M/T SL Beluga).* The project was registered on February 20, 2013, where SMCSLC is entitled to ITH for six years from February 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

j. *Operation of New Domestic/Inter-Island Shipping Operator Vessel (M/V SL Venus 8).* The project was registered on February 27, 2014, where SMCSLC is entitled to ITH for four years from February 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

e. SLHBTC

In 2014, SLHBTC's registration with the BOI as an oil terminal for storage and bulk marketing of petroleum products was granted. With the registration, SLHBTC is entitled to the following incentives under the Downstream Oil Industry Deregulation Act (RA 8740, New Industry Participant with New Investment) from March 14, 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of the registration, and upon fulfillment of the terms enumerated below:

a. ITH. SLHBTC is entitled to ITH for five years without extension from December 2013 or actual start of operations, whichever is earlier, but in no case earlier than the date of registration. Only income directly attributable to the revenue generated from the registered project (Storage, and Bulk Marketing of 35,000,000 liters of petroleum products covered by Import Entry Declaration or sourced locally from new industry participants) pertaining to the capacity of the registered storage terminal shall be qualified for the ITH.

b. Additional Deduction from Taxable Income. SLHBTC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Minimum Duty of 3% and VAT on Imported Capital Equipment. Importation of brand new capital equipment, machinery and accompanying spare parts, shall be entitled to this incentive subject to the following conditions:

   - they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;

   - the equipment is reasonably needed and will be exclusively used in the registered activity; and

   - prior BOI approval is obtained for the importation as endorsed by the DOE.

d. Tax Credit on Domestic Capital Equipment. This shall be granted on locally fabricated capital equipment equivalent to the difference between the tariff rate and the 3% duty imposed on the imported counterpart.

e. Importation of Consigned Equipment. SLHBTC is entitled for importation of consigned equipment for a period of five years from the date of registration subject to posting of the appropriate bond, provided that such consigned equipment shall be for the exclusive use of the registered activity.

f. Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse. SLHBTC is entitled to this exemption upon compliance with the following requirements:

   - at least 70% of production is imported;

   - such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and

   - all such spare and supplies shall be used only on bonded manufacturing warehouse on the registered enterprise under such requirements as the Bureau of Customs may impose.

g. Exemption from Real Property Tax on Production Equipment or Machinery. Equipment and machineries shall refer to those reasonably needed in the operations of the registered enterprise and will be used exclusively in its registered activity. BOI Certification to the appropriate Local Government Unit will be issued stating therein the fact of the applicant's registration with the BOI.

h. Exemption from the Contractor's Tax. BOI certification to the BIR will be issued stating therein the fact of the applicant's registration with the BOI.

i. Employment of Foreign Nationals. This may be allowed in supervisory, technical or advisory positions for five years from date of registration. The President, General Manager and Treasurer of foreign-owned registered enterprise or their equivalent shall not be subject to the foregoing limitations.

   The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of 10 years from March 14, 2013 and/or actual start of commercial operations.

44. Event After the Reporting Date

On February 24, 2016, the BOD of PSE approved the listing application of SMC of up to 975,571,800 shares of Series "2" Preferred Shares under shelf registration (the "Shelf Registered Shares") and the offering of up to 400,000,000 shares of Series "2" Preferred Shares (the "First Tranche") with a par value of P5.00 and an offer price of P75.00 per share. The SEC approved the shelf registration of the Shelf Registered Shares and issued a permit to sell covering the same on March 8, 2016.

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

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

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

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

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

45. Other Matters

a. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

- Treasury Shares of SMC

  A portion of the total treasury shares of SMC came from 25,450,000 common shares, with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by SMC with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of SMC shares under an agreement executed on March 26, 1986.

  Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

  On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring SMC to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

  On October 10, 2000, SMC filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than SMC, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

  On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote SMC to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. SMC referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD of SMC on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by SMC. The financial advisor stated that if SMC is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD of SMC that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring SMC to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which SMC is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that SMC has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan Resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that SMC should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of SMC shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of SMC shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of SMC unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of SMC and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed SMC's intervention, the Sandiganbayan's disposition of the so-called CIIF block of SMC shares in favor of the Government cannot bind SMC, and that SMC remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized SMC's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that SMC and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of SMC approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD of SMC on March 6, 2008.

On July 23, 2009, the stockholders of SMC approved the amendment of the Articles of Incorporation to issue Series "1" Preferred Shares, and the offer to exchange common shares to Series "1" Preferred Shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in SMC in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series "1" Preferred Shares.

On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series "1" Preferred Shares of SMC, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series "1" Preferred Shares are remitted to the escrow account established with UCPB. On October 5, 2012, SMC redeemed all Series "1" Preferred Shares including those Series "1" Preferred Shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series "1" Preferred Shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As of October 5, 2012, CIIF Holding Companies are no longer stockholders of SMC.

On June 30, 2011, the PCGG filed with the Supreme Court relating to an Urgent Motion to Direct SMC to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, SMC filed a Comment on the Urgent Motion in compliance with the Supreme Court's Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by SMC on February 22, 2012, directing SMC to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of SMC.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a "Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the "Treasury Shares" Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of SMC Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38" ("Manifestation and Omnibus Motion").

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required SMC to comment on COCOFED, et al.'s "Manifestation" dated October 4, 2012 and PCGG's "Manifestation and Omnibus Motion." Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a "Manifestation Re: 'Resolution' dated November 20, 2012," dated December 17, 2012, alleging that (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) SMC is likewise not a party in those cases, and if SMC is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished SMC; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that "no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court's directive".

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required SMC to file its comment on the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the Resolution, dated September 10, 2013, the Supreme Court directed SMC, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted SMC's motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

SMC, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and G.R. No. 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" Preferred Shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, SMC has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

- Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, SMC was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. SMC contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053.

In relation to the aforesaid contested assessments, SMC, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, SMC filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to SMC, appealing to SMC to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy". SMC's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against SMC, especially in view of SMC's pending claims for refund.

As of December 31, 2015, the BIR has taken no further action on the matter.

On July 24, 2009, SMC filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting SMC's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of SMC in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Second Division of the Supreme Court a Petition for Review which was docketed as G.R. No. 205045. This case is now with the Third Division of the Court.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against SMC, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P781, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045. Both cases are now with the Third Division.

In a Resolution dated July 21, 2014, a copy of which was received by SMC's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both SMC's counsel and the BIR Commissioner, through the Office of the Solicitor General, have filed their respective Memoranda. The two cases are deemed submitted for decision.

In the meantime, effective October 1, 2007, SMC spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400; on July 30, 2012, its fourth claim for refund under case number 8591; and on December 19, 2013, its fifth claim for refund with the CTA (2nd Division) under case number 8748. CTA case numbers 7973, 8209, 8400, and 8591 have all been decided by the respective CTA Divisions, where they are pending, in favor of SMC. The counsel for the BIR Commissioner are now in the process of appealing to the CTA *En Banc* the decisions rendered by the CTA Divisions in CTA case numbers 7973 and 8400. On the other hand, the decision in CTA case number 8209 has been declared final and executory by the CTA Division concerned for failure on the part of the BIR Commissioner to file a Motion for Reconsideration on the decision. In CTA case number 8591, the BIR Commissioner filed a Motion for Reconsideration, which we opposed and which has been denied. With respect to CTA Case number 8748, the same is still undergoing trial in the Second Division. In December 2014, SMB filed its sixth claim for refund with the CTA under case number 8955. The BIR has asked for additional time to file its Answer. In December 2015, SMB filed its seventh claim for refund with the CTA under case number 9223, for refund of overpayments for the period of January 1, 2014 to December 31, 2014. The said case is still undergoing trial.

- Deficiency Tax Liabilities

  The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

  On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA En Banc and the case was docketed as CTA EB Case No. 1417. The petition is pending before the CTA *En Banc*.

  On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA and the case was docketed as CTA Case No. 8813. The case has been submitted for decision.

- Tax Credit Certificates Cases

  In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CTA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, Petron filed its comment on the petition for review filed by the BIR. The petition is still pending as of December 31, 2015.

- Pandacan Terminal Operations

  In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. In December 2002, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the Regional Trial Court (RTC) to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

  The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

  However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, Petron also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, Petron, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

  In May 2009, the Mayor of Manila approved Ordinance No. 8187, which amended Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

  On August 24, 2012 (August 24 Decision), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. Petron filed with the RTC a Notice of Appeal to the CTA on January 23, 2013. The parties have filed their respective briefs. As of December 31, 2015, the appeal remained pending.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinment of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance No. 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. Petron, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implemented full relocation of their fuel storage facilities within six months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by Petron, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, Petron filed its submission in compliance with the November 25 Decision.

- Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTC and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292. The cases were pending as of December 31, 2015.

- Dispute between SPPC and PSALM

SPPC and PSALM are parties to the IPPA Agreement (the "Ilijan IPPA Agreement") covering the appointment of SPPC as the independent power producer administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments, calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bonafide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court of Mandaluyong City. In its Complaint, SPPC requested the Court that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (the "TRO") be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the Court issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the Court issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. Currently pending for resolution of the Court are: 1) PSALM's Motion for Reconsideration of the Order granting the Preliminary Injunction; and 2) PSALM's Motion to Dismiss. The preliminary conference among the parties scheduled on February 18, 2016 was reset to April 14, 2016.

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

By virtue of the Preliminary Injunction issued by the Court, SPPC continues to be the IPPA for the Ilijan Power Plant.

b. *Master Year Limited (MYL)*

On September 30, 2013, Privado Holdings, Corp. (Privado) acquired 368,140,516 common shares of SMC from MYL. The acquisition was transacted thru the PSE at P75.00 per share.

On February 14, 2014, Privado acquired 50,000 common shares of stock of SMC at the PSE at P58.00 per share.

c. *Commitments*

The outstanding purchase commitments of the Group amounted to P88,838 as of December 31, 2015.

Amount authorized but not yet disbursed for capital projects is approximately P87,610 as of December 31, 2015.

d. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of P47.06 and P44.72 in 2015 and 2014, respectively, for consolidated statements of financial position accounts; and average rates of P45.50, P44.39 and P42.43 in 2015, 2014 and 2013, respectively, for income and expense accounts.

e. *Temporary Restraining Order (TRO) Issued to Meralco*

On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC, is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the Supreme Court granted Meralco’s plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment. The settlement of which shall be covered by a 24-month Special Payment Arrangement agreed with PEMC which took effect in June 2014 up to May 2016. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders. The case is still pending resolution with the Court as of December 31, 2015.

f. Electric Power Industry Reform Act of 2001

R.A No. 9136, otherwise known as the EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity.

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

C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 0 8 0 3 9 3 9

COMPANY NAME

T O P   F R O N T I E R   I N V E S T M E N T
H O L D I N G S ,   I N C .   A N D
S U B S I D I A R I E S

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

5th Floor, ENZO Building
399 Sen. Gil J. Puyat Avenue
Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
		December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Bella O. Navarra		632-3000	

CONTACT PERSON's ADDRESS

***Note 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

ANNEX “B-2”

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND DECEMBER 31, 2015
(In Millions)

ASSETS

	2016 Unaudited	2015 Audited
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	₱ 201,498	₱ 181,134
Trade and other receivables - net (Notes 4, 8 and 9)	95,164	97,984
Inventories	68,128	64,148
Current portion of biological assets - net	3,381	3,319
Prepaid expenses and other current assets (Notes 8 and 9)	72,387	73,828
Total Current Assets	440,534	420,411
Noncurrent Assets		
Investments and advances - net	29,045	27,154
Available-for-sale financial assets (Notes 8 and 9)	5,954	5,948
Property, plant and equipment - net (Note 5)	565,365	581,107
Investment property - net	6,990	6,810
Biological assets - net of current portion	2,230	2,177
Goodwill	49,225	49,230
Other intangible assets - net	247,653	246,999
Deferred tax assets	16,625	17,007
Other noncurrent assets - net (Notes 4, 8 and 9)	32,677	32,822
Total Noncurrent Assets	955784	949,254
	₱ 1,396,318	₱ 1,369,665

LIABILITIES AND EQUITY

	2018 Unaudited	2015 Audited
Current Liabilities		
Loans payable (Notes 4, 8 and 9)	₱ 149,183	₱ 148,026
Accounts payable and accrued expenses (Notes 4, 8 and 9)	118,128	114,297
Finance lease liabilities - current portion (Notes 8 and 9)	20,329	16,339
Income and other taxes payable	17,942	13,992
Dividends payable	4,034	1,446
Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9)	34,672	69,394
Total Current Liabilities	344,268	363,494
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9)	350,318	332,436
Deferred tax liabilities	57,708	56,785
Finance lease liabilities - net of current portion (Notes 8 and 9)	172,827	183,195
Other noncurrent liabilities (Notes 4, 8 and 9)	43,711	45,167
Total Noncurrent Liabilities	624,562	617,583
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
Equity reserve	(1,457)	(1,184)
Reserve for retirement plan	(2,270)	(2,271)
Cumulative translation adjustments	(470)	(261)
Retained earnings:		
Appropriated	12,863	13,874
Unappropriated	42,745	36,759
Treasury stock	(76,780)	(76,780)
	95,882	91,388
Non-controlling Interests	331,606	297,200
Total Equity	427,488	388,588
	₱ 1,398,318	₱ 1,369,665

Note: See accompanyng 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 MARCH 31, 2016 AND 2015
(In Millions, Except Per Share Data)

	2016 Unaudited	2015 Unaudited
SALES (Note 2)	₱ 159,621	₱ 157,744
COST OF SALES	120,428	127,584
GROSS PROFIT	39,193	30,160
SELLING AND ADMINISTRATIVE EXPENSES	(17,138)	(14,357)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(8,471)	(7,190)
INTEREST INCOME	962	1,210
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	179	208
LOSS ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	(3)	(122)
OTHER INCOME (CHARGES) - Net (Note 3)	5,952	(139)
INCOME BEFORE INCOME TAX	20,674	9,770
INCOME TAX EXPENSE	6,073	3,639
NET INCOME	₱ 14,601	₱ 6,131
Attributable to:		
Equity holders of the Parent Company	₱ 4,975	₱ 1,444
Non-controlling interests	9,626	4,687
	₱ 14,601	₱ 6,131
Basic/Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6)	₱ 15.06	₱ 4.37

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2016 AND 2015
(In Millions)

	2016 Unaudited	2015 Unaudited
NET INCOME	₱ 14,601	₱ 6,131
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
EQUITY RESERVE FOR RETIREMENT PLAN	13	3
INCOME TAX EXPENSE	(4)	(1)
SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net	-	222
	9	224
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	1,337	(1,500)
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	(211)	147
INCOME TAX BENEFIT (EXPENSE)	21	(1)
	1,147	(1,354)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	1,156	(1,130)
TOTAL COMPREHENSIVE INCOME - Net of tax	₱ 15,757	₱ 5,001
Attributable to:		
Equity holders of the Parent Company	₱ 4,767	₱ 1,317
Non-controlling interests	10,990	3,684
	₱ 15,757	₱ 5,001

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

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Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2016 AND 2015
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company													Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Equity Reserve	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, 2016 (Audited)	**₱490**	**₱260**	**₱120,501**	**₱(1,184)**	**₱(2,271)**	**₱(1,517)**	**₱1,256**	**₱13,874**	**₱36,759**	**₱(28,457)**	**₱(48,323)**	**₱91,388**	**₱297,200**	**₱388,588**
Gain (loss) on exchange differences on translation of foreign operations	-	-	-	-	-	**(106)**	-	-	-	-	-	**(106)**	**1,443**	**1,337**
Net loss on available-for-sale financial assets	-	-	-	-	-	-	**(103)**	-	-	-	-	**(103)**	**(87)**	**(190)**
Equity reserve for retirement plan	-	-	-	-	**1**	-	-	-	-	-	-	**1**	**8**	**9**
Other comprehensive income (loss)	-	-	-	-	**1**	**(106)**	**(103)**	-	-	-	-	**(208)**	**1,364**	**1,156**
Net income	-	-	-	-	-	-	-	-	**4,975**	-	-	**4,975**	**9,626**	**14,601**
Total comprehensive income (loss)	-	-	-	-	**1**	**(106)**	**(103)**	-	**4,975**	-	-	**4,767**	**10,990**	**15,757**
Net addition (reduction) to non-controlling interests and others	-	-	-	**(273)**	-	-	-	-	-	-	-	**(273)**	**30,352**	**30,079**
Appropriations - net	-	-	-	-	-	-	-	**(1,011)**	**1,011**	-	-	-	-	-
Cash dividends and distributions:														
Common	-	-	-	-	-	-	-	-	-	-	-	-	**(2,442)**	**(2,442)**
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	**(1,886)**	**(1,886)**
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	**(2,608)**	**(2,608)**
As of March 31, 2016 (Unaudited)	**₱490**	**₱260**	**₱120,501**	**₱(1,457)**	**₱(2,270)**	**₱(1,623)**	**₱1,153**	**₱12,863**	**₱42,745**	**₱(28,457)**	**₱(48,323)**	**₱95,882**	**₱331,606**	**₱427,488**
As of January 1, 2015 (Audited)	₱490	₱260	₱120,501	₱(152)	₱(714)	₱(352)	₱776	₱15,964	₱34,497	₱(28,457)	₱(48,323)	₱94,490	₱299,988	₱394,478
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	(303)	-	-	-	-	-	(303)	(1,197)	(1,500)
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	146	-	-	-	-	146	76	222
Net gain on available-for-sale financial assets	-	-	-	-	-	-	29	-	-	-	-	29	117	146
Equity reserve for retirement plan	-	-	-	-	1	-	-	-	-	-	-	1	1	2
Other comprehensive income (loss)	-	-	-	-	1	(303)	175	-	-	-	-	(127)	(1,003)	(1,130)
Net income	-	-	-	-	-	-	-	-	1,444	-	-	1,444	4,687	6,131
Total comprehensive income (loss)	-	-	-	-	1	(303)	175	-	1,444	-	-	1,317	3,684	5,001
Net addition (reduction) to non-controlling interests and others	-	-	-	216	-	-	-	-	-	-	-	216	(334)	(118)
Appropriations - net	-	-	-	-	-	-	-	(2)	2	-	-	-	-	-
Cash dividends and distributions:														
Common	-	-	-	-	-	-	-	-	-	-	-	-	(2,175)	(2,175)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	(623)	(623)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	(1,770)	(1,770)
As of March 31, 2015 (Unaudited)	₱490	₱260	₱120,501	₱64	₱(713)	₱(655)	₱951	₱15,962	₱35,943	₱(28,457)	₱(48,323)	₱96,023	₱298,770	₱394,793

