CR06035-2017

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended

   Jun 30, 2017

2. SEC Identification Number

   CS200803939

3. BIR Tax Identification No.

   006-990-128

4. Exact name of issuer as specified in its charter

   Top Frontier Investment Holdings, Inc.

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

   Philippines

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   5th Floor, ENZO Building, No. 399 Sen. Gil Puyat Ave., Makati City
   Postal Code
   1200

8. Issuer's telephone number, including area code

   (02) 632-3481

9. Former name or former address, and former fiscal year, if changed since last report

   N/A

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	332,886,167
Total Liabilities in Millions (as of 6/30/17)	989,704

11. Are any or all of registrant's securities listed on a Stock Exchange?

   ☑ Yes ☐ No

   If yes, state the name of such stock exchange and the classes of securities listed therein:

   Philippine Stock Exchange; Common Shares

12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

Top Frontier Investment Holdings, Inc.
TFHI

PSE Disclosure Form 17-2 - Quarterly Report
References: SRC Rule 17 and
Sections 17.2 and 17.8 of the Revised Disclosure Rules

For the period ended	Jun 30, 2017
Currency (indicate units, if applicable)	Php (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2017	Dec 31, 2016
Current Assets	500,416	476,156
Total Assets	1,469,216	1,426,986
Current Liabilities	399,758	402,371
Total Liabilities	989,704	963,009
Retained Earnings/(Deficit)	65,686	60,056
Stockholders' Equity	479,512	463,977
Stockholders' Equity - Parent	128,480	122,405
Book Value per Share	305.69	292.21

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	197,642	170,027	393,398	329,162
Gross Expense	172,360	145,436	341,235	281,945
Non-Operating Income	1,498	13,711	2,610	14,256
Non-Operating Expense	8,918	13,341	17,763	15,965
Income/(Loss) Before Tax	17,862	24,961	37,010	45,508
Income Tax Expense	5,714	4,381	11,249	10,327
Net Income/(Loss) After Tax	12,148	20,580	25,761	35,181
Net Income Attributable to Parent Equity Holder	3,026	8,546	5,630	13,521
Earnings/(Loss) Per Share (Basic)	7.94	0.23	14.6	16.55
Earnings/(Loss) Per Share (Diluted)	7.94	0.23	14.6	16.55

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	8.22	31.24
Earnings/(Loss) Per Share (Diluted)	8.22	31.24

Other Relevant Information
Please see attached SEC Form 17-Q Financial Report of Top Frontier Investment Holdings, Inc. for the 2nd Quarter of 2017, as filed with the Securities and Exchange Commission on August 14, 2017.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

COVER SHEET

C	S	2	0	0	8	0	3	9	3	9

S. E. C. Registration Number

TOP FRONTIER INVESTMENT HOLDINGS, INC.

(Company's Full Name)

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

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

Virgilio S. Jacinto	(02) 632-3144
Contact Person	Company Telephone Number

1 2	3 1	SEC Form 17-Q (2nd Quarter 2017)	0 7	0 9
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2017**

2. SEC Identification Number **CS200803939** 3. BIR Tax Identification No. **006-990-128**

AUG 14 2017

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

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

6. Industry Classification Code: ______ (SEC Use Only)

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

8. **(02) 632-3673**
   Issuer's telephone number, including area code

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

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding (as of June 30, 2017)
Common Shares	**332,886,167***

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

Total Liabilities	**P989,704 million**

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

    Yes [√] No [ ]

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

    Philippine Stock Exchange **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [√] No [ ]

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2017 (with comparative figures as of December 31, 2016 and for the period ended June 30, 2016) and Selected Notes to the Consolidated Financial Statements is hereto attached as Annex "A".

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

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

PART II -- OTHER INFORMATION

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

SIGNATURES

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

Issuer	**TOP FRONTIER INVESTMENT HOLDINGS, INC.**
Signature and Title	**AURORA T. CALDERON** Director/Treasurer/Authorized Signatory
Date	August 14, 2017
Signature and Title	**BELLA O. NAVARRA** Chief Finance Officer/Authorized Signatory
Date	August 14, 2017

ANNEX "A"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND DECEMBER 31, 2016
(In Millions)

ASSETS

	2017 Unaudited	2016 Audited
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	₱ 240,058	₱ 203,246
Trade and other receivables - net (Notes 4, 8 and 9)	99,060	110,966
Inventories	82,450	83,241
Current portion of biological assets - net	3,378	3,122
Prepaid expenses and other current assets (Notes 8 and 9)	75,286	75,397
	500,232	475,972
Assets held for sale	184	184
Total Current Assets	500,416	476,156
Noncurrent Assets		
Investments and advances - net	33,939	32,740
Available-for-sale financial assets (Notes 8 and 9)	5,836	5,986
Property, plant and equipment - net (Note 5)	574,549	565,882
Investment property - net	9,232	9,271
Biological assets - net of current portion	2,455	2,263
Goodwill	49,583	49,225
Other intangible assets - net	233,842	232,196
Deferred tax assets	21,413	21,011
Other noncurrent assets - net (Notes 4, 8 and 9)	37,951	32,256
Total Noncurrent Assets	968,800	950,830
	₱ 1,469,216	₱ 1,426,986

LIABILITIES AND EQUITY

	2017 Unaudited	2016 Audited
Current Liabilities		
Loans payable (Notes 4, 8 and 9)	₱ 192,049	₱ 197,093
Accounts payable and accrued expenses (Notes 4, 8 and 9)	134,407	133,948
Finance lease liabilities - current portion (Notes 8 and 9)	19,676	19,084
Income and other taxes payable	16,816	16,990
Dividends payable	2,811	3,442
Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9)	33,999	31,814
Total Current Liabilities	399,758	402,371
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9)	331,742	297,617
Deferred tax liabilities	61,319	59,027
Finance lease liabilities - net of current portion (Notes 8 and 9)	159,384	168,021
Other noncurrent liabilities (Notes 4, 8 and 9)	37,501	35,973
Total Noncurrent Liabilities	589,946	560,638
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
Convertible perpetual securities	25,158	25,158
Equity reserves	(6,835)	(7,280)
Retained earnings:		
Appropriated	18,194	19,148
Unappropriated	47,492	40,908
Treasury stock	(76,780)	(76,780)
	128,480	122,405
Non-controlling Interests	351,032	341,572
Total Equity	479,512	463,977
	₱ 1,469,216	₱ 1,426,986

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions, Except Per Share Data)

			For the Quarters Ended	
	2017 Unaudited	2016 Unaudited	**2017 Unaudited**	2016 Unaudited
SALES (Note 2)	**₱ 393,398**	₱ 329,162	**₱ 197,642**	₱ 170,027
COST OF SALES	**305,824**	242,131	**154,023**	121,952
GROSS PROFIT	**87,574**	87,031	**43,619**	48,075
SELLING AND ADMINISTRATIVE EXPENSES	**(35,411)**	(39,814)	**(18,337)**	(23,484)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(16,569)**	(16,400)	**(9,183)**	(7,935)
INTEREST INCOME	**2,050**	1,891	**1,054**	937
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	**164**	82	**20**	(97)
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	**396**	35	**424**	38
OTHER INCOME (CHARGES) - Net (Note 3)	**(1,194)**	435	**265**	(5,406)
INCOME BEFORE INCOME TAX	**37,010**	33,260	**17,862**	12,128
INCOME TAX EXPENSE	**11,249**	10,327	**5,714**	4,381
INCOME FROM CONTINUING OPERATIONS	**25,761**	22,933	**12,148**	7,747
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	**-**	12,248	**-**	12,833
NET INCOME	**₱ 25,761**	₱ 35,181	**₱ 12,148**	₱ 20,580
Attributable to:				
Equity holders of the Parent Company	**₱ 5,630**	₱ 13,521	**₱ 3,026**	₱ 8,546
Non-controlling interests	**20,131**	21,660	**9,122**	12,034
	₱ 25,761	₱ 35,181	**₱ 12,148**	₱ 20,580
Basic and Diluted Earnings Per Common Share from Continuing Operations, Attributable to Equity Holders of the Parent Company (Note 6):	**₱ 14.60**	₱ 16.55	**₱ 7.94**	₱ 0.23

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions)

			For the Quarters Ended	
	2017 Unaudited	2016 Unaudited	**2017 Unaudited**	2016 Unaudited
NET INCOME	**₱ 25,761**	₱ 35,181	**₱ 12,148**	₱ 20,580
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	**10**	11	**14**	(2)
INCOME TAX BENEFIT (EXPENSE)	**-**	(1)	**-**	3
SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net	**76**	14	**74**	14
	86	24	**88**	15
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**1,870**	14	**953**	(1,323)
NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	**29**	23	**33**	234
INCOME TAX EXPENSE	**(3)**	(5)	**(3)**	(26)
	1,896	32	**983**	(1,115)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**1,982**	56	**1,071**	(1,100)
TOTAL COMPREHENSIVE INCOME - Net of tax	**₱ 27,743**	₱ 35,237	**₱ 13,219**	₱ 19,480
Attributable to:				
Equity holders of the Parent Company	**₱ 6,075**	₱ 13,557	**₱ 3,270**	₱ 8,790
Non-controlling interests	**21,668**	21,680	**9,949**	10,690
	₱ 27,743	₱ 35,237	**₱ 13,219**	₱ 19,480

