

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
Sep 30, 2018
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 J. Puyat Ave., Makati City
Postal Code
1200
8. Issuer's telephone number, including area code
(02) 6323673
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 Shares	332,886,167
Total Liabilities in Millions (as of 30 Sept 2018)	1,247,763

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

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



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	Sep 30, 2018
Currency (indicate units, if applicable)	Php (Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2018	Dec 31, 2017
Current Assets	568,876	502,364
Total Assets	1,750,225	1,496,799
Current Liabilities	467,285	384,905
Total Liabilities	1,247,763	998,770
Retained Earnings/(Deficit)	77,100	72,216
Stockholders' Equity	502,462	498,029
Stockholders' Equity - Parent	138,378	135,634
Book Value per Share	329.54	324.9

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	262,169	203,583	761,155	596,981
Gross Expense	231,799	174,909	665,108	516,144
Non-Operating Income	1,892	1,629	5,219	4,239
Non-Operating Expense	14,037	9,508	46,599	27,271
Income/(Loss) Before Tax	18,225	20,795	54,667	57,805
Income Tax Expense	5,135	6,810	16,922	18,059
Net Income/(Loss) After Tax	13,090	13,985	37,745	39,746
Net Income Attributable to Parent Equity Holder	2,373	2,846	5,573	8,476
Earnings/(Loss) Per Share (Basic)	5.96	7.39	13.2	21.99
Earnings/(Loss) Per Share (Diluted)	5.96	7.39	13.2	21.99

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	23.6	19.16
Earnings/(Loss) Per Share (Diluted)	23.6	19.16

Other Relevant Information

Please see attached SEC Form 17-Q Financial Report of Top Frontier Investment Holdings, Inc. for the 3rd Quarter of 2018, as filed with the Securities and Exchange Commission on November 14, 2018.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary



111142018000897

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

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

Document Information

Document ID 111142018000897
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code 17-Q
Period Covered September 30, 2018
No. of Days Late 0
Department CFD
Remarks

COVER SHEET

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S. E. C. Registration Number

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I	N	C	.																

(Company's Full Name)

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3	9	9		S	e	n	.		G	i	l		P	u	y	a	t		
A	v	e	.	,		M	a	k	a	t	i		C	i	t	y			

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

Virgilio S. Jacinto
Contact Person

(02) 632-3144
Company Telephone Number

1	2
Month	Day

3	1
Fiscal Year	Day

SEC Form 17-Q (3rd Quarter 2018) FORM TYPE
--

0	7
Month	Day

0	9
Annual Meeting	Day

--

Secondary License Type, If Applicable

Dept. Requiring this Doc.		

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number									

_____ LCU

Document I. D.									

_____ Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2018**
2. SEC Identification Number **CS200803939** 3. BIR Tax Identification No. **006-990-128**
4. **TOP FRONTIER INVESTMENT HOLDINGS, INC.**
Exact name of issuer as specified in its charter
5. **Philippines**
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City** **1200**
Address of issuer's principal office Postal Code
8. **(02) 632-3673**
Issuer's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding (as of September 30, 2018)
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Common Shares	332,886,167*
----------------------	---------------------

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

Total Liabilities	P1,247,763 million
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11. Are any or all of the securities listed on a Stock Exchange?

Yes [☒] No [☐]

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

Philippine Stock Exchange	Common Shares
----------------------------------	----------------------

12. Indicate by check mark whether the registrant:

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

Yes [☒] No [☐]

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

Yes [☒] No [☐]

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2018 (with comparative figures as of December 31, 2017 and for the period ended September 30, 2017) 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 November 14, 2018

Signature and Title 
BELLA O. NAVARRA
Chief Finance Officer/Authorized Signatory

Date November 14, 2018

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND DECEMBER 31, 2017
(In Millions)

ANNEX "A"

ASSETS

LIABILITIES AND EQUITY

	2018 Unaudited	2017 Audited
Current Assets		
Cash and cash equivalents (Notes 2, 9 and 10)	P 207,593	P 206,556
Trade and other receivables - net (Notes 2, 5, 9 and 10)	126,959	111,370
Inventories (Note 2)	139,134	102,581
Current portion of biological assets - net	4,147	3,422
Prepaid expenses and other current assets (Notes 2, 9 and 10)	91,043	78,435
Total Current Assets	568,876	502,364
Noncurrent Assets		
Investments and advances - net	52,706	35,768
Financial assets at fair value through other comprehensive income (Notes 9 and 10)	6,016	5,922
Property, plant and equipment - net (Notes 2 and 6)	660,139	582,566
Investment property - net	12,171	9,048
Biological assets - net of current portion	2,866	2,695
Goodwill - net (Note 2)	120,839	50,429
Other intangible assets - net (Note 2)	248,377	241,469
Deferred tax assets	20,901	18,866
Other noncurrent assets - net (Notes 2, 5, 9 and 10)	57,334	47,672
Total Noncurrent Assets	1,181,349	994,435
	P 1,750,225	P 1,496,799

Current Liabilities

Loans payable (Notes 2, 5, 9 and 10)	P 188,351	P 158,064
Accounts payable and accrued expenses (Notes 2, 5, 9 and 10)	174,734	149,226
Finance lease liabilities - current portion (Notes 2, 9 and 10)	22,374	20,010
Income and other taxes payable (Note 2)	17,931	16,669
Dividends payable	3,477	3,878
Current maturities of long-term debt - net of debt issue costs (Notes 2, 5, 9 and 10)	60,418	37,058
Total Current Liabilities	467,285	384,905

Noncurrent Liabilities

Long-term debt - net of current maturities and debt issue costs (Notes 2, 5, 9 and 10)	537,333	362,653
Deferred tax liabilities (Note 2)	62,976	62,874
Finance lease liabilities - net of current portion (Notes 2, 9 and 10)	137,686	148,378
Other noncurrent liabilities (Notes 2, 5, 9 and 10)	42,483	39,960
Total Noncurrent Liabilities	780,478	613,865