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 MARCH 31, 2016 AND 2015
(In Millions)

	2016 Unaudited	2015 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 20,674	₱ 9,770
Adjustments for:		
Depreciation, amortization and others - net	1,081	5,430
Interest expense and other financing charges	8,471	7,190
Interest income	(962)	(1,210)
Equity in net earnings of associates and joint ventures	(179)	(208)
Loss on sale of investments and property and equipment	3	122
Operating income before working capital changes	29,088	21,094
Changes in noncash current assets, certain current liabilities and others	3,300	(6,237)
Cash generated from operations	32,388	14,857
Interest and other financing charges paid	(6,038)	(5,249)
Income taxes paid	(1,753)	(604)
Net cash flows provided by operating activities	24,597	9,004
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries	-	(1,081)
Cash and cash equivalents acquired from business combination, net of cash paid	-	14,828
Additions to investments and advances	(1,712)	(911)
Additions to property, plant and equipment	(9,180)	(13,410)
Increase (decrease) in other noncurrent assets and others	(2,379)	4,661
Proceeds from sale of investments and property and equipment	10	517
Interest received	940	1,205
Dividends received from an associate and available-for-sale financial assets	175	25
Net cash flows provided by (used in) investing activities	(12,146)	5,834
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	158,909	193,578
Long-term borrowings	28,760	10,969
Payments of:		
Short-term borrowings	(163,143)	(220,453)
Long-term borrowings	(35,707)	(2,841)
Payments of finance lease liabilities	(5,935)	(5,483)
Cash dividends and distributions paid to non-controlling shareholders	(4,346)	(4,833)
Net proceeds from issuance of preferred shares of subsidiaries	29,962	14,885
Redemption of preferred shares of subsidiaries	-	(25,000)
Net increase in non-controlling interests	6	581
Net cash flows provided by (used in) financing activities	8,506	(38,597)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(595)	680
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,362	(23,079)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	181,134	258,763
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱ 201,496	₱ 235,684

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

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TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2016
(Amounts in Millions)

	Total	Current	Past Due		
			1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	₱ 52,421	₱ 40,505	₱ 3,912	₱ 1,491	₱ 6,513
Non-trade	40,209	29,199	1,225	391	9,394
Others	12,519	12,519	-	-	-
Total	105,149	₱ 82,223	₱ 5,137	₱ 1,882	₱ 15,907
Less allowance for impairment losses	9,985				
Net	₱ **95,164**				

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that Top Frontier Investment Holdings, Inc. and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of March 31, 2016 and December 31, 2015 for liquidity, solvency and profitability ratios and for the periods ending March 31, 2016 and 2015 for operating efficiency ratios.

	March 2016	December 2015
Liquidity:		
Current Ratio	**1.28**	1.16
Solvency:		
Debt to Equity Ratio	**2.27**	2.52
Asset to Equity Ratio	**3.27**	3.52
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**3.95%**	0.19%
Interest Rate Coverage Ratio	**3.78**	3.50
	Period Ended March 31	
	2016	2015
Operating Efficiency:		
Volume Growth	**12%**	7%
Revenue Growth	**1%**	(15%)
Operating Margin	**14%**	10%

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

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

* *Annualized for quarterly reporting*

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

The Group prepared its interim consolidated financial statements as of and for the period ended March 31, 2016 and comparative financial statements for the same period in 2015 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

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

Amendments to Standards Adopted in 2016

The Group has adopted the following PFRS starting January 1, 2016 and accordingly, changed its accounting policies in the following areas:

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

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

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

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

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

  - *Disclosure of information "elsewhere in the interim financial report' (Amendment to PAS 34).* PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" – i.e., incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g., management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross reference are not made available to users of the interim financial statements on the same terms and at the same time.

    The amendment to PAS 34 is applied retrospectively, in accordance with PAS 8.

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

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

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

- PFRS 16, *Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15, *Revenue from Contracts with Customers*. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- PFRS 15 replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes – e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities. If the required disclosure is provided in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities. On February 17, 2016, the FRSC has adopted the amendments to PAS 7, which apply prospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12).* The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

On February 17, 2016, the FRSC has adopted the Amendments to PAS 12, which will become effective for annual periods beginning on or after January 1, 2017.

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

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However on January 13, 2016, the FRSC decided to postpone the effective date of until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

2. Segment Information

Operating Segments

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

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

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

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

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

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

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

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

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

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	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Sales																				
External sales	**P27,167**	P22,517	**P25,953**	P25,091	**P4,830**	P4,727	**P17,449**	P17,695	**P76,156**	P85,505	**P4,692**	P1,464	**P478**	P403	**P2,896**	P342	**P –**	P –	**P159,621**	P157,744
Inter-segment sales	**34**	33	**27**	-	**1,673**	1,084	**2,482**	2,062	**701**	1,239	**–**	–	**8**	–	**2,781**	3,193	**(7,706)**	(7,611)	**–**	–
Total sales	**P27,201**	P22,550	**P25,980**	P25,091	**6,503**	5,811	**P19,931**	P19,757	**P76,857**	P86,744	**P4,692**	P1,464	**P486**	P403	**P5,677**	P3,535	**(P7,706)**	(P7,611)	**P159,621**	P157,744
Results																				
Segment results	**P6,075**	P5,097	**P1,701**	P1,393	**P481**	P363	**P7,124**	P6,648	**P4,891**	P1,874	**P2,429**	P659	**(P574)**	(P72)	**P200**	(P229)	**(P272)**	P70	**P22,055**	P15,803

3. Other Income (Charges)

Other income (charges) consists of:

	March 31	
	2016	2015
Gain (loss) on foreign exchange - net	**P6,989**	(P552)
Construction revenue	**1,620**	1,423
Loss on derivatives - net	**(1,627)**	(248)
Construction costs	**(1,620)**	(1,423)
Others	**590**	661
	P5,952	(P139)

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction costs pass through the profit or loss before it is capitalized as toll road and airport concession rights.

4. Related Party Disclosures

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

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

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Shareholders of the Parent Company	**March 31, 2016**	**P -**	**P -**	**P -**	**P9,932**	On demand;	Unsecured;
	December 31, 2015	-	-	-	10,077	interest bearing	no impairment
	March 31, 2016	**-**	**-**	**-**	**221**	On demand;	Unsecured;
	December 31, 2015	-	-	-	221	non-interest bearing	no impairment
Retirement Plans	**March 31, 2016**	**74**	**-**	**13,284**	**-**	On demand;	Unsecured;
	December 31, 2015	485	-	13,194	-	interest bearing	no impairment
Associates	**March 31, 2016**	**403**	**3**	**418**	**-**	On demand;	Unsecured;
	December 31, 2015	1,940	119	452	28	interest and non-interest bearing	no impairment
	March 31, 2016	**-**	**-**	**-**	**19,097**	Less than 1	Unsecured and
	December 31, 2015	-	-	-	20,529	to 10 years; interest bearing	secured
Joint Ventures	**March 31, 2016**	**-**	**1**	**652**	**2**	On demand;	Unsecured;
	December 31, 2015	3	416	665	162	non-interest bearing	no impairment
Shareholders	**March 31, 2016**	**-**	**-**	**162**	**2,817**	On demand;	Unsecured;
in Subsidiaries	December 31, 2015	222	77	178	2,765	non-interest bearing	no impairment
Others	**March 31, 2016**	**21**	**-**	**39**	**6,143**	On demand;	Unsecured;
	December 31, 2015	92	-	40	6,231	non-interest bearing	no impairment
Total	**March 31, 2016**	**P498**	**P4**	**P14,555**	**P38,212**		
Total	December 31, 2015	P2,742	P612	P14,529	P40,013		

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 amounted to P67 and P64 for the periods ended March 31, 2016 and 2015, 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 (BOC) presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

5. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2016 and December 31, 2015

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Cost										
January 1, 2015 (Audited)	P59,818	P54,245	P255,082	P50,532	P16,142	P134,677	P2,350	P5,530	P135,986	P714,362
Additions	869	3,743	-	1,177	1,191	9,122	115	47	43,830	60,094
Disposals/reclassifications/acquisition of subsidiaries	3,036	(1,770)	-	(362)	(74)	5,125	(147)	7	2,938	8,753
Currency translation adjustments	(1,158)	(1,263)	-	(1,562)	(1,029)	(317)	-	-	(346)	(5,675)
December 31, 2015 (Audited)	62,565	54,955	255,082	49,785	16,230	148,607	2,318	5,584	182,408	777,534
Additions	36	109	-	29	10	310	1	-	8,685	9,180
Disposals/reclassifications	121	(71)	-	109,423	536	4,684	8	(37)	(114,621)	43
Currency translation adjustments	461	433	-	677	441	(161)	(1)	-	119	1,969
March 31, 2016 (Unaudited)	**63,183**	**55,426**	**255,082**	**159,914**	**17,217**	**153,440**	**2,326**	**5,547**	**76,591**	**788,726**
Accumulated Depreciation and Amortization										
January 1, 2015 (Audited)	3,973	20,616	27,859	32,218	10,471	81,994	1,324	4,652	-	183,107
Depreciation and amortization	224	2,301	6,776	1,730	1,287	8,149	206	113	-	20,786
Disposals/reclassifications/acquisition of subsidiaries	61	(777)	-	(109)	(53)	4,656	(284)	-	-	3,494
Currency translation adjustments	(75)	(722)	-	(751)	(565)	(841)	-	-	-	(2,954)
December 31, 2015 (Audited)	4,183	21,418	34,635	33,088	11,140	93,958	1,246	4,765	-	204,433
Depreciation and amortization	64	596	1,694	1,153	301	2,096	50	28	-	5,982
Disposals/reclassifications	(2)	(75)	(1)	(2,435)	142	1,707	9	(8)	-	(663)
Currency translation adjustments	31	281	-	593	243	(89)	(1)	-	-	1,058
March 31, 2016 (Unaudited)	**4,276**	**22,220**	**36,328**	**32,399**	**11,826**	**97,672**	**1,304**	**4,785**	**-**	**210,810**

(Forward)

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Accumulated Impairment Losses										
January 1, 2015 (Audited)	P266	P1,882	P -	P -	P -	P6,886	P -	P573	P -	P9,607
Impairment	-	202	-	-	-	2,129	-	-	-	2,331
Disposals and reclassifications	-	-	-	-	-	(9)	-	-	-	(9)
Currency translation adjustments	-	(22)	-	-	-	87	-	-	-	65
December 31, 2015 (Audited)	266	2,062	-	-	-	9,093	-	573	-	11,994
Disposals and reclassifications	-	(6)	-	-	-	720	7	-	-	721
Currency translation adjustments	-	(39)	-	-	-	(145)	-	-	-	(184)
March 31, 2016 (Unaudited)	**266**	**2,017**	**-**	**-**	**-**	**9,668**	**7**	**573**	**-**	**12,531**
Carrying Amount										
December 31, 2015 (Audited)	P58,116	P31,475	P220,447	P16,697	P5,090	P45,556	P1,072	P246	P182,408	P561,107
March 31, 2016 (Unaudited)	**P58,641**	**P31,189**	**P218,754**	**P127,515**	**P5,391**	**P46,100**	**P1,015**	**P189**	**P76,591**	**P565,385**

March 31, 2015	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Cost										
January 1, 2015 (Audited)	P59,818	P54,245	P255,082	P50,532	P16,142	P134,677	P2,350	P5,530	P135,986	P714,362
Additions	177	251	-	59	193	1,328	11	1	11,390	13,410
Disposals/reclassifications/acquisition of subsidiaries	548	(1,420)	-	-	(145)	(1,801)	177	7	501	(2,133)
Currency translation adjustments	(458)	(601)	-	(645)	(426)	(389)	-	-	(147)	(2,666)
March 31, 2015 (Unaudited)	60,085	52,475	255,082	49,946	15,764	133,815	2,538	5,538	147,730	722,973
Accumulated Depreciation and Amortization										
January 1, 2015 (Audited)	3,973	20,616	27,859	32,218	10,471	81,994	1,324	4,652	-	183,107
Depreciation and amortization	50	576	1,695	477	318	1,850	51	28	-	5,045
Disposals/reclassifications/acquisition of subsidiaries	64	(927)	-	-	(24)	(892)	137	-	-	(1,642)
Currency translation adjustments	(33)	(327)	-	(373)	(229)	(385)	-	-	-	(1,347)
March 31, 2015 (Unaudited)	4,054	19,938	29,554	32,322	10,536	82,567	1,512	4,680	-	185,163
Accumulated Impairment Losses										
January 1, 2015 (Audited)	266	1,882	-	-	-	6,886	-	573	-	9,607
Currency translation adjustments	-	(9)	-	-	-	(22)	-	-	-	(31)
March 31, 2015 (Unaudited)	266	1,873	-	-	-	6,864	-	573	-	9,576
Carrying Amount										
March 31, 2015 (Unaudited)	P55,765	P30,664	P225,528	P17,624	P5,228	P44,384	P1,026	P285	P147,730	P528,234

Depreciation and amortization charged to operations amounted to P5,982 and P5,045 for the periods ended March 31, 2016 and 2015, respectively.

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

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

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

Basic and diluted EPS per share is computed as follows:

	March 31	
	2016	2015
Net income attributable to common shareholders of the Parent Company (a)	**P4,975**	P1,444
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)	**P15.06**	P4.37

The Parent Company has no dilutive debt or equity instruments as of March 31, 2016 and 2015.

7. **Dividends**

The Parent Company has no dividend declaration in March 2016 and 2015.