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company													Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves				Retained Earnings		Treasury Stock		Total		
	Common	Preferred			Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred			
As of January 1, 2017 (Audited)	**₱ 490**	**₱ 260**	**₱ 120,501**	**₱ 25,158**	**₱ (1,086)**	**₱ 1,225**	**₱ (2,820)**	**₱ (4,599)**	**₱ 19,148**	**₱ 40,908**	**₱ (28,457)**	**₱ (48,323)**	**₱ 122,405**	**₱ 341,572**	**₱ 463,977**
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	**390**	-	-	-	-	-	**390**	**1,480**	**1,870**
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	**24**	**20**	-	-	-	-	-	**44**	**32**	**76**
Net gain on available-for-sale financial assets	-	-	-	-	-	**8**	-	-	-	-	-	-	**8**	**18**	**26**
Equity reserve for retirement plan	-	-	-	-	**3**	-	-	-	-	-	-	-	**3**	**7**	**10**
Other comprehensive income	-	-	-	-	**3**	**32**	**410**	-	-	-	-	-	**445**	**1,537**	**1,982**
Net income	-	-	-	-	-	-	-	-	-	**5,630**	-	-	**5,630**	**20,131**	**25,761**
Total comprehensive income	-	-	-	-	**3**	**32**	**410**	-	-	**5,630**	-	-	**6,075**	**21,668**	**27,743**
Consolidation of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net addition to non-controlling interests and others	-	-	-	-	-	-	-	-	-	-	-	-	-	**120**	**120**
Reversal of appropriations - net	-	-	-	-	-	-	-	-	**(954)**	**954**	-	-	-	-	-
Cash dividends and distributions:															
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	**(4,403)**	**(4,403)**
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	**(4,405)**	**(4,405)**
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	**(3,520)**	**(3,520)**
As of June 30, 2017 (Unaudited)	**₱ 490**	**₱ 260**	**₱ 120,501**	**₱ 25,158**	**₱ (1,083)**	**₱ 1,257**	**₱ (2,410)**	**₱ (4,599)**	**₱ 18,194**	**₱ 47,492**	**₱ (28,457)**	**₱ (48,323)**	**₱ 128,480**	**₱ 351,032**	**₱ 479,512**
As of January 1, 2016 (Audited)	₱ 490	₱ 260	₱ 120,501	₱ -	₱ (2,271)	₱ 1,256	₱ (1,517)	₱ (1,184)	₱ 13,874	₱ 36,759	₱ (28,457)	₱ (48,323)	₱ 91,388	₱ 297,200	₱ 388,588
Gain (loss) on exchange differences on translation of foreign operations	-	-	-	-	-	-	17	-	-	-	-	-	17	(3)	14
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	7	-	-	-	-	-	-	7	7	14
Net gain on available-for-sale financial assets	-	-	-	-	-	1	-	-	-	-	-	-	1	17	18
Equity reserve for retirement plan	-	-	-	-	11	-	-	-	-	-	-	-	11	(1)	10
Other comprehensive income	-	-	-	-	11	8	17	-	-	-	-	-	36	20	56
Net income	-	-	-	-	-	-	-	-	-	13,521	-	-	13,521	21,660	35,181
Total comprehensive income	-	-	-	-	11	8	17	-	-	13,521	-	-	13,557	21,680	35,237
Issuance of convertible perpetual securities	-	-	-	25,162	-	-	-	-	-	-	-	-	25,162	-	25,162
Net addition (reduction) to non-controlling interests and others	-	-	-	-	-	-	-	(3,117)	-	-	-	-	(3,117)	30,048	26,931
Reversal of appropriations - net	-	-	-	-	-	-	-	-	(549)	549	-	-	-	-	-
Cash dividends and distributions:															
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,325)	(4,325)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,037)	(4,037)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,365)	(3,365)
As of June 30, 2016 (Unaudited)	₱ 490	₱ 260	₱ 120,501	₱ 25,162	₱ (2,260)	₱ 1,264	₱ (1,500)	₱ (4,301)	₱ 13,325	₱ 50,829	₱ (28,457)	₱ (48,323)	₱ 126,990	₱ 337,201	₱ 464,191

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016
(In Millions)

	2017 Unaudited	2016 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	P 37,010	P 33,260
Income before income tax from discontinued operations	-	13,195
Income before income tax	37,010	46,455
Adjustments for:		
Depreciation, amortization and others - net	18,279	16,862
Interest expense and other financing charges	16,569	16,406
Interest income	(2,050)	(1,905)
Equity in net earnings of associates and joint ventures	(164)	(82)
Gain from disposal of discontinued operations	-	(14,002)
Gain on sale of investments and property and equipment	(396)	(35)
Operating income before working capital changes	69,248	63,699
Changes in noncash current assets, certain current liabilities and others	345	(11,119)
Cash generated from operations	69,593	52,580
Interest and other financing charges paid	(12,163)	(13,125)
Income taxes paid	(9,040)	(9,611)
Net cash flows provided by operating activities	48,390	29,844
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	(1,203)	(1,724)
Additions to investments and advances and available-for-sale financial assets	(998)	(539)
Additions to property, plant and equipment	(18,408)	(19,349)
Increase in other noncurrent assets and others	(10,509)	(13,845)
Proceeds from sale of investments and property and equipment	645	136
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	13,020	24,154
Interest received	1,896	1,827
Dividend received from an associate and available-for-sale financial assets	9	189
Net cash flows used in investing activities	(15,548)	(9,151)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	411,766	321,318
Long-term borrowings	115,481	28,809
Payments of:		
Short-term borrowings	(417,340)	(319,736)
Long-term borrowings	(81,649)	(72,699)
Payments of finance lease liabilities	(12,363)	(11,855)
Cash dividends and distributions paid to non-controlling shareholders	(12,959)	(10,002)
Proceeds from reissuance of treasury shares of a subsidiary	-	29,722
Proceeds from issuance of convertible perpetual securities - net	-	25,162
Increase (decrease) in non-controlling interests	119	(2,906)
Net cash flows provided by (used in) financing activities	3,055	(12,187)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	915	360
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,812	8,866
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	203,246	181,134
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 240,058	P 190,000

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
JUNE 30, 2017
(In Millions)

					Past Due					
		Total		**Current**		**1 - 30 Days**		**31 - 60 Days**		**Over 60 Days**
Trade	P	56,948	P	40,891	P	4,080	P	1,348	P	10,629
Non-trade		41,240		19,294		1,112		1,002		19,832
Others		14,833		13,856		69		48		860
Total		113,021	P	74,041	P	5,261	P	2,398	P	31,321
Less allowance for impairment losses		13,961								
Net	P	**99,060**								

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 June 30, 2017 and December 31, 2016 for liquidity, solvency and profitability ratios and for the periods ending June 30, 2017 and 2016 for operating efficiency ratios.

	June 2017	December 2016
Liquidity:		
Current Ratio	**1.25**	1.18
Solvency:		
Debt to Equity Ratio	**2.06**	2.08
Asset to Equity Ratio	**3.06**	3.08
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**2.81%**	10.68%
Interest Rate Coverage Ratio	**3.23**	3.05

	Period Ended June 30	
	2017	2016
Operating Efficiency:		
Volume Growth	**2%**	11%
Revenue Growth	**20%**	(1%)
Operating Margin	**13%**	14%

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	$\dfrac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
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*

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

The Group prepared its interim consolidated financial statements as of and for the period ended June 30, 2017 and comparative financial statements for the same period in 2016 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.

<u>Adoption of New and Amended Standards</u>
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 2017

The Group has adopted the following PFRS effective January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative *(Amendments to PAS 7, Statement of Cash Flows)*. The amendments improve 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.

- Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12, Income Taxes*). The amendments clarify that: (a) 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; (b) 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; (c) 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 (d) 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.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group in 2017:

  - Clarification of the Scope of the Standard (*Amendments to PFRS 12, Disclosure of Interests in Other Entities*). The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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 and Interpretation Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 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 and interpretations on the respective effective dates:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group after January 1, 2017:

  - Measuring an associate or joint venture at fair value *(Amendments to PAS 28, Investments in Associates).* The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

    The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

- 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, with early adoption permitted. Potential impact is being assessed.

- *Applying* PFRS 9, *Financial Instruments* with PFRS 4, *Insurance Contracts (Amendments to PFRS 4)*. The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39*, Financial Instruments: Recognition and Measurement,* if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

  The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method. The amendments also introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (a) the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (b) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. The amendments also clarify that the entity is to apply the following approach when a share-based payment is modified from cash-settled to equity-settled: (a) at the modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date; and (b) the difference between the carrying amount of the liability derecognized and the amount recognized in equity as at the modification date is recognized in profit or loss immediately.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. Amendments can be applied retrospectively or prospectively. The amendments were approved by the FRSC on September 14, 2016 but are still subject to the approval by the Board of Accountancy.