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	(8,351)	(6,211)
Retained earnings:		
Appropriated	27,224	25,742
Unappropriated	49,876	46,474
Treasury stock	(76,780)	(76,780)
	138,378	135,634
	364,084	362,395
Total Equity	502,462	498,029

Non-controlling Interests (Note 2)

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Financial Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(In Millions, Except Per Share Data)

	2018	2017	For the Quarter Ended	
	Unaudited	Unaudited	2018	2017
			Unaudited	Unaudited
SALES (Note 3)	P 761,155	P 596,981	P 262,169	P 203,583
COST OF SALES	<u>605,005</u>	<u>463,423</u>	<u>211,254</u>	<u>157,599</u>
GROSS PROFIT	156,150	133,558	50,915	45,984
SELLING AND ADMINISTRATIVE EXPENSES	(60,103)	(52,721)	(20,545)	(17,310)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(29,848)	(24,483)	(11,090)	(7,914)
INTEREST INCOME	4,927	3,274	1,847	1,224
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	(11)	267	79	103
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	303	698	(34)	302
OTHER CHARGES - Net (Note 4)	<u>(16,751)</u>	<u>(2,788)</u>	<u>(2,947)</u>	<u>(1,594)</u>
INCOME BEFORE INCOME TAX	54,667	57,805	18,225	20,795
INCOME TAX EXPENSE	<u>16,922</u>	<u>18,059</u>	<u>5,135</u>	<u>6,810</u>
NET INCOME	<u>P 37,745</u>	<u>P 39,746</u>	<u>P 13,090</u>	<u>P 13,985</u>
Attributable to:				
Equity holders of the Parent Company	P 5,573	P 8,476	P 2,373	P 2,846
Non-controlling interests	<u>32,172</u>	<u>31,270</u>	<u>10,717</u>	<u>11,139</u>
	<u>P 37,745</u>	<u>P 39,746</u>	<u>P 13,090</u>	<u>P 13,985</u>
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 7):	P 13.20	P 21.99	P 5.96	P 7.39

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(In Millions)

	2018	2017	For the Quarter Ended	
	Unaudited	Unaudited	2018	2017
			Unaudited	Unaudited
NET INCOME	P 37,745	P 39,746	P 13,090	P 13,985
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	37	(20)	2	(30)
INCOME TAX EXPENSE	(8)	-	(1)	-
NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	86	-	45	-
INCOME TAX EXPENSE	(5)	-	(4)	-
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	(29)	126	90	50
	<u>81</u>	<u>106</u>	<u>132</u>	<u>20</u>
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	3,321	2,543	(555)	673
NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(18)	-	(12)	-
INCOME TAX BENEFIT	5	-	3	-
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	12	-	(17)
INCOME TAX BENEFIT (EXPENSE)	-	(1)	-	2
NET LOSS ON CASH FLOW HEDGES	(417)	-	(417)	-
INCOME TAX BENEFIT	122	-	122	-
	<u>3,013</u>	<u>2,554</u>	<u>(859)</u>	<u>658</u>
OTHER COMPREHENSIVE INCOME (LOSS)- Net of tax	<u>3,094</u>	<u>2,660</u>	<u>(727)</u>	<u>678</u>
TOTAL COMPREHENSIVE INCOME - Net of tax	<u><u>P 40,839</u></u>	<u><u>P 42,406</u></u>	<u><u>P 12,363</u></u>	<u><u>P 14,663</u></u>
Attributable to:				
Equity holders of the Parent Company	P 6,185	P 8,997	P 2,059	P 2,922
Non-controlling interests	34,654	33,409	10,304	11,741
	<u><u>P 40,839</u></u>	<u><u>P 42,406</u></u>	<u><u>P 12,363</u></u>	<u><u>P 14,663</u></u>

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(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	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred																			
As of January 1, 2018, As previously reported (Audited)	P	490	P	260	P	120,501	P	25,158	P	(1,685)	P	-	P	1,226	P	(1,693)	P	(4,059)	P	25,742	P	46,474	P	(28,457)	P	(48,323)	P	135,634	P	362,395	P	498,029
Adjustments due to Philippine Financial Reporting Standards (PFRS) 9 and 15 (Note 1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	-	-	-	-	-	13	-	65	-	78	
As of January 1, 2018, As adjusted	490	260	120,501	25,158	(1,685)	-	1,226	(1,693)	(4,059)	25,742	46,487	(28,457)	(48,323)	135,647	362,460	498,107																
Net income	-	-	-	-	-	-	-	-	-	-	5,573	-	-	5,573	32,172	37,745																
Other comprehensive income (loss)	-	-	-	-	5	(188)	12	783	-	-	-	-	-	612	2,482	3,094																
Total comprehensive income (loss)	-	-	-	-	5	(188)	12	783	-	-	5,573	-	-	6,185	34,654	40,839																
Net addition (reduction) to non-controlling interests and others (Note 2)	-	-	-	-	(1)	-	-	19	(2,770)	-	(702)	-	-	(3,454)	(11,110)	(14,564)																
Appropriations - net	-	-	-	-	-	-	-	-	-	1,482	(1,482)	-	-	-	-	-																
Cash dividends (Note 8):	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,967)	(8,967)																
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,769)	(6,769)																
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,184)	(6,184)																
As of September 30, 2018 (Unaudited)	P	490	P	260	P	120,501	P	25,158	P	(1,681)	P	(188)	P	1,238	P	(891)	P	(6,829)	P	27,224	P	49,876	P	(28,457)	P	(48,323)	P	138,378	P	364,084	P	502,462
As of January 1, 2017 (Audited)	P	490	P	260	P	120,501	P	25,158	P	(1,086)	P	-	P	1,225	P	(2,820)	P	(4,599)	P	19,148	P	40,908	P	(28,457)	P	(48,323)	P	122,405	P	341,572	P	463,977
Net income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,476	-	-	-	8,476	31,270	39,746										
Other comprehensive income (loss)	-	-	-	-	(1)	-	52	470	-	-	-	-	-	521	2,139	2,660																
Total comprehensive income (loss)	-	-	-	-	(1)	-	52	470	-	-	8,476	-	-	8,997	33,409	42,406																
Net addition to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,133	1,133																
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	(965)	965	-	-	-	-	-																
Cash dividends (Note 8):	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,975)	(6,975)																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,769)	(6,769)																
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,274)	(6,274)																
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,274)	(6,274)																
As of September 30, 2017 (Unaudited)	P	490	P	260	P	120,501	P	25,158	P	(1,087)	P	-	P	1,277	P	(2,350)	P	(4,599)	P	18,183	P	50,349	P	(28,457)	P	(48,323)	P	131,402	P	356,096	P	487,498