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

Objectives and Policies

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

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

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

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,088 and P2,251 for the period ended March 31, 2016 and for the year ended December 31, 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

March 31, 2016	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P7,361**	**P30,744**	**P10,921**	**P24,709**	**P14,960**	**P66,772**	**P155,467**
Interest rate	**5.65% - 12.00%**	**5.5% - 8.74899%**	**5.5% - 8.74899%**	**5.50% - 10.50%**	**4.9925% - 8.74899%**	**5.50% - 8.74899%**	
Foreign currency-denominated (expressed in Philippine peso)	**66**	**-**	**-**	**-**	**-**	**23,789**	**23,855**
Interest rate	**12.45% - 13.27%**	**-**	**-**	**-**	**-**	**4.875%**	
Floating Rate							
Philippine peso-denominated	**1,124**	**1,255**	**1,278**	**895**	**545**	**1,779**	**6,876**
Interest rate	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or BSP overnight rate, whichever is higher**	**PDST-R + margin or 5,75%, whichever is higher**	**PDST-R + margin or 5.75%, whichever is higher**	
Foreign currency-denominated (expressed in Philippine peso)	**26,314**	**13,897**	**123,965**	**11,657**	**18,924**	**7,182**	**201,939**
Interest rate	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin,**		
	P34,865	**P45,896**	**P136,164**	**P37,261**	**P34,429**	**P99,522**	**P388,137**

December 31, 2015	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P6,112	P29,399	P9,643	P23,426	P13,730	P58,854	P141,164
Interest rate	5.65% - 12.00%	5.65% - 8.74899%	5.65% - 8.74899%	5.50% - 10.50%	4.9925% - 8.74899%	5.50% - 8.74899%	
Foreign currency-denominated (expressed in Philippine peso)	14,021	-	-	-	-	24,301	38,322
Interest rate	7% - 13.27%	-	-	-	-	4.875%	
Floating Rate							
Philippine peso-denominated	1,096	1,215	1,303	1,059	545	1,915	7,133
Interest rate	PDST-R + margin or BSP overnight rate, whichever is higher	PDST-R + margin or BSP overnight rate, whichever is higher	PDST-R + margin or BSP overnight rate, whichever is higher	PDST-R + margin or BSP overnight rate, whichever is higher	PDST-R + margin or 5.75%, whichever is higher	PDST-R + margin or 5.75%, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	48,437	11,181	126,410	11,046	20,901	-	217,975
Interest rate	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin		
	P69,666	P41,795	P137,356	P35,531	P35,176	P85,070	P404,594

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

	March 31, 2016		December 31, 2015	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,820**	**P83,859**	US$1,766	P83,084
Trade and other receivables	**698**	**32,205**	807	37,320
Prepaid expenses and other current assets	**1**	**46**	56	2,578
Noncurrent receivables	**38**	**1,768**	43	2,007
	2,557	**117,878**	2,672	124,989
Liabilities				
Loans payable	**719**	**33,127**	356	16,774
Accounts payable and accrued expenses	**1,176**	**54,320**	1,073	50,511
Long-term debt (including current maturities)	**4,900**	**225,794**	5,445	256,298
Finance lease liabilities (including current portion)	**2,014**	**92,803**	2,058	96,843
Other noncurrent liabilities	**282**	**12,992**	297	13,963
	9,091	**419,036**	9,229	434,389
Net foreign currency-denominated monetary liabilities	**(US$6,534)**	**(P301,158)**	(US$6,557)	(P309,400)

The Group reported net gains (losses) on foreign exchange - net amounting to P6,989 and (P552) for the period ended March 31, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
March 31, 2016	**46.07**
December 31, 2015	47.06
March 31, 2015	44.70
December 31, 2014	44.72

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
March 31, 2016	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P1,470)**	**(P1,376)**	**P1,470**	**P1,376**
Trade and other receivables	**(268)**	**(620)**	**268**	**620**
Prepaid expenses and other current assets	**(1)**	**(1)**	**1**	**1**
Noncurrent receivables	**(32)**	**(28)**	**32**	**28**
	(1,771)	**(2,025)**	**1,771**	**2,025**
Loans payable	**625**	**532**	**(625)**	**(532)**
Accounts payable and accrued expenses	**806**	**936**	**(806)**	**(936)**
Long-term debt (including current maturities)	**4,823**	**3,453**	**(4,823)**	**(3,453)**
Finance lease liabilities (including current portion)	**2,014**	**1,410**	**(2,014)**	**(1,410)**
Other noncurrent liabilities	**266**	**203**	**(266)**	**(203)**
	8,534	**6,534**	**(8,534)**	**(6,534)**
	P6,763	**P4,509**	**(P6,763)**	**(P4,509)**

December 31, 2015	P1 Decrease in the US Dollar Exchange Rate Effect on Income before Income Tax	Effect on Equity	P1 Increase in the US Dollar Exchange Rate Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,457)	(P1,329)	P1,457	P1,329
Trade and other receivables	(630)	(621)	630	621
Prepaid expenses and other current assets	(47)	(42)	47	42
Noncurrent receivables	(34)	(36)	34	36
	(2,168)	(2,028)	2,168	2,028
Loans payable	240	284	(240)	(284)
Accounts payable and accrued expenses	751	848	(751)	(848)
Long-term debt (including current maturities)	5,035	3,935	(5,035)	(3,935)
Finance lease liabilities (including current portion)	2,058	1,441	(2,058)	(1,441)
Other noncurrent liabilities	297	208	(297)	(208)
	8,381	6,716	(8,381)	(6,716)
	P6,213	P4,688	(P6,213)	(P4,688)

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

Commodity Price Risk

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

San Miguel Corporation 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.

<u>Liquidity Risk</u>
Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

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

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

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

March 31, 2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P201,496**	**P201,496**	**P201,496**	**P -**	**P -**	**P -**
Trade and other receivables - net	**95,164**	**95,164**	**95,164**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**347**	**347**	**347**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**149**	**149**	**149**	**-**	**-**	**-**
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**5,974**	**6,015**	**45**	**5,580**	**214**	**176**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**5,661**	**5,751**	**-**	**2,382**	**320**	**3,049**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**5,077**	**5,077**	**3,463**	**1,614**	**-**	**-**
Financial Liabilities						
Loans payable	**149,163**	**149,985**	**149,985**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	**113,975**	**114,273**	**114,273**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**3,541**	**3,541**	**3,541**	**-**	**-**	**-**
Long-term debt (including current maturities)	**384,988**	**459,698**	**51,914**	**61,737**	**234,266**	**111,781**
Finance lease liabilities (including current portion)	**193,156**	**223,650**	**23,603**	**23,868**	**78,007**	**98,172**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	**30,245**	**30,253**	**-**	**29,648**	**7**	**598**

December 31, 2015	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P181,134	P131,134	P131,134	P -	P -	P -
Trade and other receivables - net	97,984	97,984	97,984	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	391	391	391	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	147	147	147	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	6,018	6,049	85	5,574	213	177
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	6,353	6,437	-	2,587	1,089	2,761
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	5,687	5,687	4,230	1,457	-	-
Financial Liabilities						
Loans payable	148,026	148,809	148,809	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	111,255	111,524	111,524	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,581	2,581	2,581	-	-	-
Long-term debt (including current maturities)	401,830	471,811	86,864	56,767	232,745	95,435
Finance lease liabilities (including current portion)	199,534	231,882	23,776	24,040	77,806	106,260
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	30,953	30,958	-	30,413	4	541

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

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

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

	March 31, 2016	December 31, 2015
Cash and cash equivalents (excluding cash on hand)	**P200,243**	P178,851
Trade and other receivables - net	**95,164**	97,984
Derivative assets	**347**	391
Financial assets at FVPL	**149**	147
AFS financial assets	**5,974**	6,018
Noncurrent receivables and deposits - net	**5,661**	6,353
Restricted cash	**5,077**	5,687
	P312,615	P295,431

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

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

Financial and Other Risks Relating to Livestock
The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The

other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

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

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

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

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

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

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

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

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

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

9. **Financial Assets and Financial Liabilities**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<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 the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

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

<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 the consolidated statements of income.

Impairment of Financial Assets

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

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

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

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

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

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

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

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of changes in equity, is transferred to the consolidated statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

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

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

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Costs

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

Offsetting Financial Instruments

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

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

	March 31, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P201,496**	**P201,496**	P181,134	P181,134
Trade and other receivables - net	**95,164**	**95,164**	97,984	97,984
Derivative assets (included under "Prepaid expenses and other current assets" account)	**347**	**347**	391	391
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**149**	**149**	147	147
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**5,974**	**5,974**	6,018	6,018
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**5,661**	**5,661**	6,353	6,353
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**5,077**	**5,077**	5,687	5,687
Financial Liabilities				
Loans payable	**149,163**	**149,163**	148,026	148,026
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities and IRO)	**113,975**	**113,975**	111,255	111,255
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**3,541**	**3,541**	2,581	2,581
Long-term debt (including current maturities)	**384,988**	**412,223**	401,830	426,143
Finance lease liabilities (including current portion)	**193,156**	**193,156**	199,534	199,534
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	**30,245**	**30,245**	30,953	30,953

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

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

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

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 1.7% to 4.7% and 2.4% to 4.6% as of March 31, 2016 and December 31, 2015, respectively. The discount rates used for foreign currency-denominated loans range from 0.4% to 7.6% and 0.4% to 9.1% as of March 31, 2016 and December 31, 2015, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedging

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

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

Freestanding Derivatives
For the purpose of hedge accounting, hedges are classified as either:

(a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);

(b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or

(c) hedges of a net investment in foreign operations.

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

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

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

The Group discontinues fair value hedge accounting if:

(a) the hedging instrument expires, is sold, is terminated or is exercised;

(b) the hedge no longer meets the criteria for hedge accounting; or

(c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as of March 31, 2016 and December 31, 2015.

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

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

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

The Group has no outstanding derivatives accounted for as a cash flow hedge as of March 31, 2016 and December 31, 2015.

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

The Group has no hedge of a net investment in a foreign operation as of March 31, 2016 and December 31, 2015.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of income.

<u>Derivative Instruments not Designated as Hedges</u>
The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

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

Interest Rate Swap
As of March 31, 2016 and December 31, 2015, the Group has outstanding interest rate swap with notional amount of US$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P1,052 and P632 as of March 31, 2016 and December 31, 2015, respectively.

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

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

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2016. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 465 and 1,150 metric tons as of March 31, 2016 and December 31, 2015, respectively. The net negative fair value of these swaps amounted to P1 and P2 as of March 31, 2016 and December 31, 2015, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2016. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 9.2 and 10.9 million barrels as of March 31, 2016 and December 31, 2015, respectively. The negative fair value of these swaps amounted to P46 and P39 as of March 31, 2016 and December 31, 2015, respectively.

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

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

As of March 31, 2016 and December 31, 2015, the Group has no outstanding 3-way options designated as hedge of forecasted purchases of crude oil.

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

Embedded Currency Forwards
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$166 and US$173 as of March 31, 2016 and December 31, 2015, respectively. These non-financial contracts consist mainly of foreign currency- denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net positive (negative) fair value of these embedded currency forwards amounted to P75 and (P83) as of March 31, 2016 and December 31, 2015, respectively.

Embedded Currency Options
As of March 31, 2016 and December 31, 2015, the Group has no outstanding currency options embedded in non-financial contracts.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P1,627), (P248) and P3,971 for the periods ended March 31, 2016 and 2015 and December 31, 2015, respectively.

Fair Value Measurements

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

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

	March 31, 2016			December 31, 2015		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P347**	**P347**	P -	P391	P391
Financial assets at FVPL	**-**	**149**	**149**	-	147	147
AFS financial assets	**239**	**5,735**	**5,974**	233	5,785	6,018
Financial Liabilities						
Derivative liabilities	**-**	**3,541**	**3,541**	-	2,581	2,581

The Group has no financial instruments valued based on Level 3 as of March 31, 2016 and December 31, 2015. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

10. **Other Matters**

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

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

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

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

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 45 (a) of the 2015 Audited Consolidated Financial Statements, that remain outstanding as of March 31, 2016. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2016.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of March 31, 2016. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

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

ANNEX "C-1"

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

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

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of Top Frontier Investment Holdings, Inc. ("Top Frontier" or the "Parent Company") and its subsidiaries (collectively referred to as the "Group") for the three-year period ended December 31, 2015. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015. All necessary adjustments to present fairly the Group's consolidated financial position as of December 31, 2015 and the financial performance and cash flows for the year ended December 31, 2015 and for all the other periods presented, have been made.

I. BASIS OF PREPARATION

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting except for the following items which are measured on an alternative basis at each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Available-for-sale (AFS) financial assets	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

<u>Functional and Presentation Currency</u>
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

<u>Significant Accounting Policies</u>
The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

<u>Adoption of New and Amended Standards and Interpretation</u>
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards and Interpretation Adopted in 2015

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

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

    - Meaning of 'Vesting Condition' *(Amendment to PFRS 2, Share-based Payment).* PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition. The adoption of the amendment did not have an effect on the consolidated financial statements.

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

    - Disclosures on the Aggregation of Operating Segments *(Amendments to PFRS 8, Operating Segments).* PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The adoption of the amendments did not have an effect on the consolidated financial statements.

- Scope of Portfolio Exception (*Amendment to PFRS 13, Fair Value Measurement*). The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments: Presentation* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The adoption of the amendment did not have an effect on the consolidated financial statements.

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

- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40).* PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Classification and Measurement of Contingent Consideration *(Amendments to PFRS 3).* The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, rather than to any other PFRS. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in the consolidated statements of income. Consequential amendments are also made to PAS 39 and PFRS 9 to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is amended to exclude provisions related to contingent consideration. The adoption of the amendments did not have an effect on the consolidated financial statements.

Additional disclosures required by the amended standards were included in the consolidated financial statements, where applicable.

II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables.

	Years Ended December 31		
	2015	2014	2013
		(In Millions)	
Sales	**P673,913**	P773,710	P204,720
Gross Profit	**139,068**	110,876	31,203
Selling and Administrative Expenses	**(63,468)**	(58,142)	(22,695)
Operating Income	**75,600**	52,734	8,508
Financing Charges - net	**(26,783)**	(23,081)	(7,040)
Equity in Net Earnings (Losses) of Associates and Joint Ventures	**(386)**	1,701	423
Gain (Loss) on Sale of Investments and Property and Equipment	**(81)**	610	30,756
Other Income (Charges) - net	**(6,423)**	6,170	(5,072)
Net Income	**24,677**	26,982	25,406
Net Income Attributable to Equity Holders of the Parent Company	**172**	3,652	11,578

<u>2015 vs. 2014</u>

In 2015, Top Frontier's consolidated sales revenue amounted to P673,913 million, 13% lower than 2014. This mainly reflects the effect of lower crude oil prices which affected the revenues of Petron Corporation (Petron). SMC Global Power Holdings Corp. (SMC Global) volumes and revenues were also affected because of the scheduled shutdown of Malampaya gas facilities, the main fuel source of the Ilijan power plant, as well as, the scheduled major maintenance of the Ilijan and Sual power plants.

On the other hand, the Group's core businesses of beverage, food and packaging continued to contribute higher revenues compared to 2014. The infrastructure business has also started to contribute higher revenues with the consolidation of the concession companies of Metro Manila Skyway (Skyway) Stages 1 and 2, and South Luzon Expressway (SLEX) in the first quarter of 2015.

The lower cost of sales was a result of the drop in crude prices which was partly offset by higher sales volume of Petron.

Consolidated operating income grew 43% above last year at P75,600 million, mainly attributable to higher margins from Petron; continued good performance from the beverage, food and packaging businesses; and higher contribution from the infrastructure business.

Higher financing charges in 2015, was mainly on account of the consolidation of the Atlantic Aurum Investments B.V. (AAIBV) Group's interest expense and other financing charges balance starting March 2015, partly offset by the increase in interest income earned from the proceeds from the disposal of investments in Trustmark Holdings Corporation (Trustmark), Zuma Holdings and Management Corporation (Zuma) and Fortunate Star Limited (Fortunate Star) and increase in the average balance of money market placements of the Group.

In 2015, the equity in net losses primarily represents the share of SMC Global in the net loss of Angat Hydropower Corporation (Angat Hydro), a joint venture company of PowerOne Ventures Energy Inc. (PVEI) and Korea Water Corporation (K-Water) beginning November 18, 2014, net of the Group's share on AAIBV's net earnings for the period from January 1 up to March 4, 2015, while the balance in 2014 primarily represents the Group's share in the net earnings of AAIBV and Bank of Commerce.

The decrease in other income was mainly due to lower hedging gain of Petron in 2015 which stemmed mainly from the less volatile commodity prices experienced in 2015, tempered by its higher currency hedging gain and the gain recognized on the remeasurement of the investment in shares of stock of Liberty Telecoms Holdings, Inc. (LTHI), as a result of the step acquisition.

The depreciation of the Philippine Peso against the US Dollar (US$), resulted to higher foreign exchange loss (net of income tax) of P12,105 million in 2015 as compared to P2,091 million in 2014.

The higher income tax expense in 2015 primarily resulted from the recognition of income tax on the dividend income from a foreign subsidiary of Petron, improved income from operations, as well as expiration of the Income Tax Holiday on the Board of Investments - registered projects of Petron in 2015; consolidation of the income tax expense balance of AAIBV Group; and the higher taxable income of San Miguel Brewery Inc. (SMB), San Miguel Pure Foods Company Inc. (SMPFC) and SMC Shipping and Lighterage Corporation (SMCSLC).

Consolidated net income, excluding loss on foreign exchange translation amounted to P36,782 million, 27% higher than 2014. Reported net income amounted to P24,677 million, which includes the P12,105 million loss on foreign exchange - net.

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

BEVERAGE

San Miguel Brewery Inc.
SMB ended the year with consolidated revenues of P82,374 million, 4% higher than 2014, mainly driven by the robust performance of its Philippine operations. On-going efforts to stimulate volumes, improved cost-efficiencies and managed fixed costs resulted in an operating income of P22,631 million, 3% higher than the previous year.

SMB has expanded its business portfolio which now includes the non-alcoholic beverages (NAB). SMB acquired from Ginebra San Miguel Inc. (GSMI) its non-alcoholic beverage business in April 2015. This initiative was aimed to pursue a multi-beverage strategy, to enhance SMB's growth prospects, and to strengthen its competitiveness. NAB volumes reflected gradual improvement since it was launched, contributing further growth to the business.

Beer Domestic
Sales volume for SMB's domestic operations reached 177 million cases, 3% higher than the previous year. This translated to a 9% growth in revenues amounting to P70,345 million. Operating income reached P22,428 million, 5% up from 2014.

SMB continues to focus on strengthening brand equities through effective and targeted ad and promo campaigns and demand generating - programs to further strengthen its leadership in the domestic beer market.

Red Horse reinforced its dominance in the strong beer category through its “#1 Beer” campaign, and the annual Pambansang Muziklaban and Pasiklaban Challenge. Meanwhile, San Miguel Pale Pilsen strengthened its position with bar activations and the “Amin ang Beer, Sa’yo ang Kwento” beer stories promo.

San Mig Light remained strong encouraged by its “San Mig Light Bucket Nights” promo and sustained thematic campaigns.

Gold Eagle further strengthened its hold in the Visayas and Mindanao markets through the “Sama-Samang Mag-Jamming, Sama-Samang Mag-Gold Eagle Beer” thematic campaign, complemented by digital promotion initiatives.

Beer International
SMB’s international operations in Hong Kong, Indonesia, and China experienced major challenges which affected volumes. Slowdown was mitigated by sales programs implemented to address these challenges, complemented by the strong growth in Thailand’s domestic operations and Vietnam’s core brands. Total revenues amounted to US$257 million, versus US$331 million in 2014.