- PFRS 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) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group'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.

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

- Transfers of Investment Property *(Amendments to PAS 40, Investment Property)*. The amendments clarify the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration.* The amendments clarify that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

  The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- PFRS 16, *Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. Potential impact is being assessed.

- IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes,* when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. When there is uncertainty over income tax treatments, this interpretation addresses: (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances.

  On initial application, an entity shall apply this interpretation either: (a) retrospectively applying IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* if that is possible without the use of hindsight; or (b) retrospectively with the cumulative effect of initially applying the interpretation recognized at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies this interpretation.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this interpretation for an earlier period, it shall disclose that fact.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28*). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date until the International Accounting Standards Board (IASB) has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

  The SEC issued a Notice dated August 5, 2011 to further defer the implementation of Philippine Interpretation IFRIC 15 until the final Revenue standard is issued by the IASB and after an evaluation on the requirements and guidance in the said standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed.

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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 and mining.

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

The food segment includes, among others, feeds production and poultry and livestock farming, processing and selling of poultry and meat products, processing and marketing of value-added refrigerated processed meats and canned meat products, manufacturing and marketing of flour, flour mixes and bakery ingredients, butter, margarine, cheese, milk, ice cream, jelly snacks and desserts, specialty oils, salad aids, snacks and condiments, 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 sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements, either directly to 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, interchanges, port facilities and water ultilities and systems.

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

<u>Inter-segment Transactions</u>
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		Mining and Others		Eliminations		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Sales																		
External sales	**P63,166**	P55,719	**55,941**	P53,110	**P10,928**	P10,156	**P39,620**	P36,052	**P205,350**	P158,128	**P10,895**	P9,779	**P7,498**	P6,218	**P –**	P –	**P393,398**	P329,162
Inter-segment sales	**18**	91	**6**	44	**3,100**	3,355	**1,077**	5,020	**1,608**	3,735	**–**	–	**9,590**	5,272	**(15,399)**	(17,517)	**–**	–
Total sales	**P63,184**	P55,810	**P55,947**	P53,154	**P14,028**	P13,511	**P40,697**	P41,072	**P206,958**	P161,863	**P10,895**	P9,779	**P17,088**	P11,490	**(P15,399)**	(P17,517)	**P393,398**	P329,162
Results																		
Segment results	**P14,319**	P12,662	**P4,310**	P3,452	**P1,228**	P1,099	**P12,943**	P15,369	**P13,805**	P11,691	**P5,245**	P5,035	**P377**	(P1,334)	**(P64)**	(P757)	**P52,163**	P47,217

3. Other Income (Charges)

Other income (charges) consists of:

	June 30	
	2017	2016
Construction revenue	**P4,443**	P4,983
Gain (loss) on derivatives - net	**1,411**	(1,079)
Construction costs	**(4,443)**	(4,983)
Gain (loss) on foreign exchange - net	**(2,678)**	836
Others	**73**	678
	(P1,194)	P435

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, airport, port and water 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. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of June 30, 2017 and December 31, 2016:

		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	**June 30, 2017**	**P -**	**P -**	**P -**	**P11,118**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2016	-	278	-	10,953		
	June 30, 2017	**-**	**-**	**-**	**221**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	-	-	-	221		
Retirement Plans	**June 30, 2017**	**198**	**-**	**11,949**	-	On demand; interest bearing	Unsecured; no impairment
	December 31, 2016	450	-	11,813	-		
Associates	**June 30, 2017**	**1,274**	**82**	**595**	**36**	On demand; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2016	2,085	199	524	56		
	June 30, 2017	**-**	**-**	**-**	**25,572**	Less than 1 to 10 years; interest bearing	Unsecured and secured
	December 31, 2016	-	-	-	27,233		
Joint Ventures	**June 30, 2017**	**56**	**102**	**2,086**	**7**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	72	370	640	8		
Shareholders in Subsidiaries	**June 30, 2017**	**249**	**271**	**208**	**2,633**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	299	711	264	2,596		
Others	**June 30, 2017**	**77**	**-**	**202**	**7,017**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2016	216	-	113	6,795		
Total	**June 30, 2017**	**P1,854**	**P455**	**P15,040**	**P46,604**		
Total	December 31, 2016	P3,122	P1,558	P13,354	P47,862		

a. Interest-bearing payable owed to a shareholder of the Parent Company were used for working capital purposes. This payable has no definite payment terms and considered payable upon demand.

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:

June 30, 2017 and December 31, 2016

	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, 2016 (Audited)	P62,565	P54,955	P255,082	P49,785	P16,230	P148,607	P2,318	P5,584	P182,408	P777,534
Additions	1,151	1,403	10,654	871	364	9,117	1,277	-	15,855	40,692
Disposals/reclassifications/acquisition of subsidiaries	(65)	(5,011)	4,611	94,310	(494)	(22,882)	(512)	10	(104,949)	(34,982)
Currency translation adjustments	135	179	-	101	73	714	3	-	26	1,231
December 31, 2016 (Audited)	63,786	51,526	270,347	145,067	16,173	135,556	3,086	5,594	93,340	784,475
Additions	690	274	285	57	91	1,689	19	-	15,303	18,408
Disposals/reclassifications/acquisition of subsidiaries	272	1,161	15,651	18,229	256	(345)	1	-	(35,695)	(470)
Currency translation adjustments	481	789	-	625	402	1,161	11	-	81	3,550
June 30, 2017 (Unaudited)	**65,229**	**53,750**	**286,283**	**163,978**	**16,922**	**138,061**	**3,117**	**5,594**	**73,029**	**805,963**
Accumulated Depreciation and Amortization										
January 1, 2016 (Audited)	4,183	21,418	34,635	33,088	11,140	93,958	1,246	4,765	-	204,433
Depreciation and amortization	271	2,382	6,793	5,008	1,193	7,887	228	87	-	23,849
Disposals/reclassifications/acquisition of subsidiaries	(97)	(1,408)	(2,444)	(18)	(370)	(16,519)	(290)	17	-	(21,129)
Currency translation adjustments	12	133	-	171	26	348	1	-	-	691
December 31, 2016 (Audited)	4,369	22,525	38,984	38,249	11,989	85,674	1,185	4,869	-	207,844
Depreciation and amortization	113	1,037	3,600	2,865	414	3,500	71	8	-	11,608
Disposals/reclassifications/acquisition of subsidiaries	(1)	(121)	-	29	(36)	(794)	(6)	-	-	(929)
Currency translation adjustments	30	398	-	455	231	671	7	-	-	1,792
June 30, 2017 (Unaudited)	**4,511**	**23,839**	**42,584**	**41,598**	**12,598**	**89,051**	**1,257**	**4,877**	**-**	**220,315**
Accumulated Impairment Losses										
January 1, 2016 (Audited)	266	2,062	-	-	-	9,093	-	573	-	11,994
Disposals and reclassifications	-	(6)	-	-	-	(1,308)	25	-	-	(1,289)
Currency translation adjustments	-	(32)	-	-	-	77	(1)	-	-	44
December 31, 2016 (Audited)	266	2,024	-	-	-	7,862	24	573	-	10,749
Currency translation adjustments	-	98	-	-	-	250	2	-	-	350
June 30, 2017 (Unaudited)	**266**	**2,122**	**-**	**-**	**-**	**8,112**	**26**	**573**	**-**	**11,099**
Carrying Amount										
December 31, 2016 (Audited)	P59,151	P26,977	P231,363	P106,818	P4,184	P42,020	P1,877	P152	P93,340	P565,882
June 30, 2017 (Unaudited)	**P60,452**	**P27,789**	**P243,699**	**P122,380**	**P4,324**	**P40,898**	**P1,834**	**P144**	**P73,029**	**P574,549**

June 30, 2016

	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, 2016 (Audited)	P62,565	P54,955	P255,082	P49,785	P16,230	P148,607	P2,318	P5,584	P182,408	P777,534
Additions	92	248	-	115	52	623	146	-	18,073	19,349
Disposals/reclassifications/acquisition of subsidiaries	228	215	-	94,376	(335)	(16,634)	(241)	10	(107,587)	(29,968)
Currency translation adjustments	484	500	-	671	436	94	-	-	120	2,305
June 30, 2016 (Unaudited)	63,369	55,918	255,082	144,947	16,383	132,690	2,223	5,594	93,014	769,220
Accumulated Depreciation and Amortization										
January 1, 2016 (Audited)	4,183	21,418	34,635	33,088	11,140	93,958	1,246	4,765	-	204,433
Depreciation and amortization	127	1,176	3,387	2,146	400	4,282	97	62	-	11,677
Disposals/reclassifications/acquisition of subsidiaries	(11)	(451)	-	(13)	(61)	(14,805)	(193)	17	-	(15,517)
Currency translation adjustments	32	312	-	588	234	63	-	-	-	1,229
June 30, 2016 (Unaudited)	4,331	22,455	38,022	35,809	11,713	83,498	1,150	4,844	-	201,822
Accumulated Impairment Losses										
January 1, 2016 (Audited)	266	2,062	-	-	-	9,093	-	573	-	11,994
Disposals and reclassifications	-	(6)	-	-	-	(1,327)	-	-	-	(1,333)
Currency translation adjustments	-	(52)	-	-	-	(121)	-	-	-	(173)
June 30, 2016 (Unaudited)	266	2,004	-	-	-	7,645	-	573	-	10,488
Carrying Amount										
June 30, 2016 (Unaudited)	P58,772	P31,459	P217,060	P109,138	P4,670	P41,547	P1,073	P177	P93,014	P556,910

Depreciation and amortization charged to operations amounted to P11,608 and P11,677 for the periods ended June 30, 2017 and 2016, 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 and distribution to holders of convertible perpetual securities (CPS), by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares during the period are adjusted for the effects of all potential dilutive debt or equity instruments.