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

CERTIFIED CORRECT:

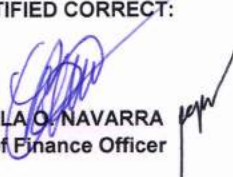
BELEA C. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(In Millions)

	2018 Unaudited	2017 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 54,667	P 57,805
Adjustments for:		
Depreciation, amortization and others - net	48,802	30,817
Interest expense and other financing charges	29,848	24,483
Equity in net losses (earnings) of associates and joint ventures	11	(267)
Interest income	(4,927)	(3,274)
Gain on sale of investments and property and equipment	(303)	(698)
Operating income before working capital changes	128,098	108,866
Changes in noncash current assets, certain current liabilities and others	(45,085)	(1,093)
Cash generated from operations	83,013	107,773
Interest and other financing charges paid	(25,731)	(18,593)
Income taxes paid	(18,259)	(14,602)
Net cash flows provided by operating activities	39,023	74,578
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	(98,106)	(1,265)
Additions to property, plant and equipment	(31,346)	(27,944)
Increase in other noncurrent assets and others	(18,556)	(20,887)
Additions to investments and advances and financial assets at fair value through other comprehensive income	(18,401)	(1,565)
Interest received	4,733	3,035
Proceeds from sale of investments and property and equipment	1,055	1,262
Dividend received from an associate and financial assets at fair value through other comprehensive income	39	11
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	-	13,020
Net cash flows used in investing activities	(160,582)	(34,333)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	769,245	645,753
Long-term borrowings	193,059	130,259
Payments of:		
Short-term borrowings	(742,449)	(668,493)
Long-term borrowings	(42,461)	(99,457)
Redemption of undated subordinated capital securities of a subsidiary	(39,769)	-
Cash dividends and distributions paid to non-controlling shareholders	(22,319)	(20,072)
Payments of finance lease liabilities	(19,192)	(18,630)
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	24,881	-
Increase in non-controlling interests and others	72	383
Net cash flows provided by (used in) financing activities	121,067	(30,257)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,529	(214)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,037	9,774
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	206,556	203,246
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 207,593	P 213,020

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
SEPTEMBER 30, 2018
(In Millions)

			Past Due			
	Total		Current	1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	P 75,756	P	55,885	P 5,875	P 2,134	P 11,862
Non-trade	49,602		23,242	2,962	2,458	20,940
Amounts Owed by Related Parties	14,685		13,560	357	30	738
Total	140,043	P	<u>92,687</u>	P <u>9,194</u>	P <u>4,622</u>	P <u>33,540</u>
Less allowance for impairment losses	13,084					
Net	P <u>126,959</u>					

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

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as of and for the period ended September 30, 2018 and comparative financial statements for the same period in 2017 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, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation

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

New and Amended Standards and Interpretation Adopted in 2018

The Group has adopted the following PFRS effective January 1, 2018 and accordingly, changed its accounting policies in the following areas:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates*, on measuring an associate or joint venture at fair value is applicable to the Group. 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.
- 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, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group has adopted PFRS 9 and has not restated the comparative information. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the expected credit loss model in estimating impairment which resulted to the decrease in the allowance for impairment of receivables amounting to P179 and increase in retained earnings and non-controlling interests as of January 1, 2018 by P43 and P81, respectively.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as of January 1, 2018. The effect of adopting PFRS 9 on the carrying amounts of financial assets as of January 1, 2018 relates solely to the new impairment requirements.

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	P206,556	P206,556
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	111,370	111,549
Derivative assets	Financial assets at FVPL	Financial assets at FVPL	333	333
Investments in equity instruments	Financial assets at FVPL	Financial assets at FVPL	170	170
Investments in equity instruments	Available-for-sale (AFS) financial assets	Financial assets at fair value through other comprehensive income (FVOCI)	5,590	5,590
Investments in debt instruments	AFS financial assets	Financial assets at FVOCI	531	531
Noncurrent receivables and deposits, and restricted cash - net	Loans and receivables	Financial assets at amortized cost	21,266	21,266

- Applying PFRS 9, with PFRS 4, *Insurance Contracts (Amendments to PFRS 4)*. The amendments permit an entity to defer application of PFRS 9 in 2018 and continue to apply PAS 39, 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 for designated financial assets 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. A financial asset is eligible for designation if it is held for an activity that is connected 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 may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if the entity restates comparative information when applying PFRS 9.
- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments cover the following areas: (a) Measurement of cash-settled awards: 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; (b) Classification of awards settled net of withholding tax: The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (ii) 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; and (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at 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. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is immediately recognized in profit or loss.

- 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 Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The impact of the adoption decreased retained earnings and non-controlling interests as of January 1, 2018 by P30 and P16, respectively.

The following tables summarize the impact of adopting PFRS 15 on the interim consolidated financial statements as of and for the period ended September 30, 2018.