Sales volume in South China continued to improve as it increased by 14% supported by outlet coverage expansions and higher export volumes. Meanwhile, operations in North China continued to be challenged by competition.

Hong Kong operations has been challenged by the decline in sales volume mainly due to the termination of the distribution agreement with Anheuser Busch InBev (AB InBev) in 2015. San Miguel Brewing International Ltd. (SMBIL) continues to put in place programs to recover these lost volumes such as getting new portfolio of imported brands and adopted the “Going-to-Market” strategy penetrating big wholesalers. These initiatives have started to show improvements. Without AB InBev, volumes grew by 2% in 2015.

Indonesia operations had a difficult year due to the implementation of the new government regulation banning sales of alcoholic beverages in major channels. This significantly affected sales volume but slowdown was mitigated through the implementation of sales programs. Dealers and wholesalers were encouraged to become distributors and sub distributors and more sales programs were introduced to the modern trade-off and on-premise outlets providing trade discount incentives.

Vietnam sustained its positive trend in 2015 ending the year with 18% growth in sales volume. This was led by the double-digit growth of San Miguel Pale Pilsen, San Mig Light and W1N Bia. On the other hand, full year operating performance was 16% unfavorable versus the previous year due to lower export contribution.

Thailand’s domestic volume ended the year with a double-digit growth of 14% backed by SMBIL’s ongoing programs and outlet penetration initiatives. All brands and regions registered gains with San Mig Light outperforming 2014 levels by 11%. Full year operating income grew by more than 100% mainly due to volume improvement and higher prices implemented during the second quarter of 2015.

Liquor and Spirits
GSMI delivered a robust performance in 2015, surpassing the previous year's performance. Growth was mainly driven by better sales volume and cost-management programs. Total domestic volumes reached 23 million cases, 4% higher than the previous year. Flagship Ginebra San Miguel increased sales volume by 5% as the "Ganado Sa Buhay" thematic campaign continued to resonate with consumers. Vino Kulafu grew by 12% on the back of improved distribution system and innovation, which strengthened the brand's popularity among younger consumers in the Visayas and Mindanao area. As such, consolidated revenues grew by 7% to P16,628 million.

Lower production costs, better bottle retrieval system, and improved distillery efficiencies drove full year operating income 73% ahead of the previous year to P621 million.

FOOD

SMPFC posted another growth year for 2015, with a 4% increase in revenues at P106,860 million and operating income of P7,644 million, up by 18% from the previous year. Growth was driven by the strong performance of its Feeds and Branded businesses.

SMPFC remained focused on growing its branded value-added business which provided more robust and steady margins. In 2015 alone, SMPFC launched 24 new products under this category. This category, together with the stable priced products had already increased the total contribution to the revenue pie to about 51%. The acquisition of the *La Pacita* brand, a biscuit and flour based snack business early in 2015 has provided its Milling business to expand its portfolio of branded products which have already started to register growth. SMPFC also introduced powdered mixes such as Wandah! The "All Around Mix" of Gravy, Mayo, Catsup, Cheese spread and Creamee mixes. This introduces various condiments in powdered form that is conveniently packed for single use and easy preparation. These initiatives were in line with the Food Group's shift to more value-added products.

Agro-Industrial
The Agro-Industrial business composed of feeds, poultry and fresh meats, generated revenues of P72,559 million, exceeding the previous year's sales by 4%. The business was able to recover from a profit decline in the first three quarters on account of continued favorable performance of its Feeds segment and the improvement of chicken prices in the fourth quarter of the year.

Milling
The Milling business was affected by the drop in flour selling prices following the decline in global prices of wheat, competitive pressures coming from imported and new competitors, together with the government's continued call to bring down flour prices. Despite this, revenues increased by 3% to P10,256 million due to higher volume. The contribution of the grain terminal operations partly compensated the drop in flour profit. Also cushioning the impact of the drop in basic flour margins is the growing volume of customized premixes and the expansion of the exclusive franchised Kambal Pandesal outlets.

Value-Added
The Value-Added processed meats business posted strong growth as revenues rose by 8% over 2014. This was mainly driven by its core products of Hotdogs and Nuggets products, complimented by its Christmas products like hams and cheeseballs. This delivered a faster growth than the basic foods segment as the company moves to focus more on the value-added segment.

Dairy and Others
The Dairy, Fats and Oil business achieved revenue growth of 13% contributing P8,762 million led by the strong performance of its core product lines for butter, margarine, and cheese.

The food service business continued to benefit from the growing trend of out of home consumption and has been among the top suppliers of major fast food chains. This made it one of the major drivers of San Miguel Pure Foods' growth, generating combined revenues of P12,500 million, growing by 9% in 2015.

The Coffee business has been affected by intense competitive pressures. New product launches and restructuring of sales and distribution organization are currently being done to improve performance.

Meanwhile, the International operations in Vietnam and Indonesia continued to face challenges which posted revenue decline in 2015. This was mainly due to the temporary closure of the feeds and hogs operations in Vietnam and lower volumes in Indonesia. New marketing programs will be implemented to help grow the international operations.

PACKAGING

The Packaging Group continued to provide stable growth in 2015. Revenues grew by 3% to P25,050 million, a result of higher sales across all business groups. Operating income increased to P2,344 million, 2% higher versus last year.

In February 2015, San Miguel expanded its packaging business through the acquisition of Vinocor Worldwide Direct Pty. Ltd., a supplier of wine bottle corks and customized bottles. This enabled San Miguel's packaging group to service the Australian wine market, and cork supplying in the area. This strengthened Australian operations, contributing a double-digit growth in revenues.

Glass
The Glass business achieved record performance in terms of revenue and operating income. Sales revenue reached P8,626 million, 14% better than the previous year mainly driven by sustained strong demand from the beverage and pharmaceutical customers.

Metal
The Metal business experienced a decrease in demand from soft drink customers but impact was softened by the greater domestic demand from beer and other beverage customers.

Plastics
With the continuous domestic delivery of plastic crates and pallets, sales volume increased by 4% from 2014. Revenues reached P1,928 million from P2,094 million in 2014.

Paper
The Paper segment registered revenues of P2,273 million, 3% higher than 2014, which resulted to a double-digit growth in net income.

Malaysia
Malaysia operations experienced an increase in sales volume with woven products growing by 4% and plastic films by 13%. However revenues decreased by 6% to P3,282 million.

Australia
San Miguel Yamamura Australasia Pty. Ltd. and its subsidiaries (SMYA or Cospak Group) were significantly profitable with higher sales volume from pharmaceutical products and wine bottles. This enabled the Cospak Group to increase revenues by 22% to P4,675 million.

ENERGY

2015 was a challenging year for SMC Global. Consolidated offtake volume declined by 3% from the previous year at 16,558 Giga Watt Hours (GWH). Lower volumes was mainly the result of the scheduled maintenance outage and occasional supply restrictions of the Malampaya gas facility for Ilijan power plant, as well as the more than 90-days extended major maintenance outage of Unit 2 of Sual power plant. This was, however, moderated by higher power generation of San Roque power plant attributable to better water inflow, and higher contribution from the Limay Co-generation power plant.

Consolidated revenues and operating income amounted to P77,507 million and P23,703 million respectively.

Revenues from the Sual power plant was 2% better than last year at P33,336 million, mainly attributable to higher bilateral volumes sold despite the decline in average bilateral and Philippine Wholesale Electricity Spot Market (WESM) prices.

The San Roque power plant reached an offtake volume of 1,589 GWH, 89% higher than last year. Coupled with contribution from the ancillary services, revenues amounted to P8,550 million, 32% up from 2014.

On the other hand, revenues from the Ilijan power plant declined by 21% to P31,473 million due to lower bilateral and WESM volumes, as well as decrease in prices compared to the previous year.

The Limay Co-generation power plant added 527 GWH in offtake volumes. Revenues significantly increased by 29% amounting to P7,261 million.

SMC Global continued to expand its power portfolio. The construction of the two-new coal-fired power plants located in Limay, Bataan and Malita, Davao remained on track. These two power plants will provide an initial additional capacity of 450 Megawatts (MW), which are expected to be completed before the end of 2016.

FUEL AND OIL

Petron remained to be challenged in 2015 as it was affected by the continued drop in oil prices. Even with robust volume growth, Petron registered lower sales revenue of P360,178 million, a

25% decrease from the previous year. Benchmark Dubai crude fell to US$35 per barrel in December 2015 with an annual average price of US$51 per barrel, 47% lower than the previous year.

Despite weak oil prices in 2015, the differential between crude and finished products remained strong and the mix of higher value products improved, supporting refining margins. As a result, Petron's operating income reached P18,134 million last year, a 138% increase from only P7,605 million in 2014.

Philippines
Oil demand in the Philippines has grown significantly amid the low price environment. Supported by the higher production from Refinery Master Plan Phase 2 (RMP-2) and strong industry growth, sales volume hit 62 million barrels, 20% higher than 2014.

Production from RMP-2 continued to improve, as utilization levels reached more than 90%, increasing the production of high-margin products such as gasoline and petrochemicals. The refinery upgrade started its commercial operations in January 2016 and has already passed performance tests, producing Euro IV gasoline and diesel.

Malaysia
Volume grew by 3% mainly driven by increase in sales to industrial accounts, liquefied petroleum gas (LPG) and retail gasoline. The completion of the rebranding and upgrading program supported an 11% growth in gasoline retail sales.

To sustain volume growth in the years to come, Petron continued to expand its network of service stations in both markets. As of December 2015, new service stations under different stages of construction reached 50 for the Philippines and 15 for Malaysia.

INFRASTRUCTURE

In 2015, SMC began to realize higher contributions from the infrastructure business given the consolidation of SLEX and the Skyway System starting March 5, 2015. On a full year 2015 results, San Miguel Holdings Corp. (SMHC) delivered P15,238 million in revenues and P8,536 million in operating income, a 19% and 15% increase respectively from last year.

The tolling revenues consolidated to SMC reached P13,021 million and operating income was at P7,272 million, with the consolidation of SLEX and Skyway Stages 1 and 2 in March 2015.

With higher-than-expected traffic volume, all the operating tollways posted good revenue growth.

SLEX revenues amounted to P4,886 million with average daily traffic reaching 273,978 vehicles. Skyway Stages 1 and 2 delivered P8,111 million in revenues which registered average daily traffic of 241,906 vehicles. The Radio Frequency Identification (RFID) toll collection has been implemented in both tollways and uptake from the consumers was well received.

Southern Tagalog Arterial Road (STAR) Tollway posted double-digit growth in its average daily vehicle count which reached 41,148 vehicles, resulting to P610 million in revenues. The growth was mainly driven by the safety improvements done on the tollway, including the construction of additional lanes.

The Tarlac-Pangasinan-La Union Toll Expressway's (TPLEX) operating segments delivered P760 million in revenues with daily traffic count already reaching 12,750 vehicles. The construction of Section 3A from Urdaneta to Pozorrubio is currently ongoing.

The construction of the Ninoy Aquino International Airport (NAIA) Expressway is now on its final stage and is expected to complete almost all of the 5.4 km stretch by second quarter of 2016. Only a portion fronting the Terminal 3 in the airport will remain under construction until the third quarter of 2016.

The Boracay Airport runway extension to 1.8 km was completed in 2015 with jet operations expected to start by the second quarter of 2016. Construction of the new terminal is set to begin with target completion by early 2018.

The Skyway Stage 3, which involves the construction of a 14.2-km elevated expressway from Buendia to Balintawak, is progressing well and is targeted to be completed by the end of 2017.

The Metro Rail Transit Line 7 (MRT-7) Project has now in place the requisite financing and will soon begin construction. The project involves the construction of a new 22 kilometer light rail transit route that will link the new rail with the Light Rail Transit Line 1 and Metro Rail Transit Line 3 system. Project completion will take around 3.5 years from commencement of construction.

Preparation for the SLEX Toll Road 4 Project, an extension of SLEX from Sto. Tomas, Batangas until Lucena City, with a length of more than 57 kilometers is also underway.

REAL ESTATE

San Miguel Properties Inc. (SMPI) delivered a good performance for 2015. SMPI generated P1,119 million in total revenues, 48% higher than the previous year, backed by the good performance of its real estate segment.

2015 was the year when SMPI presented the best use for their properties and completed the Makati Diamond Residences (MDR), a luxury serviced apartment located in Makati which had a high occupancy rate since its opening to the public, even prior to its formal opening on April 1, 2015.

SMPI is creating more synergies with its business units and more active on new real estate developments, as well as, maximizing the use of existing properties. It shall focus on generating revenues from existing assets by developing quality residential, commercial and industrial projects.

2014 vs. 2013

The financial performance of the Group for the year ended December 31, 2014 consists of the consolidated financial performance of Top Frontier, SMC and Clariden Holdings, Inc. (Clariden) for twelve months while the financial performance of the Group for the year ended December 31, 2013 consists of the financial performance of Top Frontier for twelve months and the consolidated financial performance of Clariden and SMC for the period from August 30 and October 17, 2013, respectively, to December 31, 2013.

The financial performance of the Group in 2014 substantially reflects the results of operations of SMC.

Consolidated sales revenue amounted to P773,710 million which primarily represents the sales revenue of SMC and its subsidiaries. Majority of the businesses posted healthy revenue growth on the back of robust volumes and higher selling prices.

Consolidated operating income in 2014 amounted to P52,734 million. The core businesses posted strong results, led by the double-digit growth from the food business and the profit delivery of the liquor business, a turnaround from 2013's loss. For the new businesses, the Energy business delivered optimum performance while Petron was challenged by declining crude oil prices.

Equity in net earnings of associates and joint ventures pertains mainly to the share in the net income in the Group's non-controlling interests in Infra.

Gain on sale of investments and property and equipment mainly represents the net gain of the Group on the divestment of the equity interests in Philippine Airlines, Inc. (PAL) and Air Philippines Corporation (PAL Express) and the gain on sale of certain fixed assets of the Group.

Other income includes mainly the: a) gain on derivatives on account of freestanding commodity and currency forwards of Petron, net of the derivative loss on the currency forwards of SMC, b) Power Sector Assets and Liabilities Management Corporation (PSALM) monthly fees reduction, c) other income of Clariden due to change in assumption on the computation of accretion expense on the payable to the Privatization Management Office and d) dividend income, net of foreign exchange loss.

With the foreign exchange loss on the translation of foreign currency denominated assets and liabilities mainly of SMC Global, SMC, Petron and Top Frontier and net financing charges incurred by the Group, consolidated net income before non-controlling interests amounted to P26,982 million, while net income attributable to equity holders of the Parent Company is P3,652 million.

Net income attributable to non-controlling interests primarily consists of the share of non-controlling stockholders in the net income of SMC, SMB, Petron and SMPFC.

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

BEVERAGE

San Miguel Brewery Inc.
SMB's consolidated volumes reached 207.3 million cases, an improvement from 2013, when volumes slowed as a result of the implementation of the new excise tax structure beginning in 2013. Volume improvement was driven mainly by growth across the domestic market, particularly in the Visayas region and demand-generating programs.

SMB has put in place an effective price management program, which resulted in the increase in sales revenues.

SMB remained focused on managing its fixed costs and implementing cost efficiency measures. Beer International in particular was able to realize significant improvements in its operations. As a result, consolidated operating income amounted to P22,079 million.

Beer Domestic

2014 was a recovery year for SMB's domestic operations. Volumes reached 172.5 million cases while sales revenues reached P64,303 million and operating income amounted to P21,118 million. The improvement in sales performance was achieved through intensified implementation of demand-generating programs and cost-efficiency measures. Red Horse Beer remained the number 1 strong beer in the country and asserted dominance through the "Kaya Mo Na", Pambansang Muziklaban and Pasiklaban barangay activations. San Miguel Pale Pilsen's "iconic" positioning was reinforced through "Bilib" thematic campaign and the "Sarap MagBabad" summer program, among others.

San Mig Light strengthened relevance with the enhanced "One Word" campaign, "On All Night" loyalty program, Bucket Nights/Party All Night programs and digital campaigns, promotions and sponsorships.

Gold Eagle Beer improved sales through its well-focused "Sama-Sama Mag-Jamming, Sama-Sama Mag-Gold Eagle Beer" campaign in the Visayas and Mindanao. On the other hand, Lifestyle Brews, San Miguel Premium All-Malt, Super Dry and Cerveza Negra, brand image continued to improve with "Ingredients" and "Awards" campaigns. Newly-launched San Mig Zero started to make its contribution to the SMB portfolio, proving that campaigns focused on strengthening visibility and trial-generating activations were well-received by consumers.

Meanwhile, San Miguel Flavor Beer's market continued to expand through the success of "Game Tayo" digital campaign, "Talk" TVC and store penetration programs.

Beer International

SMBIL operations posted P14,702 million in revenues in 2014, mainly driven by modest growth in sales of its branded products. This was despite lower volumes resulting from discontinued private label volumes.

In South China, volumes of the San Miguel brand in targeted expansion areas continued to register double-digit growth, partly offset by lower volumes in the core markets due to distribution gaps. Total volumes however, grew due to higher local brand volumes and increased exports production. North China operations, on the other hand, continued to be challenged by intense competition.