Basic and diluted EPS is computed as follows:

	June 30	
	2017	2016
Net income from continuing operations attributable to equity holders of the Parent Company	**P5,630**	P5,467
Less dividends on CPS for the period	**809**	-
Net income from continuing operations attributable to common shareholders of the Parent Company (a)	**4,821**	5,467
Net income from discontinued operations attributable to common shareholders of the Parent Company (b)	**-**	8,054
Net income attributable to common shareholders of the Parent Company	**P4,821**	P13,521
Weighted average number of common shares outstanding (in millions) (c)	**330**	330
Basic and diluted earnings per common share attributable to equity holders of the Parent Company		
Continuing operations (a/c)	**P14.60**	P16.55
Discontinued operations (b/c)	**-**	24.38
	P14.60	P40.93

Earnings per share are computed based on amounts in nearest peso.

As of June 30, 2017 and 2016, the Parent Company has no dilutive debt or equity instruments.

7. **Dividends**

The Parent Company has no dividend declaration for the periods ended in June 30, 2017 and 2016.

On August 10, 2017, the Board of Directors (BOD) of the Parent Company declared cash dividends at P418.50 per preferred share, payable on August 11, 2017 to shareholders owning preferred shares as of August 10, 2017.

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

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

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The 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 P904 and P1,342 for the period ended June 30, 2017 and for the year ended December 31, 2016, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

June 30, 2017	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P27,269**	**P23,662**	**P11,584**	**P26,787**	**P57,338**	**P105,907**	**P252,547**
Interest rate	**5.4583% - 12%**	**5.4583% - 10.50%**	**5.4583% - 8.74899%**	**4.9925% - 8.74899%**	**4.0032% - 7.6567%**	**4.5219% - 7.6567%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**-**	**-**	**-**	**26,061**	**26,061**
Interest rate	**-**	**-**	**-**	**-**	**-**	**4.875%**	
Floating Rate							
Philippine peso-denominated	**1,295**	**1,254**	**733**	**545**	**526**	**1,116**	**5,469**
Interest rate	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or 5.75%, whichever is higher**	**PDST-R2 + margin**	**PDST-R2 + margin**	
Foreign currency-denominated (expressed in Philippine peso)	**5,439**	**39,037**	**22,844**	**8,945**	**8,652**	**–**	**84,917**
Interest rate	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**		
	P34,003	**P63,953**	**P35,161**	**P36,277**	**P66,516**	**P133,084**	**P368,994**

December 31, 2016	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P28,440	P8,654	P22,539	P13,235	P44,511	P55,361	P172,740
Interest rate	5.65% - 12%	5.4583% - 8.74899%	5.4583% - 10.50%	4.9925% - 8.74899%	4.0032% - 8.74899%	4.5219% - 7.6567%	
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	-	-	25,674	25,674
Interest rate	-	-	-	-	-	4.875%	
Floating Rate							
Philippine peso-denominated	1,216	1,304	1,059	545	534	1,379	6,037
Interest rate	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2 + margin	
Foreign currency-denominated (expressed in Philippine peso)	2,138	77,230	13,294	23,853	1,893	9,718	128,126
Interest rate	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P31,794	P87,188	P36,892	P37,633	P46,938	P92,132	P332,577

Foreign Currency Risk
The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

	June 30, 2017		December 31, 2016	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$1,695**	**P85,593**	US$2,011	P99,963
Trade and other receivables	**417**	**21,048**	482	24,069
Prepaid expenses and other current assets	**27**	**1,355**	5	241
Noncurrent receivables	**11**	**585**	50	2,496
	2,150	**108,581**	2,548	126,769
Liabilities				
Loans payable	**594**	**29,995**	616	30,625
Accounts payable and accrued expenses	**1,099**	**55,447**	1,422	70,769
Long-term debt (including current maturities)	**2,198**	**110,978**	3,093	153,800
Finance lease liabilities (including current portion)	**1,788**	**90,257**	1,880	93,499
Other noncurrent liabilities	**7,375**	**372,203**	426	21,160
	13,054	**658,880**	7,437	369,853
Net foreign currency-denominated monetary liabilities	**(US$10,904)**	**(P550,299)**	(US$4,889)	(P243,084)

The Group reported net gains (losses) on foreign exchange amounting to (P2,678) and P836 for the periods ended June 30, 2017 and 2016, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 3). These mainly resulted from the movements of the Philippine peso against the United States (US) dollar as shown in the following table:

	US Dollar to Philippine Peso
June 30, 2017	**50.47**
December 31, 2016	49.72
June 30, 2016	47.06
December 31, 2015	47.06

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**	
June 30, 2017	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P1,307)**	**(P1,362)**	**P1,307**	**P1,362**
Trade and other receivables	**(292)**	**(402)**	**292**	**402**
Prepaid expenses and other current assets	**(21)**	**(21)**	**21**	**21**
Noncurrent receivables	**(7)**	**(12)**	**7**	**12**
	(1,627)	**(1,797)**	**1,627**	**1,797**
Loans payable	**545**	**431**	**(545)**	**(431)**
Accounts payable and accrued expenses	**649**	**905**	**(649)**	**(905)**
Long-term debt (including current maturities)	**2,183**	**1,543**	**(2,183)**	**(1,543)**
Finance lease liabilities (including current portion)	**1,788**	**1,252**	**(1,788)**	**(1,252)**
Other noncurrent liabilities	**7,375**	**7,249**	**(7,375)**	**(7,249)**
	12,540	**11,380**	**(12,540)**	**(11,380)**
	P10,913	**P9,583**	**(P10,913)**	**(P9,583)**

December 31, 2016	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,673)	(P1,510)	P1,673	P1,510
Trade and other receivables	(271)	(402)	271	402
Prepaid expenses and other current assets	-	(5)	-	5
Noncurrent receivables	-	(50)	-	50
	(1,944)	(1,967)	1,944	1,967
Loans payable	545	453	(545)	(453)
Accounts payable and accrued expenses	974	1,046	(974)	(1,046)
Long-term debt (including current maturities)	3,047	2,179	(3,047)	(2,179)
Finance lease liabilities (including current portion)	1,880	1,316	(1,880)	(1,316)
Other noncurrent liabilities	283	339	(283)	(339)
	6,729	5,333	(6,729)	(5,333)
	P4,785	P3,366	(P4,785)	(P3,366)

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

Commodity Price Risk

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

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

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

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

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

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

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

June 30, 2017	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	**P240,058**	**P240,058**	**P240,058**	**P -**	**P -**	**P -**
Trade and other receivables - net	**99,060**	**99,060**	**99,060**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**633**	**633**	**633**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**170**	**170**	**170**	**-**	**-**	**-**
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**6,041**	**6,074**	**206**	**5,540**	**261**	**67**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**10,358**	**10,477**	**-**	**2,446**	**7,652**	**379**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,351**	**3,351**	**2,465**	**886**	**-**	**-**
Financial Liabilities						
Loans payable	**192,049**	**192,656**	**192,656**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure restoration obligation (IRO) and deferred income)	**130,969**	**131,303**	**131,303**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**2,061**	**2,061**	**2,061**	**-**	**-**	**-**
Long-term debt (including current maturities)	**365,741**	**463,833**	**52,551**	**80,359**	**175,173**	**155,750**

Forward

June 30, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Finance lease liabilities (including current portion)	**P179,060**	**P203,234**	**P25,065**	**P25,804**	**P86,439**	**P65,926**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), deferred income and accrual for mine rehabilitation and decommissioning)	**26,838**	**30,367**	**-**	**19,266**	**10,104**	**997**

December 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	P203,246	P203,246	P203,246	P -	P -	P -
Trade and other receivables - net	110,966	110,966	110,966	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	84	84	84	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	157	157	157	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	6,057	6,100	96	5,728	172	104
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	7,032	7,086	-	1,549	536	5,001
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	3,884	3,884	3,059	825	-	-
Financial Liabilities						
Loans payable	197,093	197,648	197,648	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	130,352	145,423	145,423	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,475	2,475	2,475	-	-	-
Long-term debt (including current maturities)	329,431	396,740	47,439	100,172	146,987	102,142
Finance lease liabilities (including current portion)	187,105	214,018	24,737	25,011	84,160	80,110
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	25,680	25,784	-	22,759	422	2,603

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.