Consolidated Statement of Financial Position

	As reported	Adjustments	Amounts without adoption of PFRS 15
Assets			
Trade and other receivables-net	P126,959	P25	P126,984
Inventories	139,134	23	139,157
Prepaid expenses and other current assets	91,043	(9)	91,034
Current Assets	568,876	39	568,915
Deferred tax assets	20,901	(8)	20,893
Noncurrent Assets	1,181,349	(8)	1,181,341
Total Assets	P1,750,225	P31	P1,750,256
Liabilities			
Accounts payable and accrued expenses	P174,734	P7	P174,741
Current Liabilities	467,285	7	467,292
Deferred tax liabilities	62,976	2	62,978
Noncurrent Liabilities	780,478	2	780,480
Total Liabilities	1,247,763	9	1,247,772
Equity			
Retained earnings	77,100	14	77,114
Equity Attributable to Equity Holders of the Parent Company	138,378	14	138,392
Non-controlling Interests	364,084	8	364,092
Total Equity	502,462	22	502,484
Total Liabilities and Equity	P1,750,225	P31	P1,750,256

Consolidated Statement of Comprehensive Income

	As reported	Adjustments	Amounts without adoption of PFRS 15
Sales	P761,155	(P23)	P761,132
Cost of Sales	605,005	(5)	605,000
Gross Profit	156,150	(18)	156,132
Income before Income Tax	54,667	(18)	54,649
Income Tax Expense	16,922	6	16,928
Net Income	37,745	(24)	37,721
Total Comprehensive Income - Net of tax	P40,839	(P24)	P40,815

The adjustments are due to the effect of variable consideration in the determination of transaction price and the change in the recognition of revenue from real estate. Revenue from real estate include sale of developed land and house and lot on which the Group's performance is to transfer the ownership over the developed properties. The Group begins selling the real properties prior to the completion of the development. The Group's performance obligation on the sale of real properties under development is satisfied over time considering that, under existing laws and regulations, the Group does not have an alternative use on the assets being developed and that it has rights to payment over the development completed to date. When the Group sells developed properties, its performance obligation is satisfied at a point in time when the customer has accepted the property.

- 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.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies 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.

Except as otherwise indicated, the adoption of these foregoing new and amended standards and interpretation 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, 2018 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:

- 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. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently performing detailed assessment of the potential effect of the new standard. The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate of the Group as of January 1, 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted.

The interpretation was approved by the FRSC on July 12, 2017 but is still subject to the approval by the Board of Accountancy (BOA).

- 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 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.

- Prepayment Features with Negative Compensation (*Amendments to PFRS 9*). The amendments cover the following areas: (a) Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified

financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- Long-term Interests (LTI) in Associates and Joint Ventures (*Amendments to PAS 28*). The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.
- Plan Amendment, Curtailment or Settlement (*Amendments to PAS 19, Employee Benefits*). The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which the amendments are first applied, with earlier application permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:
 - Previously Held Interest in a Joint Operation (*Amendments to PFRS 3, Business Combinations and PFRS 11, Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

The amendments apply to business combinations for which the acquisition date is on or after January 1, 2019, with earlier application permitted.

- Income Tax Consequences of Payments on Financial Instrument Classified as Equity (*Amendments to PAS 12*). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

- Borrowing Costs Eligible for Capitalization (*Amendments to PAS 23, Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- *Amendments to References to the Conceptual Framework in IFRS Standards*. The amendments introduce the following main improvements: (a) concept on measurement, including factors to be considered when selecting a measurement basis; (b) concept on presentation and disclosure, including when to classify income and expenses in other comprehensive income; (c) guidance on the recognition and derecognition of assets and liabilities in the consolidated financial statements; (d) improved definitions of an asset and a liability; and (e) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- *PFRS 17, Insurance Contracts*. PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model.

The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for entities that apply PFRS 9 and PFRS 15.

The new standard was approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

2. Business Combination

- San Miguel Food and Beverage, Inc. (SMFB)

On April 5, 2018, San Miguel Corporation (SMC) and SMFB (formerly San Miguel Pure Foods Company, Inc.) signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB, SMC's 7,859,319,270 common shares of the capital stock of San Miguel Brewery Inc. (SMB) and 216,972,000 common shares of the capital stock of Ginebra San Miguel Inc. (GSMI) (collectively, the "Exchange Shares") at the total transfer value of P336,349. As consideration for its acquisition of the Exchange Shares, SMFB shall issue in favor of SMC 4,242,549,130 common shares of the capital stock of SMFB (the "New SMFB Shares") out of the increase in the authorized capital stock of SMFB.

On June 29, 2018, the SEC approved the increase in authorized capital stock of SMFB by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation. In view of the approval of the increase in the authorized capital stock, SMFB issued the New SMFB Shares in favor of SMC.

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of SMC's ownership in SMFB common shares from 85.37% to 95.87% and the consolidation of the food and beverage business operations of the San Miguel Group under SMFB.

The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination.

As a result of the consolidation, SMFB now operates its business through major operating food subsidiaries as well as the major operating beverage subsidiaries of SMB and GSMI.

With the consolidation of SMB and GSMI to SMFB, the Group's reportable segments are now food and beverage, packaging, energy, fuel and oil, infrastructure and mining (see Note 3).

On October 26, 2018, the SEC issued the Order of Registration of Securities and Certificate of Permit to Offer Securities for Sale relating to the offer of up to 1,020,050,000 common shares in SMFB owned by SMC (the "Offer Shares") in a secondary sale transaction at an offer price of P85.00 per share.

On November 12, 2018, SMC completed the follow-on offering. A total of 400,940,590 common shares plus the over-allotment option of 60,141,090 common shares have been sold to institutional investors inclusive of the Philippine Stock Exchange (PSE) Trading Participants' share allocation at a price of P85.00 per share, for a total amount of P39,192. With the completion of the follow-on offering, SMFB is compliant with the minimum public float requirement of the PSE.

- SMC Global Power Holdings Corp. (SMC Global)

On March 20, 2018, SMC Global completed the acquisition of (a) 51% and 49% equity interests of AES Phil Investment Pte. Ltd. and Gen Plus B. V., respectively, in Masin-AES Pte. Ltd. (MAPL); (b) 100% equity interest of The AES Corporation in AES Transpower Private Ltd. (ATPL); and (c) 100% equity interest of AES Phil in AES Philippines, Inc. (API), (“the Masinloc Group”) for a total consideration of US\$1,900 or P98,990, subject to a post-closing purchase price adjustment.