SMB Hong Kong (SMBHK) volume ended flat due to the termination of the distribution agreement for certain premium brands, and the pro-democracy demonstrations (from September to December) in the country which resulted in weaker domestic volumes. Improvements in margins, together with higher exports slightly offset the effects of lower volumes in operating profitability.

Indonesia operations was weighed down by dealer and wholesaler pricing issues in the second and third quarter of 2014, resulting in drop in volumes. However, recovery in the fourth quarter of 2014, as well as higher margins and prudent spending on fixed costs protected profitability.

Vietnam registered a double-digit growth in its domestic volumes, spearheaded by San Mig Light and W1N Bia.

Volume grew despite a political crisis in Thailand that saw the imposition of martial law in the second quarter. Marketing programs and outlet penetration activities proved successful in achieving monthly growth in the second half of 2014. Operating performance substantially improved, buoyed by higher volumes and better margins.

Exports volumes for San Miguel brands grew on the back of steady growth in the United Arab Emirates, Taiwan, Korea and the United States and new markets in Africa and Australia. This, however, was outweighed by lower private label volumes, resulting to a volume decline in total exports.

Liquor and Spirits

GSMI achieved milestone results in 2014, a year which marked its flagship brand Ginebra San Miguel's 180th year of gin excellence. GSMI delivered a strong performance, registering an operating profit of P358 million, a turnaround from 2013's operating loss.

Growth was driven by the resurgence in volume sales and lower costs resulting from improved efficiency and more deliberate cost-management programs.

GSMI went back to basics and focused its strategy on its core gin products, led by flagship Ginebra San Miguel. The "Ganado sa Buhay" thematic campaign and the nationwide concert series "Ginumanfest" resonated with consumers and was a huge success which allowed GSMI to regain key markets in Northern Luzon. Purposive product launches also allowed GSMI to capture new markets, particularly in the Eastern Visayas. GSMI also reinforced its distribution network through wholesalers, extending its reach in unserved areas in Luzon and Visayas.

As a result, domestic liquor volume grew and consequently, revenues reached P15,511 million.

Increased use of second-hand bottles, better distillery and bottling efficiencies yielded reduced production spending. Fixed costs were kept in check with more prudent spending, particularly with advertising and promotion. These significantly improved margins and GSMI's overall profitability.

Inspired by the momentum generated in 2014, growth prospects will be hinged on volume growth, with focus in securing relevance to its core drinkers and generating incremental consumption. The launch of the sequel to the "Ganado sa Buhay" thematic campaign will strengthen the dominance of the flagship brand Ginebra San Miguel in the gin category. The introduction of Primera Light brandy and the re-launch of GSM Blue, both lower proof alcohol products, will create an appeal to a younger consumer segment. These programs together with sustained cost improvement programs are expected to sustain profit growth of the business.

FOOD

SMPFC registered another growth year in 2014 as revenues reached P102,999 million. This was mainly driven by the strong performance of its Agro-Industrial and Flour Milling businesses. Volumes were spurred by on-going innovation programs and expanded distribution network, further strengthened by improvements in its established branded products, development of new variants and supported by innovative marketing and promotional activities.

The impact of Typhoon Glenda and the congestion in Manila's main ports made operating conditions relatively difficult. Nevertheless, operating income amounted to P6,463 million, on the back of strong performance of poultry and fresh meats businesses, which benefitted from favorable selling prices, better farm efficiencies and improved availability of cassava. The Milling business also contributed to operating income growth with increased sales volume and lower wheat cost.

San Miguel Pure Foods' established strategies and unwavering focus were key in mitigating effects of such uncontrollable forces and allowed SMPFC to deliver a solid 2014 performance. Its vertically-integrated business model remains to be a fundamental strategy in controlling costs in all levels of production. The expansion of exclusive retail outlets, such as the Magnolia Chicken stations, Monterey Meatshops and Kambal Pandesal, continued to increase their contribution in sales. SMPFC also continued to increase brand equity through product innovations and brand-building initiatives.

Agro-Industrial
The Agro-Industrial business posted revenues of P69,648 million. Revenues from poultry and fresh meats grew on the back of favorable selling prices. On the other hand, revenues from the feeds business increased, driven by higher volumes in hogs, broiler and duck feeds.

Milling
The Milling operations ended 2014 with revenue of P9,916 million. Volume growth was led by the value - added flour products and additional revenues from the new Grains Terminal operations.

Third-party owned and operated Kambal Pandesal bakery outlets continued to grow at a remarkable rate, reaching 447 stores in December 2014, from only 168 outlets in 2013. Using high quality ingredients from SMPFC's Milling and Branded Value-Added businesses, Kambal Pandesal bakeries brought delicious bread products such as Pan de Keso, Pan de Hotdog and Pan de Kape to the masses at affordable prices.

Value-Added
2014 was relatively challenging for the Value-added Meats business which was affected by high trade inventory at the beginning of 2014 and the port congestion problem during the 2nd half of 2014 that had an adverse impact on logistics costs and raw materials availability.

Revenues amounted to P15,069 million given by higher selling prices, sales performance of new products and increased convenient food offerings such as bone-in fried chicken, canned chicken and meaty spaghetti sauce. The native line segment was also expanded showcasing SMPFC's Magnolia chicken.

Dairy and Others
The Dairy, Fats and Oils business registered revenues of P7,787 million, on the back of strong volume growth from butter, margarine and cheese. New flavors launched strengthened the "Best of the Philippines" line that allowed Magnolia ice cream to make its contribution.

Meanwhile, the coffee business, under the San Mig Coffee brand, focused on its core products and realized revenue growth for its Sugarfree variant.

PACKAGING

While several external factors made 2014 a challenging year for San Miguel Yamamura Packaging Group (SMYPG), SMYPG remained focused on protecting its profitability and as a result, turned in improved margins for 2014.

Operating income amounted to P2,305 million, while revenues reached P24,226 million. Lower requirements from beverage industry customers translated to lower orders for bottles, metal caps and crates, which affected both topline and bottomline performance of these segments.

However, SMYPG's long-established efficiency improvement and cost-containment programs, coupled with improved performance from paper, polyethylene terephthalate (PET) and exports, allowed them to deliver a higher operating performance compared to 2013.

Glass
Glass remained the biggest revenue contributor, despite the decline in volumes due to lower bottle requirements from beer and softdrinks customers in the first half of 2014. This, however, was cushioned by increase in sales from other beverage customers in the second half of 2014. Exports from China and Vietnam also remained to be very strong.

The furnace repair and facilities upgrade in Manila, Cebu and Vietnam were completed in 2014 to improve utilization and quality of production.

Metal
Demand for metal cans remained stable in 2014, though affected by lower requirements from beverage customers.

Modern machine technology has been installed enabling the business to produce new product lines and expanding its market reach to new territories such as Papua New Guinea, Sri Lanka and Nepal. A new can tolling facility is also being constructed in San Fernando, Pampanga to serve customers for fruit juices, energy drinks and soft drinks.

Plastics
Lower demand for crates in the plastic business was overshadowed by the significant improvement in the pallet leasing business.

Paper
2014 was a banner for the paper business achieving the highest historical performance in volumes and revenues. Better carton deliveries were driven by higher demand from export fruit companies that propelled sales.

Malaysia
Malaysia operations' plastic film business ended 2014 with favorable volume and revenue versus 2013 while its flexibles business was faced with higher raw materials prices, amid intense competition.

Australia
Cospak also had a banner 2014 as cost-containment programs delivered growth in operating income. This was complemented by higher volumes from wine customers which boosted revenues.

ENERGY

2014 was a banner for SMC Global with operating income of P25,899 million. This was mainly driven by higher bilateral volumes, with consolidated offtake volumes reaching 17,001 GWH.

Apart from the addition of the 140 MW - capacity from the Limay co-generation power plant, the power business benefitted from improved efficiencies in its other major plants, amid higher demand for power, especially during the summer months. These, complemented by higher average WESM prices, translated to consolidated revenues of P84,294 million.

The Sual Power Plant sold a total of 7,132 GWH of electricity, while revenues amounted to P32,758 million. Capacity utilization of the plant during the summer months was at its highest level, reaching 90% average utilization rate, as better performance of the plant took advantage of high market demand for power.

Offtake volumes of 8,863 GWH, brought P40,077 million in revenues for the Ilijan power plant. This is on account of higher bilateral volume nominations driven by the increased demand for electricity.

San Roque power plant offtake volumes reached 841 GWH, despite lower water dam reservoir level than expected. Together with ancillary service contribution, revenues reached P6,488 million.

SMC Global's new ventures have also started to contribute in its total performance.

The Limay Co-generation power plant added 537 GWH in offtake volumes and revenues of P5,629 million, with the full commercial operations of the 140 MW in 2014 or an additional 70 MW from 2013.

The construction of the new coal-fired power plants in Malita, Davao and Limay, Bataan are progressing well. These plants will provide an additional 600 MW initial capacity once completed.

FUEL AND OIL

It was a challenging 2014 for Petron. Both Philippines and Malaysia operations were affected by the steep drop in crude oil prices in the second half of 2014, putting pressure on oil companies around the world. From a relatively stable first half, with the benchmark Dubai crude averaging US$108 per barrel in June 2014, a supply glut and a weak global economy caused crude prices to plunge by as much as 44% to average US$60 per barrel in December 2014.

Petron, however, managed to end 2014 with revenues posting P482,535 million, despite lower selling prices, driven by the growth in consolidated sales volume.

Petron also ended 2014 with an operating profit of P7,605 million, amid record losses being posted industry-wide. Petron's risk management programs mitigated effects of the volatility in the market, reducing inventory losses by half.

In this volatile and uncertain year, Petron maintained its strategic focus and marked 2014 with the completion of the US$2-billion Refinery Master Plan 2 (RMP-2) project. This is a key milestone for Petron at it now operates on a higher plane, changing the mechanics on how it runs the business. The upgrade allows full utilization of its 180,000 barrel-per-day Bataan refinery and significantly increases the production of high-margin products such as gasoline and petrochemicals. It also enables use of cheaper crude oil. The project likewise allows the local production of more efficient, superior, and environment-friendly fuels to meet Euro IV standards.

Philippines

Philippine operations sold 51.5 million barrels, benefiting from higher demand from the retail sector supported by the service station expansion program and robust industrial and LPG sales.

Retail network expansion in the Philippines also continued in 2014, with total number of service stations close to 2,200. The project allows for increased channels for Petron's products to reach underserved markets across the country which is a key driver of domestic volume growth.

Malaysia

Malaysia operations contributed 35.0 million barrels, on the back of strong industrial and retail sales.

In Malaysia, the rebranding and upgrading project has been completed successfully for the existing service stations. Petron is also expanding the retail network in this market, with about 20 new service stations currently under construction.

INFRASTRUCTURE

It was also a year of many significant milestones for SMC's infrastructure business, particularly in tollways, as the very first Greenfield tollway project of the Group was opened and construction of the NAIA and Skyway Stage 3 expressways began.

Thus far, Private Infra Dev Corporation (PIDC) has opened about 63 kilometers of the 88.6-kilometer of the TPLEX, running all the way from Tarlac to Urdaneta City in Pangasinan. As of year-end 2014, TPLEX has served about 8,500 average daily vehicles bound for the Northern Luzon area, providing faster and more convenient travel to motorists.

In January 2014, the construction of the 5.4-km NAIA Expressway that will connect to the Skyway system, PAGCOR City and Roxas Boulevard and provide convenient access to NAIA Terminals 1, 2 and 3 commenced.

Also at the start of 2014, the Group broke ground for the much awaited Skyway Stage 3, which involves the construction of a 14-km elevated expressway, with 8 exit ramps, starting from the existing Skyway from Buendia in Makati to Balintawak, Quezon City. The project is vital in improving the traffic situation in Metro Manila, providing an alternate, direct route for motorists traveling for North to South and vice-versa.

Even as the new tollroad projects have gotten off the ground, the Group's existing operating tollway assets also continue to perform well. Combined traffic flow of the SLEX and Skyway averaged 475,000 vehicles.

As of March 5, 2015, SMHC increased its ownership in AAIBV to 95% when Padma Funds L.P. conveyed and transferred its outstanding shares in AAIBV equivalent to 48.47%. This effectively increased SMC's ownership in SLEX to 76% and the Skyway System to 83.45%.

STAR Tollway registered growth from 2013 with average daily traffic of about 33,000 vehicles. This growth is expected to continue as improvements on the tollway have been completed, including the construction of additional lanes in the Lipa to Batangas stretch.

The Group's airport project in Caticlan is also on schedule. The extension of the Boracay Airport runway to 1.8 km will enable it to accommodate larger aircrafts. Improvements will also allow for night landing, which will further help boost tourism. A new and bigger terminal will likewise be constructed to accommodate the projected increase in tourist arrivals.

Finally, the Group received the performance undertaking for the MRT-7 in October 2014. The project involves the construction of a 22-km light rail transit from North Epifanio de los Santos Avenue to San Jose Del Monte, Bulacan. It also includes the construction of a 22-km road that will connect to North Luzon Expressway (NLEX) at the Bocaue exit. Construction of this project is targeted to begin by middle of 2016.

REAL ESTATE

SMPI registered P756 million in total revenues, as booked sales for projects increased, given the positive response to its residential projects that target mid to high-end clients.

SMPI expects this growth to continue with the delivery of long-awaited projects in 2015, such as the MDR. Also due for turnover in 2015, are One Dover View in Mandaluyong and Emerald 88 in Pasig. The completion of Doverhill model unit in San Juan in 2015, along with the launch of Picolo Square, a residential building project in General Trias, should also bring in more sales in the future.

III. FINANCIAL POSITION

A. The following are the significant transactions in 2015:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

TELECOMMUNICATIONS

- *Acquisition of Additional 51.88% Equity Interest in LTHI*

On July 14, 2015, the BOD of SMC authorized Vega to acquire the entire interest and participation of West Bay Holding S.P.C. Company, formerly Qtel West Bay Holdings S.P.C., wi-tribe Asia Limited, and White Dawn Solutions Holdings, Inc. (collectively, the "Sellers") in LTHI. In compliance with the Securities Regulation Code, Vega conducted a tender offer of the common shares of LTHI held by the public.

A total of 57,271,369 common shares or 4.43% of the outstanding common shares of LTHI were tendered, and subsequently crossed at The Philippine Stock Exchange, Inc. (PSE) on September 2, 2015. After completion of the tender offer, Vega held 87.18% of the common shares of LTHI.

On September 2, 2015, Vega acquired beneficial ownership in LTHI in a separate share sale transactions from the Sellers for a total of 426,800,168 common shares and 2,907,768,174 preferred shares.

Upon completion of the tender offer and share purchases, Vega effectively owned 97.46% of the total outstanding capital stock of LTHI, inclusive of the common and preferred shares. As such, Vega obtained control and consolidated LTHI effective September 2, 2015.

LTHI is a holding company and owns 100% of shares of stock in wi-tribe. It operates its business through wi-tribe which provides data communications services primarily through broadband internet services. wi-tribe is also authorized to lease capacity from other telecommunication companies and to operate as a virtual network operator and/or as a reseller in the provisioning of its telecommunication services.

On January 28, 2016, the SEC approved the amendment to the articles of incorporation of wi-tribe to change its corporate name to Tori Spectrum Telecom Inc. (Tori Spectrum).

The Group recognized gain on remeasurement on step acquisition of LTHI upon consolidation on September 2, 2015.

- *Acquisition by Vega of 88.17% Ownership Interest in CobaltPoint Telecom, Inc. (CTI, formerly Express Telecommunications Co., Inc.)*

On December 4, 2015, Vega acquired 88.17% ownership in CTI through the acquisition of 100% equity interest in TDEI, which holds 78.45% equity interest in the total outstanding capital stock of CTI and direct acquisition of 9.72% equity interest for a total consideration of P5,180 million.

CTI is primarily engaged in the operations and maintenance of a nationwide cellular mobile telephone system using analog advance mobile phone service system. CTI is also authorized to lease capacity from other telecommunication companies and to operate as a virtual network operator and/or as a reseller in the provisioning of its telecommunication services.

INFRASTRUCTURE

- *Acquisition of 44% Equity Interest and Exercise of Option to Acquire Additional 4.47% in AAIBV*

  On March 5, 2015, a Notarial Deed of Transfer of Shares was executed in accordance with the requirements of the laws of the Netherlands whereby Padma Fund L.P. (Padma) transferred to SMHC the following: (i) 44% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement. The total consideration for the additional 48.47% equity interest amounted to US$224 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 SLEX, the Skyway Stages 1 and 2 and Skyway Stage 3 which will connect the NLEX and SLEX.

- *Investment in Manila North Harbour Port, Inc. (MNHPI) by SMHC*

  On December 9, 2015, SMHC subscribed to 13,000,000 common shares of MNHPI equivalent to a 43.33% equity interest for a total consideration of P13,000 million.

  MNHPI holds the concession rights to manage, operate, develop and maintain the Manila North Harbor and other port facilities.

  With the 43.33% ownership interest of SMHC and the 35% equity interest held by Petron, the Group obtained control and consolidated MNHPI effective December 9, 2015.

FOOD

- *Acquisition of the 49% Ownership 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 SMPFC, signed an agreement for the purchase from Hormel Netherlands B.V. (Hormel) of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% interest in SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in San Miguel Hormel (VN) Co., Ltd. (SMHVN), a company incorporated in Vietnam, which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats.