The Group obtains collateral or arranges master netting agreements, where appropriate, so that in the event of default, the Group would have a secured claim.

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

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

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

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

	June 30, 2017	December 31, 2016
Cash and cash equivalents (excluding cash on hand)	**P238,394**	P201,342
Trade and other receivables - net	**99,060**	110,966
Derivative assets	**633**	84
Financial assets at FVPL	**170**	157
AFS financial assets	**6,041**	6,057
Noncurrent receivables and deposits - net	**10,358**	7,032
Restricted cash	**3,351**	3,884
	P358,007	P329,522

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

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

Financial and Other Risks Relating to Livestock

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

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

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

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

Other Market Price Risk

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

Capital Management

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

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

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

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

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.

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If an AFS financial asset is impaired, an amount comprising the difference between the acquisition 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 from other comprehensive income and recognized in 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 an 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:

	June 30, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P240,058**	**P240,058**	P203,246	P203,246
Trade and other receivables - net	**99,060**	**99,060**	110,966	110,966
Derivative assets (included under "Prepaid expenses and other current assets" account)	**633**	**633**	84	84
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**170**	**170**	157	157

Forward

	June 30, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**P6,041**	**P6,041**	P6,057	P6,057
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**10,358**	**10,358**	7,032	7,032
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,351**	**3,351**	3,884	3,884
Financial Liabilities				
Loans payable	**192,049**	**192,049**	197,093	197,093
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	**130,969**	**130,969**	130,352	130,352
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**2,061**	**2,061**	2,475	2,475
Long-term debt (including current maturities)	**365,741**	**392,125**	329,431	347,354
Finance lease liabilities (including current portion)	**179,060**	**179,060**	187,105	187,105
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, deferred income and accrual for mine rehabilitation and decommissioning)	**26,838**	**26,838**	25,680	25,680

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 1.6% to 4.9% and 1.8% to 4.9% as of June 30, 2017 and December 31, 2016, respectively. The discount rates used for foreign currency-denominated loans range from 1.3% to 2.0% and 1.1% to 2.2% as of June 30, 2017 and December 31, 2016, 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, interest rate 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 June 30 and March 31, 2017 and December 31, 2016.

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 June 30 and March 31, 2017 and December 31, 2016.

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 June 30 and March 31, 2017 and December 31, 2016.

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 June 30 and March 31, 2017 and December 31, 2016.

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 interest rate, currency and commodity derivatives entered into by the Group.

Interest Rate Swap
As of June 30 and March 31, 2017 and December 31, 2016, 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 P1,561, P1,416 and P1,288 as of June 30 and March 31, 2017 and December 31, 2016, respectively.

Currency Forwards
The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$899, US$961 and US$875 as of June 30 and March 31, 2017 and December 31, 2016, respectively, and with various maturities in 2017. The net positive (negative) fair value of these currency forwards amounted to P454, (P79) and (P38) as of June 30 and March 31, 2017 and December 31, 2016, respectively.

Currency Options
As of June 30 and March 31, 2017 and December 31, 2016, the Group has outstanding currency options with an aggregate notional amount of US$599, US$663 and US$360, respectively, and with various maturities in 2017. The net negative fair value of these currency options amounted to P33, P97 and P150 as of June 30 and March 31, 2017 and December 31, 2016, respectively.

Commodity Swaps
The Group has no outstanding commodity swaps on the purchase of aluminum as of June 30 and March 31, 2017 and December 31, 2016.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2017. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps is 6 million barrels, 6.9 million barrels and 26.3 million barrels as of June 30 and March 31, 2017 and December 31, 2016, respectively. The negative fair value of these swaps amounted to P40, P27 and P676 as of June 30 and March 31, 2017 and December 31, 2016, respectively.

Commodity Options
As of June 30 and March 31, 2017 and December 31, 2016, the Group has no outstanding bought and sold options covering the wheat and soybean meal requirements.

The Group has no outstanding three-way options designated as hedge of forecasted purchases of crude oil as of June 30 and March 31, 2017 and December 31, 2016.

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$144, US$130 and US$140 as of June 30 and March 31, 2017 and December 31, 2016, 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 P248, P211 and P239 as of June 30 and March 31, 2017 and December 31, 2016, respectively.

Embedded Currency Options
As of June 30 and March 31, 2017 and December 31, 2016, 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 P1,411, (P1,079), P468 and (P1,627) for the periods ended June 30, 2017 and 2016 and March 31, 2017 and 2016, 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: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

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

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

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

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

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

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

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

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

	June 30, 2017			December 31, 2016		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P633**	**P633**	P -	P84	P84
Financial assets at FVPL	**-**	**170**	**170**	-	157	157
AFS financial assets	**259**	**5,782**	**6,041**	253	5,804	6,057
Financial Liabilities						
Derivative liabilities	**-**	**2,061**	**2,061**	-	2,475	2,475

The Group has no financial instruments valued based on Level 3 as of June 30, 2017 and December 31, 2016, 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 2016 Audited Consolidated Financial Statements, that remain outstanding as of June 30, 2017. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. On April 21, 2017, the Philippine Competition Commission (PCC) filed a Petition for Certiorari with prayer for a temporary restraining order and/or writ of preliminary injunction against the Court of Appeals 12th Division and the Philippine Long Distance Telephone Company (PLDT). The petition asks the Supreme Court to (a) issue a TRO or a writ of preliminary injunction to (i) restrain the Court of Appeals from consolidating the case in the 12th division of the Court of Appeals with the case filed by Globe Telecom, Inc. (Globe), (ii) to restrain the Court of Appeals from enforcing the preliminary injunction issued against the PCC which prevents it from proceeding with the pre-acquisition review of the acquisition by PLDT and Globe of the telecommunications business of SMC, and (ii) restrain PLDT from consummating and implementing the acquisition; and (b) dissolving the writ of preliminary injunction issued by the Court of Appeals against PCC, and (c) making permanent the writ of preliminary injunction restraining PLDT from further proceeding with the final payment or performing any action of consummation of the acquisition while the case before the Court of Appeals and the pre-acquisition review and investigation by the PCC of the Acquisition are pending.

   SMC is not a party nor is it impleaded in the case filed by the PCC before the Supreme Court, and neither is it a party in the case pending before the Court of Appeals.

   As of June 30, 2017, the Supreme Court has not issued a temporary restraining order or a writ of preliminary injunction in relation to the case. On May 30, 2017, SMC received the balance of the proceeds from the sale of the telecommunications business to Globe and PLDT.

g. The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

h. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended June 30, 2017.

i. 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 June 30, 2017. 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.

ANNEX “B”

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. (“Top Frontier” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended June 30, 2017 (with comparative figures as of December 31, 2016 and for the period ended June 30, 2016). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2017, 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. 2017 SIGNIFICANT TRANSACTIONS

LONG-TERM DEBT

- **Refinancing of Long-term Debt and Short-term Loan**

- *Shelf Registration of P60,000 Million worth of Fixed Rate Peso-denominated Bonds by San Miguel Corporation (SMC) and Issuance of P30,000 Million Bonds*

  On February 9, 2017, the Philippine Securities and Exchange Commission (SEC) approved the shelf registration of up to P60,000 million worth of Fixed Rate Bonds of SMC, and issued the corresponding Permit to Sell for the first tranche consisting of P15,000 million Fixed Rate Bonds with an Oversubscription Option of P5,000 million Fixed Rate Bonds (collectively, the Bonds).

  The Bonds were issued and listed in the Philippine Dealing & Exchange Corp. (PDEx) on March 1, 2017. The Bonds comprised of five-year Series A Bonds due 2022, seven-year Series B Bonds due 2024, and 10-year Series C Bonds due 2027.

  The Series A, Series B and Series C Bonds have fixed interest rate per annum equivalent to 4.8243%, 5.2840% and 5.7613%, respectively.

  Proceeds from the issuance were used by SMC to partially pay the P25,000 million bridge short-term loan which was availed to partially redenominate the United States dollar (US$)500 million out of the US$1,500 million long-term debt of SMC.

  On March 13, 2017, SMC filed with the SEC the Registration Statement and Offer Supplement for the offer of its second tranche of up to P10,000 million Fixed Rate

Bonds with an oversubscription option of up to P5,000 million Fixed Rate Bonds (the Offer Bonds) under its P60,000 million Shelf Registration.

SMC issued and listed the P10,000 million Bonds in the PDEx on April 7, 2017. The Bonds comprised of five-year Series D Bonds due 2022 with a fixed interest rate per annum equivalent to 5.1923%.

Proceeds from the issuance were used by SMC to refinance the US$200 million short-term bridge loan used to partially redenominate the US$200 million obligation, under the US$300 million Facility Agreement with the final repayment date on November 22, 2017.

This redenomination was executed to eliminate the exposure of SMC to changes in the peso-dollar exchange rates.

- *Payment of the US$500 Million out of the US$700 Million Five-Year Term Loan by SMC Global Power Holdings Corp. (SMC Global)*

  On March 31, 2017, SMC Global paid US$200 million out of the US$700 million five-year term loan drawn in 2013 and 2015 to refinance existing indebtedness and to fund the ongoing construction of power plants in Malita, Davao and Limay, Bataan investments in power-related assets, and for general corporate purposes.