The Masinloc Group are consolidated by SMC Global effective March 20, 2018.

MAPL, through its subsidiaries [including Masinloc Power Partners Co. Ltd. (MPPCL)], owns and/or operates (i) the 2 x 315 Megawatt (MW) coal-fired power plant (Units 1 and 2); (ii) the under construction project expansion of the 335 MW unit known as Unit 3; (iii) the 10 MW battery energy storage project, all located in the Province of Zambales, Philippines; and (iv) the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental, which is still at the pre-development stage. ATPL has a Philippine Regional Office and Headquarters which provides the corporate support services to MPPCL, while API provides energy marketing services to MPPCL.

With the acquisition by SMC Global of the Masinloc Group, SMC Global aims to improve its existing baseload capacity to further ensure its ability to provide affordable and reliable supply of power to its customers. The additional power assets provide an opportunity for SMC Global to increase its footprint in clean coal technology that provides reliable and affordable power, particularly in Luzon. The transaction will result in the production of electricity in an environmentally responsible way.

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

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

	2018
Assets	
Cash and cash equivalents	P1,656
Trade and other receivables - net	2,439
Inventories	2,378
Prepaid expenses and other current assets	1,692
Property, plant and equipment - net	62,275
Other intangible assets - net	80
Other noncurrent assets - net	3,040
Liabilities	
Loans payable	(2,344)
Accounts payable and accrued expenses	(9,497)
Income and other taxes payable	(234)
Finance lease liabilities (including current portion)	(31)
Long-term debt - net (including current maturities)	(31,952)
Deferred tax liabilities	(54)
Other noncurrent liabilities	(204)
Total Identifiable Net Assets at Fair Value	P29,244

Goodwill recognized as a result of the acquisition follows:

	2018
Total consideration transferred	P98,990
Non-controlling interest measured at proportionate interest in identifiable net assets	198
Total identifiable net assets at fair value	(29,244)
Goodwill	P69,944

The recognized goodwill amounting to P69,944 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

Goodwill arising from the acquisition of Masinloc Group is attributable to the benefit of expected synergies with the Group's energy business, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable net assets.

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

API changed its name to SMCGP Philippines Inc. on May 22, 2018.

On May 30, 2018, MAPL and ATPL changed its name to SMCGP Masin Pte. Ltd. and SMCGP Transpower Pte. Ltd., respectively.

3. Segment Information

Operating Segments

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

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

The food and beverage segment is engaged in: (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (collectively and hereinafter referred to as "Prepared and Packaged Food"), (ii) the production and sale of feeds (hereinafter referred to as "Animal Nutrition and Health"), (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats (hereinafter referred to as "Protein"), and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations. It is also engaged in the production, marketing and selling of fermented, malt-based, and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

The packaging segment is engaged 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 (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

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

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

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

Inter-segment Transactions

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

Financial information about reportable segments follows:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Mining and Others		Eliminations		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sales																
External sales	P206,549	P180,400	P17,885	P16,858	P86,754	P60,418	P416,459	P311,294	P18,129	P16,520	P15,379	P11,491	P-	P-	P761,155	P596,981
Inter-segment sales	71	36	9,258	5,502	2,357	1,699	3,402	2,212	-	-	11,768	14,743	(26,856)	(24,192)	-	-
Total sales	P206,620	P180,436	P27,143	P22,360	P89,111	P62,117	P419,861	P313,506	P18,129	P16,520	P27,147	P26,234	(P26,856)	(P24,192)	P761,155	P596,981
Results																
Segment results	P33,328	P28,336	P2,170	P1,898	P25,195	P19,110	P26,362	P22,686	P8,827	P8,086	P1,747	P1,277	(P1,582)	(P556)	P96,047	P80,837

Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Mining and Others		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Timing of revenue recognition														
Sales recognized at point in time	P206,459	P180,329	P17,368	P16,397	P-	P-	P416,459	P311,294	P-	P-	P12,527	P9,053	P652,813	P517,073
Sales recognized over time	90	71	517	461	86,754	60,418	-	-	18,129	16,520	2,852	2,438	108,342	79,908
Total external sales	P206,549	P180,400	P17,885	P16,858	P86,754	P60,418	P416,459	P311,294	P18,129	P16,520	P15,379	P11,491	P761,155	P596,981

4. Other Charges

Other income (charges) consists of:

	September 30	
	2018	2017
Construction revenue	P11,479	P7,509
Gain (loss) on derivatives - net	358	(726)
Construction costs	(11,479)	(7,509)
Loss on foreign exchange - net	(18,414)	(3,849)
Others	1,305	1,787
	(P16,751)	(P2,788)

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.

5. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. 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 September 30, 2018 and December 31, 2017:

		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	September 30, 2018	P -	P -	P -	P11,590	On demand;	Unsecured;
	December 31, 2017	-	-	-	10,882	interest bearing	no impairment
	September 30, 2018	-	-	-	221	On demand;	Unsecured;
	December 31, 2017	-	-	-	221	non-interest bearing	no impairment
Retirement Plans	September 30, 2018	299	-	12,421	-	On demand;	Unsecured;
	December 31, 2017	400	-	12,131	-	interest bearing	no impairment
Associates	September 30, 2018	2,121	91	1,605	75	On demand;	Unsecured;
	December 31, 2017	2,466	598	1,462	521	interest and non-interest bearing	no impairment
	September 30, 2018	-	-	-	23,380	Less than 1 to 10 years;	Unsecured and secured
	December 31, 2017	-	-	-	23,940	interest bearing	
Joint Ventures	September 30, 2018	52	129	951	22	On demand;	Unsecured;
	December 31, 2017	116	466	1,245	118	non-interest bearing	no impairment
Shareholders in Subsidiaries	September 30, 2018	104	50	112	2,548	On demand;	Unsecured;
	December 31, 2017	391	79	165	2,645	non-interest bearing	no impairment
Others	September 30, 2018	1,583	620	523	7,988	On demand;	Unsecured;
	December 31, 2017	193	493	237	7,008	non-interest bearing	no impairment
Total	September 30, 2018	P4,159	P890	P15,612	P45,824		
Total	December 31, 2017	P3,566	P1,636	P15,240	P45,335		

- a. Interest-bearing payable owed to a shareholder of the Parent Company were used for working capital purposes. This is subject to 3.00% interest per annum, which was renegotiated in 2017. The parties agreed in writing that the 3.00% interest will accrue beginning on the relevant year when SMC has commenced the management and operations of its Airport Project, a project that involves the construction of an international airport in Bulacan. 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.

6. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2018 and December 31, 2017

	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, 2017 (Audited)	P63,786	P51,526	P270,347	P145,067	P16,173	P135,556	P3,086	P5,594	P93,340	P784,475
Additions	1,722	243	112	1,307	405	2,813	9	-	32,083	38,694
Disposals/retirement	(390)	(472)	-	(5)	(1,106)	(2,738)	(18)	-	(7)	(4,736)
Reclassifications	820	2,563	26,152	19,940	1,269	4,845	669	-	(56,457)	(199)
Acquisition of subsidiaries	371	-	-	-	-	814	1	-	-	1,186
Currency translation adjustments	827	1,259	-	1,106	700	2,648	58	-	143	6,741
December 31, 2017 (Audited)	67,136	55,119	296,611	167,415	17,441	143,938	3,805	5,594	69,102	826,161
Additions	2,719	118	100	285	231	1,631	56	-	26,206	31,346
Disposals/retirement	(19)	(332)	(32)	(16)	(346)	(796)	(39)	-	(2)	(1,582)
Reclassifications	601	4,601	28,193	404	325	5,607	1,233	-	(39,587)	1,377
Acquisition of subsidiaries	873	974	53,382	-	-	2,383	37	-	23,483	81,132
Currency translation adjustments	585	1,103	1,742	750	494	1,784	5	-	988	7,451
September 30, 2018 (Unaudited)	71,895	61,583	379,996	168,838	18,145	154,547	5,097	5,594	80,190	945,885
Accumulated Depreciation and Amortization										
January 1, 2017 (Audited)	4,369	22,525	38,984	38,249	11,989	85,674	1,185	4,869	-	207,844
Depreciation and amortization	261	2,177	7,756	5,994	869	7,644	220	15	-	24,936
Disposals/retirement	(147)	(383)	-	(4)	(1,058)	(2,259)	(18)	-	-	(3,869)
Reclassifications	(212)	171	-	29	(6)	(881)	(1)	-	-	(900)
Currency translation adjustments	39	658	-	820	416	1,841	13	-	-	3,787
December 31, 2017 (Audited)	4,310	25,148	46,740	45,088	12,210	92,019	1,399	4,884	-	231,798
Depreciation and amortization	190	1,771	7,993	4,699	745	6,164	197	7	-	21,766
Disposals/retirement	(19)	(329)	(8)	(16)	(340)	(629)	(33)	-	-	(1,374)
Reclassifications	23	230	-	-	(248)	(254)	(10)	-	-	(259)
Acquisition of subsidiaries	-	75	18,004	-	-	732	32	-	-	18,843
Currency translation adjustments	31	546	649	532	271	947	3	-	-	2,979
September 30, 2018 (Unaudited)	4,535	27,441	73,378	50,303	12,638	98,979	1,588	4,891	-	273,753
Accumulated Impairment Losses										
January 1, 2017 (Audited)	266	2,024	-	-	-	7,862	24	573	-	10,749
Impairment	-	127	-	-	-	407	-	-	-	534
Disposals/retirement	-	-	-	-	-	(22)	-	-	-	(22)
Reclassifications	-	-	-	-	-	1	-	-	-	1
Currency translation adjustments	-	164	-	-	-	368	3	-	-	535
December 31, 2017 (Audited)	266	2,315	-	-	-	8,616	27	573	-	11,797
Disposals and reclassifications	(266)	(16)	-	-	-	16	-	-	-	(266)
Currency translation adjustments	-	70	-	-	-	392	-	-	-	462
September 30, 2018 (Unaudited)	-	2,369	-	-	-	9,024	27	573	-	11,993
Carrying Amount										
December 31, 2017 (Audited)	P62,560	P27,656	P249,871	P122,327	P5,231	P43,303	P2,379	P137	P69,102	P582,566
September 30, 2018 (Unaudited)	P67,360	P31,773	P306,618	P118,535	P5,507	P46,544	P3,482	P130	P80,190	P660,139

September 30, 2017

	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, 2017 (Audited)	P63,786	P51,526	P270,347	P145,067	P16,173	P135,556	P3,086	P5,594	P93,340	P784,475
Additions	1,290	412	1,232	959	199	4,163	490	-	19,199	27,944
Disposals/reclassifications/acquisition of subsidiaries	279	1,542	16,279	19,239	428	(1,246)	104	-	(37,497)	(872)
Currency translation adjustments	655	1,144	-	862	549	1,762	16	-	110	5,098
September 30, 2017 (Unaudited)	66,010	54,624	287,858	166,127	17,349	140,235	3,696	5,594	75,152	816,645
Accumulated Depreciation and Amortization										
January 1, 2017 (Audited)	4,369	22,525	38,984	38,249	11,989	85,674	1,185	4,869	-	207,844
Depreciation and amortization	189	1,564	5,640	4,406	616	5,248	141	11	-	17,815
Disposals/reclassifications/acquisition of subsidiaries	(47)	(153)	-	25	(94)	(1,622)	1	-	-	(1,890)
Currency translation adjustments	39	569	-	629	318	977	10	-	-	2,542
September 30, 2017 (Unaudited)	4,550	24,505	44,624	43,309	12,829	90,277	1,337	4,880	-	226,311
Accumulated Impairment Losses										
January 1, 2017 (Audited)	266	2,024	-	-	-	7,862	24	573	-	10,749
Disposals	-	-	-	-	-	(15)	-	-	-	(15)
Currency translation adjustments	-	169	-	-	-	432	3	-	-	604
September 30, 2017 (Unaudited)	266	2,193	-	-	-	8,279	27	573	-	11,338
Carrying Amount										
September 30, 2017 (Unaudited)	P61,194	P27,926	P243,234	P122,818	P4,520	P41,679	P2,332	P141	P75,152	P578,996

Depreciation and amortization charged to operations amounted to P21,766 and P17,815 for the periods ended September 30, 2018 and 2017, respectively.

7. Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares 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 effect of all potential dilutive debt or equity instruments.

Basic and diluted EPS is computed as follows:

	September 30	
	2018	2017
Net income attributable to equity holders of the Parent Company	P5,573	P8,476
Less dividends on CPS for the period	1,213	1,213
Net income attributable to common shareholders of the Parent Company (a)	P4,360	P7,263
Weighted average number of common shares outstanding (in millions) (b)	330	330
Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	P13.20	P21.99

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

As of September 30, 2018 and 2017, the Parent Company has no dilutive debt or equity instruments.

8. Dividends

The Board of Directors (BOD) of the Parent Company approved the declaration and payment of the following cash dividends to preferred stockholders as follows:

2018

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
March 15, 2018	March 15, 2018	March 16, 2018	P279.00
August 9, 2018	August 9, 2018	August 10, 2018	279.00

2017

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
August 10, 2017	August 10, 2017	August 11, 2017	P418.50

On November 13, 2018, the BOD of the Parent Company declared cash dividends at P418.50 per preferred share, payable on November 14, 2018 to shareholders owning preferred shares as of November 13, 2018.

9. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

The principal non-trade related financial instruments of the Group include cash and cash equivalents, financial assets at FVOCI, investments in equity instruments at FVPL, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except investments in equity instruments 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 and Risk Oversight 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 consolidated 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 consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; (d) compliance with tax, legal and regulatory requirements; (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 and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual

report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

The Audit and Risk Oversight 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. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

The accounting policies in relation to derivatives are set out in Note 10 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. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

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

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

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,026 and P1,037 for the period ended September 30, 2018 and for the year ended December 31, 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

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

September 30, 2018	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P29,058	P28,090	P37,718	P56,399	P56,177	P139,599	P347,041
Interest rate	5.4583% - 12%	4.9925% - 9.8754%	4.3458% - 9.8754%	4.0032% - 9.8754%	4.7575% - 9.8754%	4.5219% - 9.8754%	
Foreign currency-denominated (expressed in Philippine peso)	1,600	2,330	2,486	2,625	34,733	11,124	54,898
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	1,294	689	1,068	1,202	1,365	-	5,618
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 5.75%, whichever is higher	PDST-R2 + margin	PDST-R2 + margin	-	
Foreign currency-denominated (expressed in Philippine peso)	28,778	16,208	31,386	16,306	95,731	8,524	196,933
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P60,730	P47,317	P72,658	P76,532	P188,006	P159,247	P604,490
December 31, 2017	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P12,048	P28,165	P17,858	P50,526	P48,193	P117,266	P274,056
Interest rate	5.4583% - 12%	5.4583% - 10.50%	4.9925% - 8.6615%	4.0032% - 8.0589%	4.8243% - 8.0589%	4.5219% - 8.0589%	
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	-	-	25,783	25,783
Interest rate	-	-	-	-	-	4.875%	
Floating Rate							
Philippine peso-denominated	1,304	1,059	545	534	1,379	-	4,821
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 5.75%, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2 + margin	-	
Foreign currency-denominated (expressed in Philippine peso)	23,966	24,252	18,260	14,266	13,623	4,494	98,861
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P37,318	P53,476	P36,663	P65,326	P63,195	P147,543	P403,521

Foreign Currency Risk

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

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

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

	September 30, 2018		December 31, 2017	
	US	Peso	US	Peso
	Dollar	Equivalent	Dollar	Equivalent
Assets				
Cash and cash equivalents	US\$1,607	P86,440	US\$1,507	P75,302
Trade and other receivables	582	31,364	339	16,929
Prepaid expenses and other current assets	4	227	3	124
Noncurrent receivables	70	3,813	-	16
	2,263	121,844	1,849	92,371
Liabilities				
Loans payable	482	26,022	298	14,871
Accounts payable and accrued expenses	1,794	96,911	1,195	59,662
Long-term debt (including current maturities)	4,661	251,831	2,496	124,645
Finance lease liabilities (including current portion)	1,184	63,948	1,694	84,563
Other noncurrent liabilities	450	24,337	440	21,982
	8,571	463,049	6,123	305,723
Net foreign currency-denominated monetary liabilities	(US\$6,308)	(P341,205)	(US\$4,274)	(P213,352)

The Group reported net losses on foreign exchange amounting to P18,414 and P3,849 for the periods ended September 30, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 4). 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
September 30, 2018	54.02
December 31, 2017	49.93
September 30, 2017	50.82
December 31, 2016	49.72

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
September 30, 2018				
Cash and cash equivalents	(P1,261)	(P1,247)	P1,261	P1,247
Trade and other receivables	(425)	(738)	425	738
Prepaid expenses and other current assets	(3)	(3)	3	3
Noncurrent receivables	(15)	(66)	15	66
	(1,704)	(2,054)	1,704	2,054
Loans payable	125	445	(125)	(445)
Accounts payable and accrued expenses	1,499	1,542	(1,499)	(1,542)
Long-term debt (including current maturities)	3,996	3,462	(3,996)	(3,462)
Finance lease liabilities (including current portion)	1,184	829	(1,184)	(829)
Other noncurrent liabilities	443	350	(443)	(350)
	7,247	6,628	(7,247)	(6,628)
	P5,543	P4,574	(P5,543)	(P4,574)