Following the acquisition, SMPFI Limited became a wholly-owned subsidiary of SMPFIL. Consequently, Hormel's non-controlling interest amounting to P126 million as of January 2015 was derecognized. As part of the agreement, Hormel paid its share of the cash requirement to settle SMHVN's obligations, including estimated contingent liabilities and costs to temporarily close the farm and feedmill operations.

With the divestment made by Hormel, SMHVN changed its corporate name to San Miguel Pure Foods (VN) Co., Ltd., in June 2015 following the issuance of the Binh Duong People's Committee of the amended business license of SMHVN.

OTHER ASSETS

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

  On December 18, 2014, the shareholders of Indophil qualified to vote, approved the scheme of arrangement proposed by Alsons Prime Investments Corporations to purchase all the shares of current shareholders of Indophil, inclusive of the shares held by Coastal View Exploration Corporation (Coastal View) for Australian dollar (A$) 30 cents per share.

  Accordingly, the carrying amount of the investment in Indophil, amounting to P527 million as of December 31, 2014 was reclassified to "Assets held for sale" account in the 2014 consolidated statement of financial position.

  On January 30, 2015, Coastal View received the payment on the sale of investment in shares of stock of Indophil amounting to A$14 million (P493 million).

- *Acquisition of La Pacita Trademarks*

  In November 2014, SMC through SMPFC entered into an Intellectual Property Rights Transfer Agreement with Felicisimo Martinez & Co. Inc.'s (FMC) *La Pacita* for the transfer to SMPFC of FMC's trademarks, formulations, recipes and other intangible properties (collectively, the "IP Rights") relating to the *La Pacita* biscuit and flour-based snack business. SMPFC made a refundable deposit on the same date, included as part of "Non-trade" under "Trade and other receivables" account in the 2014 consolidated statement of financial position.

  In February 2015, the refundable deposit was reversed following the substantial fulfillment of the closing conditions and the payment of the consideration.

BORROWINGS

- REFINANCING OF LONG-TERM DEBT

FUEL AND OIL

On July 29, 2015, Petron drew US$550 million loan or P25,013 million, to be amortized over five years with a two-year grace period and subject to a floating interest rate plus a fixed spread. Proceeds were used to refinance existing debt amounting to US$550 million or P25,060 million, effectively extending the loan maturity profile from 2016 and 2017 to 2020.

On October 13, 2015, Petron drew P5,000 million from the term loan facility agreement signed and executed on October 7, 2015. The facility is amortized over seven years with a two-year grace period and is subject to a fixed rate of 5.4583% plus gross receipts tax.

SMC

On September 8, 2015, SMC drew US$287 million or P13,469 million from a loan facility agreement signed in March 2015. Proceeds from the five-year floating rate loan were used for the repayment of the Medium Term Notes (MTN) Tender Offer in April 2015. The US$287 million loan's interest rate of LIBOR + 1.6% per annum is lower than the MTN rate of 4.875%.

On April 10, 2015, SMC purchased a total of US$284 million (P12,611 million) in principal amount of the US$800 million MTN 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.

INFRASTRUCTURE

- SOUTH LUZON TOLLWAYS CORPORATION (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 five years and three months or maturing on August 22, 2020, seven 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 the fixed rate bond offering were used to prepay the five-year P7,975 million Peso-denominated Floating Rate Corporate Notes and Security Agreement drawn on April 4, 2012. Actual interest rates from April 2012 to May 2015 ranged from 4.2158% to 5.7153%. The refinancing of the P7,975 million corporate notes extended the maturity of the loan from 2017 to 2020 up to 2025. Principal payment for the new loan is payable upon maturity of the Series A on 2020, Series B on 2022 and Series C on 2025, while for the refinanced loan, principal payment was due with balloon amounts on various periods up to April 2017. The retail bonds were not subjected to Single Borrower's Limit unlike the refinanced loan.

- PAYMENT OF LONG-TERM DEBT

In 2015, the Group paid the following long-term debt balances with a total amount of P21,347 million:

- SMC

On December 14, 2015, SMC paid the remaining balance of various loans availed in 2009 and 2010 amounting to P7,850 million.

- INFRA GROUP

On various dates in 2015, the Infrastructure Group paid a total of P7,510 million of its maturing long-term debt.

1. Atlantic Aurum Investments Philippines Corporation (AAIPC) paid a total of P3,246 million, from the P14,500 million Corporate Notes Facility drawn in 2013 for the acquisition of the 87.84% ownership interest in Citra Metro Manila Tollways Corporation (CMMTC).

2. MTD Manila Expressways Inc. (MTDME) paid a total of P2,536 million, from the P11,500 million Corporate Notes Facility drawn in 2012.

3. CMMTC paid a total of P1,454 million, from the P12,100 million Syndicated Loan Facility drawn in 2009 to finance the construction of Stage 2 and the restructuring of certain liabilities related to Stage 1 of the South Metro Manila Skyway.

4. PIDC paid P189 million, from the P15,140 million ten-year term Loan Facility used for financing the TPLEX Project.

5. SIDC paid P85 million, from the Loan Facility Agreement with local banks amounting to P3,500 million, the proceeds of which were primarily used to finance the construction and development of Stage II, Phase II of STAR Project.

- FOOD

On December 11, 2015, San Miguel Foods, Inc. paid the peso-denominated fixed rate and floating rate notes with principal amounts of P800 million and P3,700 million, respectively. The source of funding came from the equity infusion of SMPFC in 2015.

- ENERGY

In 2015, SMC Powergen Inc. paid P1,373 million, from the P13,800 million ten-year term loan drawn in 2013 which was used for the acquisition of 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant in Limay, Bataan, from Petron.

- BEVERAGE

In 2015, East Pacific Star Bottlers Phils Inc., a wholly-owned subsidiary of GSMI paid P114 million from its P800 million loan which was used to finance the construction of the bottling facilities in Ligao, Albay and Cauayan, Isabela.

▪ AVAILMENT OF LONG-TERM LOANS TO FINANCE CAPITAL PROJECTS

- SMC GLOBAL

On March 6, 2015, SMC Global made the final drawdown of US$200 million (P8,825 million) five-year floating rate loan from the US$700 million facility agreement. The proceeds were used to finance the ongoing construction of power plants in Davao and Limay (the Greenfield Power Plant Projects).

- VERTEX TOLLWAYS DEVT. INC. (VERTEX) - NAIA EXPRESSWAY

On various dates in 2015, Vertex has drawn a total of P6,400 million loan, for the financing of ongoing construction of the NAIA Expressway Project.

- PIDC - TPLEX

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 TPLEX Project.

- CITRA CENTRAL EXPRESSWAY CORP. (CCEC) – SKYWAY STAGE 3

On various dates in 2015, CCEC has drawn a total of P8,700 million from the P31,000 million loan facility to partially finance the design, construction and the operation and maintenance of the Stage 3 of the Skyway Project.

PREFERRED SHARES

- *Issuance of 446,667,000 Series "2" Preferred Shares – Subseries D, E and F by SMC*

On September 21, 2015, SMC issued and listed in the PSE 446,667,000 Series "2" Preferred Shares in three sub-series (Subseries "2-D", Subseries "2-E" and Subseries "2-F") and are peso-denominated, perpetual, cumulative, non-participating and non-voting. Dividend rates are 5.9431%, 6.3255% and 6.8072% per annum for Subseries "2-D", "2-E" and "2-F", respectively.

The proceeds from the issuance of the shares were used to redeem the Subseries "2-A" Preferred Shares.

- *Redemption of Series "2" Preferred Shares - Subseries A by SMC*

On September 21, 2015, SMC redeemed its 721,012,400 Series "2" Preferred Shares - Subseries "2-A" at a redemption price of P75.00 per share plus any unpaid cash dividends. SMC paid P54,076 million to the holders of Subseries "2-A" Preferred Shares.

- *Reissuance of Series "1" Preferred Shares of SMC*

On April 14, 2015, SMC reissued 279,406,667 Series "1" Preferred Shares in the name of certain subscribers at P75.00 per share. The Series "1" Preferred Shares became tradable at the PSE beginning June 10, 2015.

- *Redemption of Outstanding Preferred Shares by SMPFC*

On February 3, 2015, SMPFC's BOD approved the redemption of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share or a total redemption price of P15,000 million.

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 by SMPFC*

On March 12, 2015, SMPFC issued 15,000,000 cumulative, non-voting, non-participating, and non-convertible peso-denominated perpetual Series "2" Preferred Shares with a par value of

P10.00 per share at the offer price of P1,000.00 per share. The Series “2” Preferred Shares were issued with a dividend rate set at 5.6569% per annum payable once for every dividend period as follows: (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year calculated on a 30/360-day basis, as and if declared by the BOD of SMPFC.

The Series “2” Preferred Shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the third anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The Series “2” Preferred Shares may also be redeemed in whole and not in part, under certain conditions. Unless the Series “2” Preferred Shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the three-day average of the seven-year PDST-R2 plus 3.75%.

On March 12, 2015, the SMPFC Series “2” Preferred Shares were listed on the PSE.

The proceeds from the issuance of the Series “2” Perpetual Preferred Share, net of transaction costs amounted to P15,000 million.

The proceeds of the issuance were used to refinance the redemption of the outstanding 15,000,000 preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share plus any and all accumulated unpaid cash dividends to relevant stockholders of record as of February 17, 2015.

- *Redemption of the Preferred Shares Issued by Petron in 2010*

  On March 5, 2015, Petron redeemed the preferred shares issued in 2010 at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter’s rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company’s Articles of Incorporation. On July 6, 2015, the SEC approved the amendment of the Articles of Incorporation of Petron to provide a re-issuability feature on its preferred shares.

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

  As of December 31, 2014, PGL has issued an aggregate of 73,559,188 common shares with a par value of US$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares Series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares 2B at an issue price equal to the par value of each share of US$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US$1.00 per share.

UNDATED SUBORDINATED CAPITAL SECURITIES

Issuance of US$300 million Undated Subordinated Capital Securities by SMC Global

On August 26, 2015, SMC Global issued and listed on the Singapore Stock Exchange (SGX-ST) a Reg S, Unrated Perpetual Non-Call 5.5 years US$300 million Undated Subordinated Capital Securities. SMC Global priced the deal at 6.75% per annum with a step-up date on February 26, 2021.

The holders of the Securities are conferred a right to receive distributions on a semi-annual basis from their issue date at the initial rate of distribution, subject to the step-up rate. SMC Global has a right to defer this distribution under certain conditions.

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at the option of SMC Global on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events.

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

B. The following are the significant transactions in 2014:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

TELECOMMUNICATIONS

- *Investment in Somete Logistics & Development Corporation (SLDC) and Dominer Pointe Inc. (DPI)*

In May and June 2014, Bell Telecommunication Philippines, Inc. (BellTel) acquired 100% of the outstanding and issued shares of stock of SLDC and DPI, respectively, from various individuals for a total consideration of P1,264 million.

SLDC and DPI are engaged in the business of conceptualization, construction, installation, establishment, operation, leasing, sale and maintenance, and rendering of specialty technical services for tower infrastructures to be utilized by telecommunication companies.

MINING

- *Investment in South Western Cement Corporation (SWCC)*

On October 15, 2014, SMC through San Miguel Equity Investments Inc. (SMEII), as buyer, and Clariden, as seller, executed the following: (i) the Deed of Absolute Sale of Shares covering 100% of the outstanding and issued shares of stock of SWCC for a total consideration of P61 million; and (ii) the Deed of Assignment of Receivables covering the receivables of Clariden in SWCC amounting to P209 million.

SWCC is primarily engaged in the business of manufacturing, importing, exporting, buying, selling or otherwise dealing in, at wholesale, of cement and other goods of similar nature, and any and all equipment, materials, supplies, used or employed in or related to the manufacture of such finished goods.

On December 5, 2014, SMC through SMEII subscribed to additional 110,000 common shares of SWCC for P16 million. The said subscription was fully paid, and the subject shares of stock were issued to SMEII on February 24, 2015.

On April 1, 2015, SMC through SMEII subscribed to additional 770,000 common shares of SWCC for P116 million. The said subscription was fully paid, and the subject shares of stock were issued to SMEII on April 15, 2015.

INVESTMENTS IN ASSOCIATES

- *Receipt of the Remaining Balance of the Proceeds from the Sale of Shares of Stock of the Manila Electric Company (Meralco)*

  On September 30, 2013, SMC, together with SMPFC and SMC Global, entered into a Share Purchase Agreement with JG Summit Holdings, Inc. (JG Summit), for the sale of 305,689,397 shares of stock of Meralco for P71,837 million.

  As a result of the sale, the Group recognized a gain of P30,717 million in 2013.

- *Divestment of the Equity Interests in PAL and PAL Express and Other Related Investments and Advances*

  On October 23, 2014, the Group received from the Lucio Tan Group, a total of US$874 million or an equivalent of P38,616 million from the sale of the 49% equity interest in Trustmark and Zuma, including indirect ownership interests of 43.23% and 48.98% in PAL and PAL Express, respectively, and the sale of the equity interest and cancellation of subscription rights on the shares of stock of Fortunate Star. As a result, a gain of P491 million was recognized in 2014.

- *Investment in Angat Hydro and KWPP Holdings Corporation (KWPP)*

  PVEI, a subsidiary of SMC Global, and K-Water entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water.

  On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US$39 million as full payment of the share purchase price.

  In accordance with the entry of PVEI in Angat Hydro and KWPP, K-Water and PVEI are jointly in control of the management and operation of Angat Hydro and KWPP.

  Further, PVEI agreed to pay K-Water a support fee amounting to 3% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant. This was subsequently reduced to 1.5% of the amount of the bridge loan facility effective August 4, 2015.

BORROWINGS

- REFINANCING OF LONG-TERM DEBT

  - PARENT COMPANY

In March 2014, Top Frontier has drawn US$675 million (P30,278 million) to refinance its US$650 million loan (P28,857 million). The increase of US$25 million was used to cover for the accrued interest and transaction costs.

  - BEVERAGE

On April 2, 2014, SMB completed the offering of Philippine Peso – denominated fixed rate bonds in the aggregate principal amount of P15,000 million (P15 billion Bonds) with its issuance of the P15 billion Bonds and receipt of the proceeds amounting to P15,000 million. The P15 billion Bonds consisted of the following: Series G bonds the aggregate principal amount of P12,462 million having a term of seven years beginning on April 2, 2014 (Issue Date) and ending on April 2, 2021, with a fixed interest rate of 5.50% per annum; and Series H bonds with an aggregate principal amount of P2,538 million having a term of ten years beginning on Issue Date and ending on April 2, 2024, with a fixed interest rate of 6.00% per annum.

On April 4, 2014, SMB paid the aggregate principal amount of the Series B bonds of P22,400 million, which matured on the same day. The Series B bonds formed part of the P38,800 million fixed rate bonds that were issued by SMB in 2009. The proceeds of SMB's P15 billion Bonds offering and SMB's available cash generated from its operations were used to fund the said payments. The net proceeds of the P15 billion Bonds have been fully utilized in April 2014.

  - FUEL AND OIL

On May 14, 2014, Petron signed and executed the US$300 million loan facility. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. The total amount was drawn in 2014 and the proceeds were used to refinance existing debt and for general corporate purposes. Petron completed the syndication of the facility, and increased the facility amount to US$475 million on September 29, 2014. Drawdowns related to the additional US$175 million were made on October 24 and November 6, 2014. Amortization in seven equal amounts will start in May 2016, with final amortization due in May 2019. Petron made partial payments amounting to US$135 million in 2015.

- PAYMENT OF LONG-TERM DEBT

SMC

Redemption by SMC of the Remaining Balance of the Exchangeable Bonds Amounting to US$213 Million

Pursuant to the resolution of the BOD of SMC authorizing management to refinance its existing financial obligations under such terms and conditions which are favorable and advantageous to SMC, SMC solicited the consent of the bondholders to tender their bonds for repurchase. On various dates in 2013, SMC has repurchased Bonds having an aggregate principal amount of US$363 million. The aggregate cash amount paid by SMC based on the aggregate principal amount of the Bond repurchased, as well as accrued interest, is US$398 million. The Group recognized a loss on redemption of exchangeable bonds amounting to P1,500 million in 2013.

A total of US$24 million and US$22 million worth of exchangeable bonds representing 9,794,587 and 8,717,014 common shares of SMC were exchanged at issue prices ranging from P80.44 to P113.24 as of December 31, 2014 and 2013, respectively.

On May 5, 2014, SMC redeemed the remaining balance of the exchangeable bonds amounting to US$213 million, in accordance with the terms and conditions of the said exchangeable bonds.

PREFERRED SHARES

Issuance of Series 2 Preferred Shares by Petron

On October 17, 2014, the SEC issued in favor of Petron a Permit to Sell for the public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") with a P1.00 par value per share.

On November 3, 2014, Petron issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two subseries, (i) 7,122,320 Series 2A Preferred Shares (the "Series 2A Preferred Shares") and (ii) 2,877,680 Series 2B Preferred Shares (the "Series 2B Preferred Shares").

The Series 2A Preferred Shares may be redeemed by Petron starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the BOD.