  The payment was funded by the US$200 million short-term bridge financing loan availed on March 30, 2017. The refinancing lowered the interest margin from 1.9% to 1%.

  On April 26, 2017, SMC Global availed of a P15,000 million fixed-rate, seven-year term loan to fund the payment of additional US$300 million out of the US$700 million loan.

  The US$700 million loan of SMC Global was partly refinanced with a peso-denominated loan to minimize the Group's exposure to foreign exchange losses brought about by the continuing Philippine peso depreciation against the US dollar.

- *Availment of P42,000 Million Term Loan by SMC Consolidated Power Corporation (SCPC)*

  On May 8, 2017, SCPC availed of a US$360 million short-term bridge financing loan to fund the full payment on May 9, 2017 of the US$359 million loan drawn in 2016 from its US$400 million seven-year term loan facility to finance the ongoing construction of the power plant in Limay, Bataan.

  On June 28, 2017, SCPC availed of a P42,000 million 12 year term - loan. Proceeds from the loan were used for the settlement of the US$360 million short-term bridge financing loan and the acquisition of the 300 Megawatt Power Plant Project in Limay, Bataan from Limay Premiere Power Corp. (LPPC), also a wholly-owned subsidiary of SMC Global.

- *Availment of US$600 Million Term Loan by Petron Corporation (Petron)*

On June 28, 2017, Petron drew US$600 million from the US$1,000 million term loan facility which was signed and executed on June 16, 2017. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a spread. The proceeds were used to fully pay the outstanding balances of US$115 million and US$470 million under the US$475 million and US$550 million term loan facilities, respectively.

The previous loans were prepaid to benefit from the lower interest rate of the new facility.

- **Payment of Long-term Debt by San Miguel Brewery Inc. (SMB)**

On April 3, 2017, SMB completed the payment of the P3,000 million Series “D” fixed rate bonds. The Series D bonds was part of the P20,000 million Series “D, E and F” fixed rate bonds issued by SMB in 2012. The payment was funded by cash generated from operations of SMB.

II. FINANCIAL PERFORMANCE

2017 vs. 2016

The Group’s consolidated sales revenue for the first semester of 2017 amounted to P393,398 million, 20% higher than 2016. This was due to sustained double digit revenue growth of Petron, the Infrastructure and Beverage businesses. Petron, helped by higher crude oil prices, had a 28% increase in revenue compared to last year. The sales performance of the Beverage business, on the other hand, improved further with domestic beer volume delivering 10% growth.

Consolidated operating income reached P52,163 million, 10% higher than last year. In addition to the higher sales sustained by most of the businesses which resulted to improved margins, fixed costs were also better managed throughout the Group.

The higher interest expense was mainly due to the outright recognition of expense for the unamortized debt issue costs of the pre-terminated foreign currency denominated long-term debt of SCPC and Petron in June 2017 and higher average borrowing level and rate of Petron.

The increase in interest income was primarily due to higher average cash in bank balance of SMC in 2017, particularly the US dollar-denominated placements. The increase in cash in bank balance came from the proceeds on the sale of investment in shares of stock of Vega Telecom, Inc. (Vega).

The increase in equity in net earnings in 2017 primarily represents the share of SMC Global in the lower net loss of Angat Hydropower Corporation.

The gain on sale of investments and property and equipment in 2017 pertains to the sale of service stations by Petron Malaysia to Mass Rapid Transit Corporation Sdn Bhd. Certain service stations of Petron Malaysia were closed since the lot they are occupying will be used for the Metro Rapid Transit project of Malaysia.

The increase in other charges was primarily due to the recognition of foreign exchange loss in 2017 as a result of the depreciation of the Philippine peso against the US dollar by P0.75 in June 2017. This pertains mainly to the loss on the revaluation of foreign currency denominated: (a) loans payable and long-term debt of SMC, SMC Global and Petron; and (b) finance lease liabilities of SMC Global. The loss was partially offset by the foreign exchange gain on the foreign currency-denominated cash in bank of SMC and SMC Global.

The foreign exchange loss in June 2017 was also partly offset by the gain on derivatives which primarily pertains to the gain on commodity hedging of Petron.

The higher income tax expense was mainly due to increase in taxable net income of SMB and San Miguel Yamamura Packaging Corporation (SMYPC) and the cessation of the income tax holiday of South Luzon Tollway Corporation (SLTC) in December 2016.

Consolidated net income amounted to P25,761 million in 2017.

Excluding the effect of foreign exchange translation and the income from discontinued operations in 2016, net income for the period ended June 30, 2017 at P27,935 million was 25% higher than the comparable 2016 net income of P22,311 million.

Share of non-controlling interests (NCI) on the Group's net income decreased in 2017 as a result of a higher reported net income in 2016 due to the effect of foreign exchange translation and income from discontinued operations.

2016 vs. 2015

As a result of completion of the sale of Vega and subsidiaries on May 30, 2016, the line by line consolidation of Vega and subsidiaries were excluded in the consolidated statements of income for the periods ended June 30, 2016 and 2015, and presented under “Income after income tax from discontinued operations.”

The consolidated sales revenue of the Group for the first semester of 2016 amounted to P329,162 million. This is slightly lower than 2015. Most businesses increased their revenues but the decline in oil prices lowered Petron revenues offsetting the increases.

The Group’s consolidated operating income reached P47,217 million, 19% higher than 2015. This is a result of Petron’s improved refinery margins, the Infrastructure business’ full semester contribution, core Beverage, Food and Packaging business’ double digit income growth as well as the Energy business improved income performance.

The higher interest expense was mainly due to the absence of capitalized interest of Petron in 2016 and the six month-period balance contribution of Atlantic Aurum Investments B.V. and subsidiaries (AAIBV Group) compared to four months in 2015.

The decrease in interest income was mainly due to lower average balance of money market placements of SMC, SMC Global and Petron in June 2016 compared to the same period in 2015, net of the higher interest income of the Infra Group due to six month-period balance contribution of AAIBV Group compared to four months in 2015.

The decrease in equity in net earnings in 2016 primarily represents the share of San Miguel Properties, Inc. (SMPI) in the lower net income of Bank of Commerce. The Group recognized P137 million as its share in the net income of AAIBV Group from January 1 to March 5, 2015, prior to consolidation.

Other charges primarily consist of the net loss on derivatives from currency hedging of Petron, partly offset by the gain on foreign exchange. The gain on foreign exchange in 2016, consists of translation of the foreign currency-denominated cash and cash equivalents and the foreign exchange gain realized from the payment US$170 million long-term debt in April 2016 of SMC. The appreciation of Malaysian Ringgit against the US dollar in June 2016 resulted to the gain on foreign exchange from the importation of crude oil and petroleum products of Petron Malaysia.

The higher income tax expense was primarily due to: (a) increase in taxable net income of Petron, SMC Global and San Miguel Foods, Inc.; (b) recognition of deferred income tax on the temporary difference of the net book value of leased assets against the carrying amount of finance lease liabilities of SMC Global; (c) recognition of income tax on the dividend income from foreign subsidiaries of Petron; and (d) six month-period balance contribution of AAIBV Group compared to four months in 2015. However, this was tempered by the recognition by Petron of income tax holiday from the Refinery Master Plan Phase 2 (RMP – 2).

Income from discontinued operations amounting to P12,248 million represents recovery of previous costs, losses, interest expense, and provisions pertaining to the sale of the Telecommunications business.

Consolidated net income amounted to P35,181 million, more than double the 2015 level.

The share of NCI on the Group's net income increased in 2016 mainly due to the increase in share in the net income of the holders of undated subordinated capital securities of SMC Global due to additional issuance in August 2015, the increase in share of NCI due to higher net income of SMC, SMB and Petron in 2016 and the higher share of NCI in the net income of Citra Metro Manila Tollways Corporation (CMMTC) and SLTC, which were consolidated to the Group starting March 5, 2015.

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

1. BEVERAGE

<u>2017 vs. 2016</u>

a. San Miguel Brewery Inc.

SMB grew both revenues and operating income by 12% to P53,060 million and P14,040 million, respectively, in the first semester of 2017.

The Domestic operations posted P47,148 million in revenues, 13% higher than last year. This was driven by a 10% increase in beer volumes.

The International operations contributed 12.8 million cases, a 5% decline from last year, as threat for total alcohol ban in Indonesia has depressed sales. Despite lower volumes, San Miguel Brewing International Ltd. managed to register operating income growth, with most units providing profitability improvements.

b. Ginebra San Miguel Inc. (GSMI)

GSMI sold 13.6 million cases in the first six months of 2017, a 19% growth from last year. Flagship Ginebra San Miguel sustained growth momentum posting 21% increase versus last year.

The strong volume performance helped by the price increase implementation in April 2017, resulted to June 30, 2017 sales revenue of P10,124 million, 20% higher than last year. Likewise, operating income at P594 million was 44% better than last year.