All shares rank equally with regard to Petron's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

UNDATED SUBORDINATED CAPITAL SECURITIES

Issuance of the US$300 Million Undated Subordinated Capital Securities by SMC Global

On May 7, 2014, SMC through SMC Global, issued and listed on the SGX-ST, US$300 million undated subordinated capital securities (the "Securities") at an issue price of 100% of the face value of the Securities, at the rate of 7.50% per annum with a step-up date on November 7, 2019.

A. MATERIAL CHANGES PER LINE OF ACCOUNT

2015 vs. 2014

The Group's consolidated total assets as of December 31, 2015 amounted to P1,369,665 million, P27,648 million higher than 2014. The increase is primarily due to the consolidation of the concession rights of: AAIBV (toll road concession rights to operate and maintain the SLEX and the Skyway) and MNHPI (port concession rights); the recognition of licenses upon the consolidation of LTHI and CTI; recognition of goodwill upon the consolidation of AAIBV on March 5, 2015; and increase in property plant and equipment particularly from SMC Global and Petron, net of the decrease in cash and cash equivalents.

Cash and cash equivalents decreased by P77,629 million mainly due to the redemption of the: a) preferred shares issued by Petron in 2010 and b) Series A and B Preferred Shares of PGL, and payment of short-term loans by Petron.

Trade and other receivables decreased by P28,674 million mainly due to: a) collection of Value-added Tax (VAT) claims by Petron; b) collection of non-trade receivables of SMHC; and c) lower trade receivable balance of GSMI due to improvement in collection over the year and lower sales revenue recorded for the month of December 2015.

Inventories decreased by P21,698 million due to lower volume and price of crude and finished products of Petron Philippines.

Prepaid expenses and other current assets increased by P20,801 million mainly due to the increase in: a) unutilized VAT credit certificates of Petron Philippines; b) excess of input VAT of SMC Global due to payments made for the purchase of materials and equipment and payment of labor for the construction of the new power plants; c) increase in input VAT and advances to suppliers due to purchases made related to the ongoing project roll-out of BellTel; d) the consolidation of AAIBV Group's balance, particularly its prepaid taxes and restricted cash balance, partly offset by lower input tax on imported crude and finished products as a result of cheaper prices of Petron Philippines.

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

Investments and advances decreased by P19,716 million in 2015 mainly due to the reclassification from investments in associates to investments in subsidiaries of the carrying amount of the investments in AAIBV Group, LTHI and MNHPI; reclassification to investments in subsidiaries of the advances for investment in CTI and the advances to DMCI Holdings, Inc. and D.M. Consuji, Inc. (collectively, "DMCI") for the acquisition of PIDC shares.

Property, plant and equipment increased by P39,459 million mainly due to the on-going plant construction of Limay Power Plant - Phase 1 and Phase 2, Davao Power Plant and additional capital expenditures on the RMP-2 project of Petron.

Investment property increased by P1,014 million mainly due to SMPI's acquisition of land in Makati and the return of property, a 33-hectare parcel of land located in Alfonso, Cavite, donated to Philippine Foundation of Blessed Mary Mother of the Poor, Inc.

Noncurrent portion of biological assets increased by P204 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by P18,604 million mainly due to the consolidation of AAIBV Group.

Other intangible assets increased by P94,855 million mainly due to the consolidation of AAIBV's toll road concession rights to operate and maintain the South Luzon Expressway and the Stages 1 to 3 of the South Metro Manila Skyway and of MNHPI's port concession rights to maintain and operate the Manila North Harbor; recognition of additional concession rights for various infrastructure projects, namely: the NAIA Expressway, TPLEX and Boracay Airport in 2015; and the recognition of licenses due to the consolidation of LTHI and CTI.

Deferred tax assets increased by P2,025 million mainly due to the recognition by SMC of deferred tax assets on unrealized losses on foreign exchange, derivatives and retirement in 2015.

Loans payable decreased by P32,686 million in 2015 mainly due to the net payments made by Petron and SMPFC.

Accounts payable and accrued expenses decreased by P18,185 million mainly due to payments made by Petron to various contractors and suppliers, net of the increase in payable to suppliers and contractors pertaining to the on-going power plant construction in Davao and Bataan (Phase I and II) and consolidation of the balances of AAIBV Group.

Income and other taxes payable increased by P610 million mainly due to consolidation of AAIBV Group's balance.

Dividends payable decreased by P1,138 million mainly due to the payment in 2015 of the dividends payable by SMC to its preferred stockholders which were outstanding in 2014.

The increase in long-term debt of P66,380 million was mainly due to the consolidation of AAIBV and MNHPI's balance, and the loan availments made by SMC Global to finance the ongoing construction of power plants in Davao and Limay; Vertex to fund the NAIA Expressway Project, CCEC to fund the Skyway Stage 3 Project and PIDC to fund the TPLEX Project, net of the payments made by SMC, SMPFC and Petron.

Deferred tax liabilities increased by P8,037 million due to the consolidation of AAIBV Group’s balance and the recognition by Petron of deferred tax liabilities for the timing differences arising from capitalized pre-commissioning expenses of the RMP-2 Project.

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

Other noncurrent liabilities increased by P21,078 million mainly due to: a) deposit for future stock subscription received by Vega; b) consolidation of MNHPI's concession fee; and c) increase in retirement liability of Petron due to the drop in the fair value of plan assets.

Equity reserve decreased by P1,032 million primarily due to the buy-out of 41.49% and 50% non-controlling interests in Sleep International (Netherlands) Cooperatief U.A. and Wiselink Investment Holdings, Inc., respectively, (collectively holds the toll road concession right of the

STAR Project) and acquisition by Rapid Thoroughfares Inc. from DMCI of its 25.11% non-controlling interest in PIDC.

Reserve for retirement plan decreased by P1,557 million mainly due to the recognition of remeasurement loss on the retirement plan assets of Petron, SMC, SMB and GSMI, primarily attributable to the decline in fair market value of the investment in shares of stock held by the retirement plans.

Cumulative translation adjustments decreased by P685 million mainly due to the translation adjustments on the net assets of foreign subsidiaries, particularly of Petron and AAIBV.

Equity

The decrease in equity in 2015 is due to:

(In millions)	2015
Income during the period	P24,677
Net reduction to non-controlling interests and others	(4,445)
Other comprehensive loss	(5,816)
Cash dividends and distributions	(20,306)
	(P5,890)

2014 vs. 2013

The Group's consolidated total assets as of December 31, 2014 amounted to P1,342,017 million, P45,463 million higher than 2013. The increase is primarily due to the higher balances of cash and cash equivalents, property, plant and equipment and other intangible assets.

Cash and cash equivalents increased by P66,950 million mainly due to receipt of the proceeds from the sale of equity interest in Trustmark and Zuma and other related investments and advances, collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit and the proceeds from issuance of undated subordinated capital securities of SMC Global.

Trade and other receivables decreased by P34,123 million mainly due to collection of the remaining balance of the receivable on the sale of Meralco shares from JG Summit.

Prepaid expenses and other current assets increased by P14,407 million mainly due to the increase in the net input VAT of: a) Petron as a result of the importations of raw materials; b) SMC Global due to payments made for the purchase of materials and equipment and payment of labor for the construction of the new power plants; and c) Infra Group for the purchase of services, supplies and equipment related to the construction of TPLEX, NAIA Expressway, STAR and Boracay Airport Projects; and advances to the contractors of Vertex (NAIA Expressway Project) and PIDC (section 2 of TPLEX Project).

The increase in assets held for sale and the corresponding decrease in AFS financial assets pertains to the reclassification of the carrying value of investment in shares of stock of Indophil Resources NL from AFS financial assets.

Investments and advances decreased by P22,405 million in 2014 mainly due to the sale of the investment in shares of stock of Trustmark and Zuma and cancellation of subscription rights on investments and advances related to PAL and PAL express.

Property, plant and equipment increased by P25,660 million primarily due to the additional capital expenditures on the RMP 2 Project of Petron, the refurbishment of retail stations of Petron Malaysia, Phase 2 of the power plant in Limay, Bataan and the Greenfield project - new power plants in Davao and Limay, Bataan – Phase 1 of the Energy business.

Investment property decreased by P622 million mainly due to the reclassification of the cost of MDR Project of SMPI to property, plant and equipment, net of the acquisition of a property in Malabon by Brewery Properties, Inc. for future expansion of Polo Brewery.

Other intangible assets increased by P8,902 million mainly due to the recognition of additional toll road concession rights for the TPLEX Project, STAR Project, the NAIA Expressway Project and the Boracay Airport Project.

Deferred tax assets decreased by P811 million mainly due to the application of deferred taxes for Net Operating Loss Carry Over and Minimum Corporate Income Tax of SMC against taxable income in 2014.

Other noncurrent assets decreased by P15,078 million mainly due to the partial collection by Petron of its receivables from Petron Corporation Employees Retirement Plan.
Loans payable increased by P36,972 million in 2014 mainly due to the net availments made by Petron in 2014, to fund the importation of crude oil and petroleum products.

Dividends payable decreased by P410 million mainly due to the payment in 2014 of the outstanding dividends payable in 2013 by SMC to its common stockholders.

The decrease in long-term debt of P5,542 million was mainly due to the redemption of the following: SMC exchangeable bonds and SMB bonds, net of availments used for the various capital projects of the Infrastructure, Energy and Fuel and Oil businesses and the additional US$25 million or P1,120 million due to the refinancing of loan by Top Frontier.

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

Other noncurrent liabilities decreased by P1,417 million mainly due to reclassification to current liabilities of the retention payable to the contractors of Petron's capital projects, net of the recognition of pension liability by Petron which resulted from the substantial reduction in the fair value of plan assets.

Reserve for retirement plan decreased by P1,635 million mainly due to the recognition of remeasurement loss on the plan assets of Petron.

Additional appropriations on retained earnings were made by SMC Global, SMCSLC, SMPFC, San Miguel Yamamura Asia Corporation and SMITS, Inc. mainly to finance future capital expenditures.

Cumulative translation adjustments increased by P308 million mainly due to the translation adjustments on the net assets of foreign subsidiaries and the share in other comprehensive income of associates and joint ventures.

Non-controlling interests increased by P23,303 million primarily due to the issuance of undated subordinated capital securities by SMC Global and issuance of Series 2 Preferred Shares of Petron.

Equity

The increase in equity in 2014 is due to:

(In millions)	2014
Income during the period	P26,982
Addition to non-controlling interests and others	23,110
Other comprehensive loss	(2,728)
Cash dividends and distributions	(21,660)
	P25,704

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2015	2014	2013
		(In Millions)	
Net cash flows provided by operating activities	**P64,352**	P37,051	P27,516
Net cash flows provided by (used in) investing activities	**(58,628)**	17,166	187,686
Net cash flows provided by (used in) financing activities	**(85,537)**	12,580	(24,597)

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

Net cash flows provided by (used in) investing activities are as follows:

	December 31		
	2015	2014	2013
		(In Millions)	
Cash and cash equivalents acquired from business combination, net of cash paid	**P14,415**	P -	P177,574
Interest received	**4,140**	3,486	727
Proceeds from sale of investments and property and equipment	**2,607**	66,945	41,572
Dividends received from associates and available-for-sale financial assets	**96**	102	1,791
Additions to investments and advances and available-for-sale financial assets	**(3,549)**	(6,313)	(16,773)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(7,633)**	(243)	-
Increase in other noncurrent assets and others	**(8,610)**	(7,822)	(3,348)
Additions to property, plant and equipment	**(60,094)**	(38,989)	(13,857)

Net cash flows provided by (used in) financing activities are as follows:

	December 31		
	2015	2014	2013
		(In Millions)	
Net proceeds from (payments of) short-term borrowings	**(P33,622)**	P37,965	(P13,673)
Proceeds from reissuance of treasury shares of a subsidiary	**54,201**	-	-
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	**28,708**	23,008	-
Increase (decrease) in non-controlling interests	**(342)**	212	(608)
Cash dividends paid	**(21,446)**	(22,071)	(4,310)
Payments of finance lease liabilities	**(22,296)**	(20,152)	(4,897)
Net proceeds from (payments of) long-term borrowings	**3,978**	(6,382)	(1,109)
Redemption of preferred shares of subsidiaries	**(94,718)**	-	-

The effect of exchange rate changes on cash and cash equivalents amounted to P2,184 million, P153 million and P1,005 million on December 31, 2015, 2014 and 2013, respectively.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Parent Company is restricted in the amount of P28,457 million as of December 31, 2015 and 2014, representing the cost of common shares held in treasury.

The Parent Company's debt agreements contain, among others, restriction on payments of dividends to common stockholders.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures are not available for declaration as dividends until declared by the respective investees.

VI. KEY PERFORMANCE INDICATORS

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

	December 31	
	2015	2014
Liquidity:		
Current Ratio	**1.16**	1.43
Solvency:		
Debt to Equity Ratio	**2.52**	2.40
Asset to Equity Ratio	**3.52**	3.40
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**0.19%**	3.91%
Interest Rate Coverage Ratio	**3.50**	3.25
Operating Efficiency:		
Volume Growth	**10%**	N.A.
Revenue Growth	**(13%)**	N.A.
Operating Margin	**11.22%**	6.82%

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

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

VII. OTHER MATTERS

- Event After the Reporting Date

On February 24, 2016, the BOD of PSE approved the listing application of SMC of up to 975,571,800 shares of Series “2” Preferred Shares under shelf registration (the “Shelf Registered Shares”) and the offering of up to 400,000,000 shares of Series “2” Preferred Shares (the “First Tranche”) with a par value of P5.00 and an offer price of P75.00 per share. The SEC approved the application for the shelf registration of the Shelf Registered Shares and the Offering of the First Tranche on March 8, 2016.

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

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

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

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

After reissuance of the Offer Shares on March 30, 2016, the SMC shall have a remaining 565,445,086 Subseries “2-A” Preferred Shares held in treasury. There are no more Series “2” Preferred Shares held in treasury.

- Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

a. Treasury Shares of SMC

A portion of the total treasury shares of SMC came from 25,450,000 common shares, with an acquisition cost of P481 million, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by SMC with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of SMC shares under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring SMC to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the “Sandiganbayan Resolution”).

On October 10, 2000, SMC filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than SMC, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote SMC to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. SMC referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD of SMC on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by SMC. The financial advisor stated that if SMC is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100 million; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD of SMC that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring SMC to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which SMC is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that SMC has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan Resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that SMC should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of SMC shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of SMC shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of SMC unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of SMC and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed SMC's intervention, the Sandiganbayan's disposition of the so-called CIIF block of SMC shares in favor of the Government cannot bind SMC, and that SMC remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized SMC's right to the treasury shares on the basis that the

Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that SMC and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of SMC approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD of SMC on March 6, 2008.

On July 23, 2009, the stockholders of SMC approved the amendment of the Articles of Incorporation to issue Series “1” preferred shares, and the offer to exchange common shares to Series “1” preferred shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in SMC in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series “1” preferred shares.

On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series “1” preferred shares of SMC, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series “1” preferred shares are remitted to the escrow account established with UCPB. On October 5, 2012, SMC redeemed all Series “1” preferred shares including those Series “1” preferred shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series “1” preferred shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As of October 5, 2012, CIIF Holding Companies are no longer stockholders of SMC.

On June 30, 2011, the PCGG filed with the Supreme Court relating to an Urgent Motion to Direct SMC to comply with the Sandiganbayan Resolution (the “Urgent Motion”). On March 30, 2012, SMC filed a Comment on the Urgent Motion in compliance with the Supreme Court's Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by SMC on February 22, 2012, directing SMC to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of SMC.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a “Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the “Treasury Shares” Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of SMC Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38” (“Manifestation and Omnibus Motion”).

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required SMC to comment on COCOFED, et al.’s “Manifestation” dated October 4, 2012 and PCGG’s “Manifestation and Omnibus Motion.” Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a “Manifestation Re: ‘Resolution’ dated

November 20, 2012," dated December 17, 2012, alleging that (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) SMC is likewise not a party in those cases, and if SMC is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished SMC; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that "no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court's directive".

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required SMC to file its comment on the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the Resolution, dated September 10, 2013, the Supreme Court directed SMC, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted SMC's motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

SMC, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and G.R. No. 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, SMC has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

b. Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, SMC was assessed by the Bureau of Internal Revenue (BIR) for deficiency excise tax on “San Mig Light”, one of its beer products. SMC contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA case numbers 7052 and 7053.

In relation to the aforesaid contested assessments, SMC, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA case numbers 7052 and 7053) and claim for refund (CTA case number 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, SMC filed with the CTA (3rd Division), under CTA case number 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to SMC, appealing to SMC to settle its alleged tax liabilities subject of CTA case numbers 7052 and 7053 “in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy”. SMC’s external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against SMC, especially in view of SMC’s pending claims for refund.

As of December 31, 2015, the BIR has taken no further action on the matter.

On July 24, 2009, SMC filed its third claim for refund with the CTA (3rd Division), under CTA case number 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA case number 7708 rendered its decision in this case, granting SMC’s petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of SMC in the amount of P926 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Second Division of the Supreme Court a Petition for Review which was docketed as G.R. No. 205045. This case is now with the Third Division of the Court.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA case numbers 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against SMC, granting the latter’s claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P781 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from February 1, 2004 to November 30, 2005.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision has been denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045. Both cases are now with the Third Division.