<u>2016 vs. 2015</u>

a. San Miguel Brewery Inc.

SMB registered consolidated sales revenues of P47,396 million, 19% higher than 2015, driven by higher domestic sales volumes.

The Domestic operations sold 101.3 million cases, 17% higher than 2015, despite the price increase implemented on April 1, 2016. This is due to the increased consumption of SMB Brands with the favorable economic environment as well as with the effective implementation of new campaigns, consumer and trade programs. Corresponding domestic revenues posted a 21% growth from 2015 to reach P41,668 million.

The International operations, on the other hand, contributed 13.6 million cases equivalent to P5,728 million revenue during the first semester of 2015. This is 7% higher than 2015, with the increase coming mainly from Indonesia.

With higher sales, SMB's consolidated operating income reached P12,574 million, 16% higher than 2015.

b. Ginebra San Miguel Inc.

GSMI continued to do very well, first semester 2016 sales revenues increased by 13% from last year to P8,414 million. This is on the back of a 12% volume growth in hard liquor reaching 11.4 million cases, fueled by strong sales of core brands Ginebra San Miguel and Vino Kulafu.

The corresponding operating income grew 68% to about P414 million.

2. FOOD

<u>2017 vs. 2016</u>

Consolidated revenue of San Miguel Pure Foods Company Inc. (SMPFC) rose 5% to P55,947 million due to higher volumes and favorable selling prices of Poultry, Fresh Meats, and Value-added Meats businesses.

Agro-industrial cluster revenue grew by 6%, led by a 9% increase in Poultry and Fresh Meats business. This came mostly from the 6% growth in chicken volume during the second quarter. Also, the first quarter favorable prices improved further during the second quarter.

Milling business, on the other hand, remained challenged by the softening of global wheat prices and industry competition.

Branded Value-Added cluster delivered a 4% increase in revenue. This was mainly driven by sustained growth in volume of processed meats. Dairy, Spreads and Biscuits segment posted a modest revenue increase of 1%, despite lower volume, due to price increases implemented to partly cover the rising raw materials' costs.

SMPFC's consolidated operating income for the first semester of 2017 amounted to P4,460 million, 24% higher compared to last year's results. The strong result was attributable to the income performance of Agro-industrial cluster, particularly with Poultry and Meat's favorable selling prices and lower cost of some major raw materials. Processed Meats business also contributed to the improved income performance.

2016 vs. 2015

SMPFC and its subsidiaries achieved a 5% growth in consolidated sales revenue reaching P53,154 million for the first semester of 2016. Just like in the first quarter, this was driven by the good performance of its major businesses, Agro-industrial and Branded Value-added businesses.

Agro-industrial cluster posted a revenue growth of 8% coming from its Poultry and Feeds businesses. Poultry and Meats revenue went up by 9% due to higher volumes and prices of chicken, tempered by lower pork prices due to the influx of lower-priced imported meats.

Branded Value-added cluster contributed revenue of P12,147 million, 8% higher than 2015. Still, this is a result of combined strong brand leadership in the market of Pure Foods and Magnolia thru their product expansion, effective marketing campaigns and better sales mix strategy.

SMPFC's consolidated operating income amounted to P3,602 million, 31% higher than 2015. In addition to revenue increases, operation efficiencies on its major business segments and lower prices of key raw materials also helped improved SMPFC's income performance.

3. PACKAGING

2017 vs. 2016

The San Miguel Yamamura Packaging Group (SMYPG) registered revenues of P14,028 million and operating income of P1,404 million for the first semester of 2017. These were higher from the same period last year by 4% and 6%, respectively. The improved performance was attributed to improved sales from the Plastics and Metal businesses and higher contribution of the Australian operations.

2016 vs. 2015

SMYPG's sales revenues for the first semester of 2016 amounted to P13,511 million, 12% higher than 2015. Glass business with revenue increasing by 14% versus June 2015 remained the major contributor. It is worthy to note, however, that the increased sales performance of Australian operations and Metal business was sustained in 2016.

The corresponding operating income increased by 21% to P1,331 million.

4. ENERGY

2017 vs. 2016

SMC Global's off take volume for the first semester of 2017 was 8.4 million megawatt hours (MWh), 9% lower than 2016, mainly due to lower bilateral volumes caused by the maintenance shutdown of Ilijan Power Plant and Malampaya gas facility during the first quarter, coupled with the shutdown of Sual Unit 2 due to transformer failure on June 14, 2017 and shutdown of Ilijan Block 2 from April 9 to 17, 2017 after a series of earthquakes in Batangas.

As a result, consolidated net revenue slightly decreased to P40,697 million. The drop in volumes was partly offset by higher average bilateral realization prices. Rate adjustments due to changes in pass-through fuel costs, particularly of coal, contributed to the increase in the average bilateral price.

Corresponding consolidated operating income reached P13,315 million.

2016 vs. 2015

SMC Global's off take volume for the first semester of 2016 was 9.3 million MWh, 14% higher than 2015. This is a result of Sual and Ilijan's continued higher bilateral volumes coupled with San Roque's higher plant dispatch because of better water inflow.

The resulting Energy group's consolidated net revenue, however, increased only by 2% to P41,072 million, with lower average realization prices for both spot sales and bilateral customers.

The Energy business' corresponding operating income reached P15,741 million, 15% higher than 2015.

5. FUEL AND OIL

2017 vs. 2016

Petron posted a 56% improvement in net income at P8,214 million for the first semester of 2017, the result of Petron's deliberate focus on more profitable segments and improved refinery production yields.

Consolidated volumes during the period reached almost 53 million barrels, slightly higher than last year's level due to the growth in Malaysian volume. In the Philippines, the focus to sell more profitable products was exhibited by higher gasoline, petrochemicals, kero/jet and lubes sales, offset by the reduction in diesel and industrial fuel oil. Meanwhile, the 7% growth in Malaysian volume primarily came from gasoline, kero/jet and diesel sales contributed by Industrial and Retail trades.

Revenues at P206,958 million was 28% ahead of last year. This was a result of higher selling prices as benchmark crude averaged at US$51.4 per barrel, compared to last year's average of US$36.8 per barrel. Operating income also improved compared to 2016, increasing by 27% to P14,555 million.

2016 vs. 2015

Petron continued its strong performance, posting a consolidated net income of P5,279 million in the first half of 2016. This represents 55% income growth from 2015, attributed to increase in sales volumes supported by its aggressive network expansion, improved production and cost efficiencies, and a deeper focus on customer programs.

Consolidated sales volumes increased by 10% to 52.6 million barrels in the first six months of 2016. Petron saw robust growth across its major businesses namely Retail, Industrial, Liquefied Petroleum Gas (LPG) and Lubricants in both countries. Philippine sales volume grew 10% to 33.6 million barrels, remaining the undisputed leader in retail through the aggressive network expansion and posting double digit growth during the period in its Industrial, Lubricants and LPG businesses. Malaysia sales, on the other hand, spurred volumes by 8% to 19 million barrels as more focused customer programs grew preference and confidence in Petron Malaysia's products and services.

The prolonged slump in oil prices, with Dubai crude averaging US$36.80 per barrel in the first half of 2016 compared to US$56.59 per barrel in 2015, led to Petron revenues declining by 13% to P161,863 million for the first half of 2016. The decrease in prices coupled with reduced product "cracks" was however offset by the improved refinery margins resulting from the Bataan Refinery upgrade which has substantially increased the production of high margin products. Operating income increased by 29% to reach P11,479 million during the first semester of 2016.

6. INFRASTRUCTURE

2017 vs. 2016

The Infrastructure group continued to grow as the revenues for the first half of 2017 reached P10,895 million, 11% higher than 2016. This was the result of higher traffic volumes from most of the toll ways with Metro Manila Skyway (Skyway) and South Luzon Expressway (SLEX) increasing by 6% and 7%, respectively. Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) and Ninoy Aquino International Airport Expressway (NAIA Expressway) also contributed incremental volumes from the full year operations of the recently opened segments.

Consequently, operating income rose to P5,245 million.

2016 vs. 2015

The Infrastructure business, mainly composed of Skyway and SLEX operations, contributed P9,779 million in revenues and P5,035 million in operating income, registering growth of 14% and 9%, respectively, on a full semester comparison. The increase in revenues was driven by higher traffic from Skyway, SLEX, Southern Tagalog Arterial Road, and full semester operations of Sections 1 and 2 for TPLEX.

III. FINANCIAL POSITION

2017 vs. 2016

Consolidated total assets as of June 30, 2017 amounted to P1,469,216 million, P42,430 million higher than December 31, 2016. The increase was primarily due to the increase in cash and cash equivalents, property, plant and equipment and other noncurrent assets. The increase in property, plant and equipment was due to the capital expenditures incurred in 2017 by SMC Global for the on-going construction of the new power plants in Davao and Bataan, and SMPFC for their expansion projects.

The increase in cash and cash equivalents by P36,812 million was mainly due to the: (a) proceeds from the 12-year term loan availed by SCPC on June 28, 2017 which was partly used to pay the US$360 million bridge loan availed in May 2017; and (b) receipt on May 30, 2017 of the remaining 25% balance of the proceeds from the sale of the investment in shares of stock of Vega to Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe).