In a Resolution dated July 21, 2014, a copy of which was received by SMC’s counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both SMC’s counsel and the BIR Commissioner, through the Office of the Solicitor General, have filed their respective Memoranda. The two cases are deemed submitted for decision.

In the meantime, effective October 1, 2007, SMC spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on “San Mig Light” at the higher rate required by the BIR.

On September 28, 2009, SMB filed a claim for refund with the CTA (3rd Division) under CTA case number 7973; on December 28, 2010, its second claim for refund with the CTA (1st Division) under case number 8209; on December 23, 2011, its third claim for refund with the CTA (3rd Division) under case number 8400; on July 30, 2012, its fourth claim for refund under case number 8591; and on December 19, 2013, its fifth claim for refund with the CTA (2nd Division) under case number 8748. CTA case numbers 7973, 8209, 8400, and 8591 have all been decided by the respective CTA Divisions, where they are pending, in favor of SMC. The counsel for the BIR Commissioner are now in the process of appealing to the CTA *En Banc* the decisions rendered by the CTA Divisions in CTA case numbers 7973 and 8400. On the other hand, the decision in CTA case number 8209 has been declared final and executory by the CTA Division concerned for failure on the part of the BIR Commissioner to file a Motion for Reconsideration on the decision. In CTA case number 8591, the BIR Commissioner filed a Motion for Reconsideration, which we opposed and which has been denied. With respect to CTA Case number 8748, the same is still undergoing trial in the Second Division. In December 2014, SMB filed its sixth claim for refund with the CTA under case number 8955. The BIR has asked for additional time to file its Answer. In December 2015, SMB filed its seventh claim for refund with the CTA under case number 9223, for refund of overpayments for the period of January 1, 2014 to December 31, 2014. The said case is still undergoing trial.

c. Deficiency Tax Liabilities

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on Iconic Beverages, Inc. (IBI) deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was docketed as CTA EB Case No. 1417. The petition is pending before the CTA *En Banc*.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA and the case was docketed as CTA Case No. 8813. The case has been submitted for decision.

d. Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 million worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CTA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, Petron filed its comment on the petition for review filed by the BIR. The petition is still pending as of December 31, 2015.

e. Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. In December 2002, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the Regional Trial Court (RTC) to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, Petron also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, Petron, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

In May 2009, the Mayor of Manila approved Ordinance No. 8187, which amended Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012 (August 24 Decision), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. Petron filed with the RTC a Notice of Appeal to the CTA on January 23, 2013. The parties have filed their respective briefs. As of December 31, 2015, the appeal remained pending.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinment of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance No. 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. Petron, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implemented full relocation of their fuel storage facilities within six months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by Petron, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, Petron filed its submission in compliance with the November 25 Decision.

f. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTC and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292 million. The cases were pending as of December 31, 2015.

g. Dispute between South Premiere Power Corporation (SPPC) and PSALM

SPPC and PSALM are parties to the Independent Power Producer Administration (IPPA) Agreement (the "Ilijan IPPA Agreement") covering the appointment of SPPC as the independent power producer administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments, calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bonafide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court of Mandaluyong City. In its Complaint, SPPC requested the Court that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (the "TRO") be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the Court issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the *status quo* ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the Court issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. Currently pending for resolution of the Court are: 1) PSALM’s Motion for Reconsideration of the Order granting the Preliminary Injunction; and 2) PSALM’s Motion to Dismiss. The preliminary conference among the parties scheduled on February 18, 2016 was reset to April 14, 2016.

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

By virtue of the Preliminary Injunction issued by the Court, SPPC continues to be the IPPA for the Ilijan Power Plant.

- *Commitments*

  The outstanding purchase commitments of the Group amounted to P88,838 million as of December 31, 2015.

  Amount authorized but not yet disbursed for capital projects is approximately P87,610 million as of December 31, 2015.

- *Foreign Exchange Rates*

  The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of P47.06 and P44.72 in 2015 and 2014, respectively, for consolidated statements of financial position accounts; and average rates of P45.50, P44.39 and P42.43 in 2015, 2014 and 2013, respectively, for income and expense accounts.

- *Temporary Restraining Order (TRO) Issued to Meralco*

  On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC, is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

  On January 16, 2014, the Supreme Court granted Meralco’s plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

  On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment. The settlement of which shall be covered by a 24-month Special Payment Arrangement agreed with PEMC which took effect in June 2014 up to May 2015. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders. The case is still pending resolution with the Court as of December 31, 2015.

- *Electric Power Industry Reform Act of 2001*

  R.A. No. 9136, otherwise known as the EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity.

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

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

- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.

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

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

- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for "Contingencies" of Section VII above that remain outstanding as of December 31, 2015. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

- The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period December 31, 2015.

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended March 31, 2016 (with comparative figures as of December 31, 2015 and for the period ended March 31, 2015). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 2016, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2016 SIGNIFICANT TRANSACTIONS

EQUITY

- *Issuance of 400,000,000 Series "2" Preferred Shares – Subseries G, H and I by San Miguel Corporation (SMC)*

On February 24, 2016, the Board of Directors (BOD) of Philippine Stock Exchange, Inc. (PSE) approved the listing application of SMC of up to 975,571,800 shares of Series "2" Preferred Shares under shelf registration (the "Shelf Registered Shares") and the offering of up to 400,000,000 shares of Series "2" Preferred Shares (the "First Tranche") with a par value of P5.00 per share and an offer price of P75.00 per share. The Philippine Securities and Exchange Commission (SEC) approved the shelf registration of the Shelf Registered Shares and issued a permit to sell covering the same on March 8, 2016.

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

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

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

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

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

LONG-TERM DEBT

- *Refinancing of Long-term Debt*

- SMC Global Power Holdings Corp. (SMC Global)

On January 26, 2016, SMC Global redeemed its US$300 million (P14,115 million), 7%, five-year bond, issued on January 14, 2011 under the Regulations of the U.S. Securities Act of 1933, as amended. The bond issue was listed in the Singapore Exchange Securities Trading Limited.

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

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

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

- Atlantic Aurum Investments Philippines Corporation (AAIPC)

On March 14, 2016, AAIPC availed in full the P16,700 million loan facility with various banks. The loan has a term of 9 years and bears a fixed interest rate of 6.7394% per annum.

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

On March 15, 2016, AAIBV used the proceeds from the sale of the shares to prepay its existing US$340 million (P16,000 million) loan with Standard Chartered Bank. The loan is payable lump sum on September 19, 2016 and bears an interest rate of 5.375% margin rate and LIBOR rate applicable to the loan payable at the end of each interest period.

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

- SMC Consolidated Power Corporation (SCPC)

On March 8, 2016, SCPC made an initial drawdown of US$250 million (P11,739 million) from the US$400 million, seven-year term loan with a syndicate of banks. The loan bears interest rate of LIBOR plus a margin, payable in arrears on the last day of the agreed interest period. Repayment of the loan principal shall commence on October 31, 2017, and every three months thereafter.

Proceeds of the loan is earmarked for the financing of the construction of the 2x150MW Limay Power Plant (Phase I), in Bataan. As of March 31, 2016, the total proceeds of the loan is still in the cash in bank balance of SCPC.

- Vertex Tollways Devt. Inc. (Vertex)

On January 29 and February 1, 2016, Vertex has drawn a total of P1,100 million, to complete the P7,500 million loan facility for the financing of ongoing construction of the Ninoy Aquino International Airport (NAIA) Expressway Project.

II. FINANCIAL PERFORMANCE

<u>2016 vs. 2015</u>

The consolidated sales revenue of the Group amounted to P159,621 million for the first quarter of 2016. This is slightly higher than 2015. Most businesses increased their revenue but were offset by the lower Petron revenues.

The Group's consolidated operating income reached P22,055 million, 40% increase from last year. This is a result of Petron's higher refinery margins, the Infrastructure business' higher full quarter contribution of Metro Manila Skyway (Skyway) and South Luzon Expressway (SLEX), core Beverage, Food and Packaging business' double digit income growth as well as the Energy business' improved income performance.

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

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

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

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

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

Consolidated net income stood at P14,601 million, more than double the previous year's level of P6,131 million.

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

2015 vs. 2014

The consolidated sales revenue of the Group for the first quarter of 2015 amounted to P157,744 million, 15% lower than 2014. This is mainly a result of the significant decline in Petron's sale revenue with the decline in oil prices. Beverage, Food and Packaging businesses, delivered 6% growth in revenues. The Infrastructure business also contributed higher revenues with the consolidation of SLEX and Skyway starting March 2015.

Despite decrease in revenue, March 2015 consolidated operating income amounted to P15,803 million, 7% higher than 2014. Beverage, Food, Packaging, Energy and Infrastructure businesses showed improved operating performance. This was however, tempered by weak margins for Petron.

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

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

The loss on sale of property and equipment in 2015 and 2014 was mainly on account of the retirement of service stations of Petron Malaysia due to the rebranding project.

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

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

Including net financing charges and taxes, consolidated net income amounted to P6,131 million, 8% higher than 2014. The corresponding net income attributable to equity holders of the Parent Company is P1,444 million, 85% higher than 2014.

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

1. **BEVERAGE**

<u>2016 vs. 2015</u>

a. **San Miguel Brewery Inc.**

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

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

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

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

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

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

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

<u>2015 vs. 2014</u>

a. **San Miguel Brewery Inc.**

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

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

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

b. Ginebra San Miguel Inc.

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

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

2. FOOD

<u>2016 vs. 2015</u>

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

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

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

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

<u>2015 vs. 2014</u>

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

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

3. PACKAGING

<u>2016 vs. 2015</u>

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

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

2015 vs. 2014

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

4. ENERGY

2016 vs. 2015

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

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

2015 vs. 2014

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

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

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

5. FUEL AND OIL

2016 vs. 2015

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

Consolidated volumes for the first quarter rose by 9% ending at 25.3 million barrels with both Philippines and Malaysia registering volume growth. Philippines grew by 8% and reached 15.7 million barrels as contributed by strong sales from Reseller, Industrial, and LPG segments and advancement in the Lubricant's sector. Malaysia also posted higher volumes amounting to 9.6 million barrels, 12% ahead of last year as a result of increased industrial sales and service station volumes.

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

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

2015 vs. 2014

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

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

With this, operating income also dipped by 13%.

6. INFRASTRUCTURE

2016 vs. 2015

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

2015 vs. 2014

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

March 2014 revenue and operating loss of the Infrastructure business amounted to P177 million and P76 million, respectively, which comprise mainly of the tollway operations of TPLEX and STAR.

III. FINANCIAL POSITION

2016 vs. 2015

The Group's consolidated total assets as of March 31, 2016 amounted to P1,396,318 million, P26,653 million higher than 2015. The increase is primarily due to the higher balance of cash and cash equivalents, from the net proceeds of the issuance of Series "2" preferred shares of SMC and increase in property, plant and equipment in relation to the costs of the on-going construction of power plants in Davao and Limay, Bataan.

Cash and cash equivalents increased by P20,362 million mainly due to the net proceeds from the issuance of Series "2" preferred shares of SMC and availment of short-term loans by SMC Global, net of the net payment of finance lease liabilities and long-term debt of SMC Global and loans payable of Petron.

Inventories increased by P3,978 million mainly due to: a) higher volume of crude and finished products of Petron Philippines; b) increase in raw materials inventory of SMPFC particularly soybean meal and wheat in March to take advantage of the low raw material cost, and to support production requirements; and c) increase in molasses prices and purposive build-up of raw alcohol by GSMI.

Investments and advances increased by P1,891 million in 2016 mainly due to additional advances for investment by SMPI in a property company.

The increase in income and other taxes payable of P3,950 million in 2016 represents the income and other accrued taxes due for the first quarter of 2016.

Dividends payable increased by P2,588 million mainly due to the dividend declared by SMC to its preferred stockholders on January 15, 2016, which was subsequently paid on April 5, 2016, and the cash dividend declared by SMB to its common stockholders on March 11, 2016 paid on April 20, 2016.

The decrease in long-term debt - net of P16,842 million was mainly due to the net payments made by SMC Global, Petron and the Infrastructure Group, reclassification to short-term loans payable of the Parent Company's US$125 million loan and adjustments due to foreign exchange rate changes.

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

Equity reserve decreased by P273 million primarily due to the increase in ownership interest of Petron in PAHL.

Cumulative translation adjustments decreased by P209 million mainly due to the translation adjustments on the net assets of foreign subsidiaries, particularly of Petron and SMHC Infra.

The decrease in appropriated retained earnings was mainly due to reversal of appropriations made by SMPFC.

The increase in non-controlling interests pertains mainly to the issuance of 400 million Series "2", in Subseries G, H and I preferred shares of SMC at P75.00 per share on March 30, 2016.

<u>2015 vs. 2014</u>

The Group's consolidated total assets as of March 31, 2015 amounted to P1,367,065 million, P25,048 million higher than 2014. The increase is primarily due to the consolidation of the balance of AAIBV Group's toll road concession rights to operate and maintain SLEX and Skyway and the recognition of goodwill upon the consolidation of AAIBV Group on March 5, 2015, net of the decrease in cash and cash equivalents, trade and other receivables and inventories.

Cash and cash equivalents decreased by P23,079 million mainly due to the redemption of the preferred shares of Petron and payment of short-term loans by Petron and SMPFC, net of the consolidation of the cash and cash equivalents balance of the AAIBV Group.

Trade and other receivables decreased by P11,419 million mainly due to the collection of non-trade receivables of SMHC, collection of advances to a crude supplier of Petron and the decrease in trade receivables of SMPFC attributable to the peak season sales in December 2014 which were collected during the first quarter of 2015.

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

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

Investments and advances decreased by P7,919 million in 2015 mainly due to the reclassification to investments in subsidiaries of the carrying value of the investment in AAIBV, Manila Toll Expressway Systems, Inc. and Skyway O&M Corporation, which were consolidated starting March 5, 2015.

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

Goodwill increased by P17,961 million mainly due to the recognition of goodwill upon consolidation of the AAIBV Group.

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

Other noncurrent assets decreased by P5,676 million mainly due to the elimination of the noncurrent receivable of SMC from AAIBV upon its consolidation in March 2015.

Loans payable decreased by P27,796 million in 2015 mainly due to the payments made by Petron and SMPFC.

Dividends payable decreased by P266 million mainly due to the payment in 2015 of the dividends payable by SMC to its preferred and common stockholders which were outstanding in 2014, net of the dividends declared to non-controlling stockholders by SMB and The Purefoods-Hormel Company, Inc. in March 2015.

The increase in long-term debt of P55,690 million was mainly due to the consolidation of AAIBV Group's balance, and the loan availments made by SMC Global to finance the ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes; and Vertex to fund the NAIA Expressway Project.

Deferred tax liabilities increased by P5,658 million due to the consolidation of AAIBV Group's balance.

Equity reserve increased by P216 million primarily due to the acquisition by San Miguel Pure Foods International, Limited from Hormel Netherlands B.V. of the latter's 49% non-controlling interest San Miguel Pure Foods Investment (BVI) Limited.

Cumulative translation adjustments decreased by P128 million mainly due to the translation adjustments on the net assets of foreign subsidiaries, net of the reversal of the accumulated share in other comprehensive income of AAIBV.

Equity

The increase in equity is due to:

(In millions)	**March 31**	
	2016	2015
Addition (reduction) to non-controlling interests and others	**P30,079**	(P118)
Income during the period	**14,601**	6,131
Other comprehensive income (loss)	**1,156**	(1,130)
Cash dividends and distributions	**(6,936)**	(4,568)
	P38,900	P315

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**March 31**	
	2016	2015
Net cash flows provided by operating activities	**P24,597**	P9,004
Net cash flows provided by (used in) investing activities	**(12,146)**	5,834
Net cash flows provided by (used in) financing activities	**8,506**	(38,597)

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

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

(In millions)	**March 31**	
	2016	2015
Additions to property, plant and equipment	**(P9,180)**	(P13,410)
Additions to investments and advances	**(1,712)**	(911)
Interest received	**940**	1,205
Proceeds from sale of investments and property and equipment	**10**	517
Cash and cash equivalents acquired from business combination net of cash paid	**-**	14,828
Acquisition of subsidiaries	**-**	(1,081)
Decrease (increase) in other noncurrent assets and others	**(2,379)**	4,661

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

(In millions)	**March 31**	
	2016	2016
Net proceeds from issuance of preferred shares of subsidiaries	**P29,962**	P14,885
Proceeds from (payments of) long-term debt - net	**(6,947)**	8,128
Payment of finance lease liabilities	**(5,935)**	(5,483)
Payment of cash dividends and distributions	**(4,346)**	(4,833)
Proceeds from (payment of) short-term loans - net	**(4,234)**	(26,875)
Redemption of preferred shares of subsidiaries	**-**	(25,000)

The effect of exchange rate changes on cash and cash equivalents amounted to (P595 million) and P680 million on March 31, 2016 and 2015, respectively.

V. KEY PERFORMANCE INDICATORS

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

	March 2016	December 2015
Liquidity:		
Current Ratio	**1.28**	1.16
Solvency:		
Debt to Equity Ratio	**2.27**	2.52
Asset to Equity Ratio	**3.27**	3.52
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**3.95%**	0.19%
Interest Rate Coverage Ratio	**3.78**	3.50

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

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

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

* *Annualized for quarterly reporting*