The decrease in trade and other receivables by P11,906 million was mainly due to the collection of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega.

The increase in biological assets by P448 million was mainly due to higher volume of live broilers grown and poultry breeder stocks to support the anticipated demand requirements in 2017.

The increase in other noncurrent assets by P5,695 million was mainly due to the:
(a) capitalized project costs incurred for the Metro Rail Transit Line 7 (MRT 7) Project and increase in noncurrent portion of the subsidy receivable from the Department of Public Works and Highways for the construction costs incurred in Section 3A-2 (Binalonan to Pozzorubio) of the TPLEX Project; and (b) additional noncurrent prepaid input Value-added Tax (VAT) on the sale of the 300 Megawatt Coal-Fired Power Plant in Limay, Bataan to SCPC from LPPC.

Dividends payable decreased by P631 million mainly due to the payment in 2017 of the cash dividends payable to non-controlling stockholders of CMMTC and San Miguel Yamamura Asia Corporation outstanding as of December 31, 2016.

The increase in long-term debt was mainly due to the issuance by SMC of fixed rate peso-denominated bonds on March 1 and April 7, 2017 and the availment of the 12-year term loan by SCPC on June 28, 2017, net of payments made by SMC Global, the Infrastructure Group, SMB - Series D Bonds and Petron of their maturing long-term debt.

Deferred tax liabilities increased by P2,292 million mainly due to the: (1) temporary differences arising from the: (a) different method of depreciation used for tax reporting and financial accounting for power plant acquired by Petron in December 2016 and RMP-2, and (b) actual monthly payments to Power Sector Assets and Liabilities Management Corporation over the finance lease liability-related expenses for the period by South Premiere Power Corp. and Strategic Power Devt. Corp. and (2) the decrease in deferred tax assets caused by the realized foreign exchange loss of Petron from the pre-termination of its foreign currency-denominated long-term debt.

The increase in other noncurrent liabilities was mainly due to the retention payable to the contractors of MRT 7 and Bulacan Bulk Water Projects and additional provision for toll road repairs and maintenance; increase in LPG cylinder deposits, accrual of retirement cost and accretion of interest on asset retirement obligation of Petron; and the recognition of accretion expense and forex loss on the noncurrent liability to the Privatization Management Office by Philnico Industrial Corp.

Equity reserves increased by P445 million mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

Non-controlling interests increased by P9,460 million mainly due to the share of non-controlling stockholders in the net income of SMC, SMB, Petron, SMPFC and Infra, net of dividends declared to the non-controlling stockholders of SMB, Petron, SMPFC and SLTC.

<u>2016 vs. 2015</u>

The Group's consolidated total assets as of June 30, 2016 amounted to P1,397,148 million, P27,483 million higher than 2015. The increase was primarily due to the higher balance of cash and cash equivalents, coming from the net proceeds of the issuance of Series "2 - G, H and I" Preferred Shares of SMC and the recognition of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Cash and cash equivalents increased by P8,866 million mainly due to the net proceeds from the: (a) issuance of Series "2 - G, H and I" Preferred Shares of SMC and (b) 50% down payment on the proceeds from the sale of investment in shares of stock of Vega and assignment of Telco receivables, net of the payment of: (a) long-term debt of SMC; (b) loans payable of Petron and SMPI; and (c) dividends and distributions.

Trade and other receivables increased by P23,791 million primarily due to the receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega and the assignment of the receivables from Vega and its subsidiaries.

Inventories increased by P12,403 million mainly due to: (a) higher price and volume of crude and finished products of Petron; (b) importation of certain major raw materials by SMPFC, usage of which will commence in the third quarter of 2016; (c) higher volume of banker fuel oil importation by SL Harbour Bulk Terminal Corporation (SLHBTC); and (d) purposive build-up of molasses by GSMI.

Biological assets increased by P236 million, mainly due to higher marketable hog cost.

Investments and advances decreased by P1,986 million in 2016 mainly due to reclassification to investment in subsidiaries of the advances for the acquisition of: (a) the shares of stock of E-Fare Investment Holdings, Inc. (E-Fare) and (b) 49% non-controlling interest in Universal LRT Corporation (BVI) Limited (ULC BVI).

Investment property increased by P1,599 million mainly due to the consolidation of E-fare's balance.

Other intangible assets decreased by P19,289 million primarily due to the deconsolidation of licenses attributed to the subsidiaries of Vega, net of the recognition of additional concession rights for the various infrastructure projects, such as: Skyway Stage 3, TPLEX, NAIA Expressway, Boracay Airport and Manila North Harbor Development Program.

Deferred tax assets increased by P1,086 million mainly due to the recognition by SMC of deferred tax asset on the net operating loss carry over.

Other noncurrent assets increased by P4,387 million mainly due to the down payment for the engineering procurement and construction contract for MRT 7 Project.

The increase in loans payable of P7,588 million was mainly due to the reclassification of the US$125 million loan of the Parent Company from current maturities of long-term debt.

The increase in income and other taxes payable of P1,447 million was mainly due to higher income tax and VAT payable attributable to the increase in net sales and service revenue of SLHBTC.

Dividends payable increased by P1,726 million mainly due to the dividend declared by SMC to its preferred stockholders owning Series 1 and Series 2 – B, C, D, E, F, G, H and I, on May 12, 2016, which was subsequently paid on July 6, 2016. SMC has no outstanding dividend payable to its preferred stockholders as of December 31, 2015.

The decrease in long-term debt was mainly due to payments made by the Parent Company, SMC, Infrastructure Group, Petron, SMC PowerGen Inc. and SMYPC of their maturing long-term debt; redemption of the US$300 million bonds of SMC Global which matured in January 2016 and the reclassification to loans payable of the US$125 million loan of the Parent Company from current maturities of long-term debt. This was partly offset by the availments used to finance the following projects: (a) SCPC to finance the construction of the 300 Megawatt Limay Power Plant (Phase I) in Bataan, and (b) Vertex Tollways Devt. Inc. for the construction of the NAIA Expressway Project.

The decrease in finance lease liabilities was mainly due to payments of P11,856 million, net of interest.

Other noncurrent liabilities decreased by P8,149 million mainly due to the deconsolidation of Vega's balance, as a result of the sale of the investment.

The increase in equity was primarily due to the issuance by the Parent Company of convertible perpetual securities with an aggregate face value amount of P25,883 million to Bryce Canyon Investments Limited on June 30, 2016 and the net income attributable to the equity holders of the Parent Company in 2016.

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 on March 30, 2016 and share of NCI in the net income of the Group, net of dividends declared.

Equity

The increase in equity is due to:

(In millions)	June 30	
	2017	2016
Income during the period	**P25,761**	P35,181
Other comprehensive income	**1,982**	56
Addition to non-controlling interests and others	**120**	26,931
Issuance of convertible perpetual securities	**-**	25,162
Cash dividends and distributions	**(12,328)**	(11,727)
	P15,535	P75,603

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	June 30	
	2017	2016
Net cash flows provided by operating activities	**P48,390**	P29,844
Net cash flows used in investing activities	**(15,548)**	(9,151)
Net cash flows provided by (used in) financing activities	**3,055**	(12,187)

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

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

(In millions)	June 30	
	2017	2016
Additions to property, plant and equipment	**(P18,408)**	(P19,349)
Increase in other noncurrent assets and others	**(10,509)**	(13,845)
Acquisition of subsidiaries, net of cash and cash equivalents acquired from business combinations	**(1,203)**	(1,724)
Additions to investments and advances and available-for-sale financial assets	**(998)**	(539)
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	**13,020**	24,154
Interest received	**1,896**	1,827
Proceeds from sale of investments and property and equipment	**645**	136

Major components of net cash flows provided by (used in) financing activities included the following:

(In millions)	**June 30**	
	2017	2016
Proceeds from (payments of) long-term debt - net	**P33,832**	(P43,890)
Payment of cash dividends and distributions	**(12,959)**	(10,002)
Payment of finance lease liabilities	**(12,363)**	(11,855)
Proceeds from (payment of) short-term loans - net	**(5,574)**	1,582
Proceeds from issuance of convertible perpetual securities - net	**-**	25,162
Proceeds from reissuance of treasury shares of a subsidiary - net	**-**	29,722

The effect of exchange rate changes on cash and cash equivalents amounted to P915 million and P360 million for the periods ended June 30, 2017 and 2016, respectively.

V. KEY PERFORMANCE INDICATORS

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

	June 2017	December 2016
Liquidity:		
Current Ratio	**1.25**	1.18
Solvency:		
Debt to Equity Ratio	**2.06**	2.08
Asset to Equity Ratio	**3.06**	3.08
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**2.81%**	10.68%
Interest Rate Coverage Ratio	**3.23**	3.05

	Periods Ended June 30	
	2017	2016
Operating Efficiency:		
Volume Growth	**2%**	11%
Revenue Growth	**20%**	(1%)
Operating Margin	**13%**	14%

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	$\dfrac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
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*