	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
December 31, 2017				
Cash and cash equivalents	(P1,269)	(P1,249)	P1,269	P1,249
Trade and other receivables	(261)	(501)	261	501
Prepaid expenses and other current assets	(3)	(6)	3	6
Noncurrent receivables	-	(6)	-	6
	(1,533)	(1,762)	1,533	1,762
Loans payable	246	225	(246)	(225)
Accounts payable and accrued expenses	848	1,421	(848)	(1,421)
Long-term debt (including current maturities)	2,496	1,747	(2,496)	(1,747)
Finance lease liabilities (including current portion)	1,694	1,185	(1,694)	(1,185)
Other noncurrent liabilities	284	207	(284)	(207)
	5,568	4,785	(5,568)	(4,785)
	P4,035	P3,023	(P4,035)	(P3,023)

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

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

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

SMC enters into commodity derivative 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, coal, aluminum, soybean meal and wheat.

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

Liquidity Risk

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

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

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

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

September 30, 2018	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	P207,593	P207,593	P207,593	P -	P -	P -
Trade and other receivables – net	126,959	126,959	126,959	-	-	-
Derivative assets (included under "Prepaid expenses, other current assets" and "Other noncurrent assets" accounts)	576	576	271	305	-	-
Investments in equity instruments at FVPL (included under "Prepaid expenses and other current assets" account)	231	231	231	-	-	-
Financial assets at FVOCI (including current portion presented under "Prepaid expenses and other current assets" account)	6,069	6,173	53	5,782	258	80
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	18,765	18,945	-	3,518	15,060	367
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	15,725	15,725	12,360	3,365	-	-
Financial Liabilities						
Loans payable	188,351	189,259	189,259	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure restoration obligation (IRO), deferred income and other current non-financial liabilities)	169,645	169,954	169,954	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,992	2,992	2,705	287	-	-
Long-term debt (including current maturities)	597,751	755,135	91,555	75,566	398,790	189,224

Forward

September 30, 2018	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)	P160,060	P178,178	P27,119	P29,414	P79,551	P42,094
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), accrual for mine rehabilitation and decommissioning, and other noncurrent non-financial liabilities)	29,934	31,705	-	16,829	10,108	4,768

December 31, 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	P206,556	P206,556	P206,556	P -	P -	P -
Trade and other receivables - net	111,370	111,370	111,370	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	333	333	333	-	-	-
Investments in equity instruments 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)	6,121	6,167	246	5,584	309	28
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	12,605	12,644	-	2,248	9,731	665
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	8,661	8,661	2,878	5,783	-	-
Financial Liabilities						
Loans payable	158,064	158,586	158,586	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	143,553	143,842	143,842	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	3,487	3,487	3,487	-	-	-
Long-term debt (including current maturities)	399,711	504,551	57,780	71,619	206,266	168,886
Finance lease liabilities (including current portion)	168,388	189,698	25,072	26,263	82,814	55,549
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	25,249	28,060	-	14,851	8,302	4,907

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.

	September 30, 2018	December 31, 2017
Cash and cash equivalents (excluding cash on hand)	P205,125	P203,663
Trade and other receivables - net	126,959	111,370
Derivative assets	576	333
Financial assets at FVOCI (excluding equity instruments)	393	531
Noncurrent receivables and deposits - net	18,765	12,605
Restricted cash	15,725	8,661
	P367,543	P337,163

The credit risk for cash and cash equivalents, derivative assets, financial assets at FVOCI 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 (investments in equity instruments at FVPL and financial assets at FVOCI). 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, and equity reserves are excluded from capital for purposes of capital management.

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

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

10. Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial 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.

Accounting Policies for the Classification and Measurement of Financial Assets Applicable from January 1, 2018

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. 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. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

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

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

After initial measurement, financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in profit or loss. When investment in debt instruments at FVOCI is derecognized the related accumulated gains or losses previously reported in the statement of changes in equity are transferred to and recognized in profit or loss.

Dividends earned on holding an investment in equity instrument are recognized as dividend income when the right to receive the payment has been established. When investment in equity instruments at FVOCI is derecognized the related accumulated gains or losses previously reported in the statement of changes in equity are never reclassified to profit or loss.

The Group's investments in debt instruments and investments in equity instruments at FVOCI are classified under this category.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes all derivative financial assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, a financial asset may be irrevocably designated as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

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

The Group's derivative assets and investments in equity instruments at FVPL are classified under this category.

Accounting Policies for the Classification and Measurement of Financial Assets Applicable before January 1, 2018

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 investments in equity instruments 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 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

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.

Accounting Policies for the Impairment of Financial Assets Applicable from January 1, 2018

Impairment of Financial Assets

The Group recognizes allowance for impairment losses on receivables, other financial assets at amortized cost and investments in debt instruments at FVOCI.

The Group recognizes an allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime expected credit losses for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

Accounting Policies for the Impairment of Financial Assets Applicable before January 1, 2018

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.

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

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P207,593	P207,593	P206,556	P206,556
Trade and other receivables - net	126,959	126,959	111,370	111,370
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	576	576	333	333
Investments in equity instruments at FVPL (included under "Prepaid expenses and other current assets" account)	231	231	170	170
Financial assets at FVOCI (including current portion presented under "Prepaid expenses and other current assets" account)	6,069	6,069	6,121	6,121
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	18,765	18,765	12,605	12,605
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	15,725	15,725	8,661	8,661
Financial Liabilities				
Loans payable	188,351	188,351	158,064	158,064
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	169,645	169,645	143,553	143,553
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,992	2,992	3,487	3,487
Long-term debt (including current maturities)	597,751	599,840	399,711	419,417
Finance lease liabilities (including current portion)	160,060	160,060	168,388	168,388
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	29,934	29,934	25,249	25,249

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.

Investments in Equity Instruments at FVPL and Financial Assets at FVOCI. 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.

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 4.3% to 7.5% and 2.4% to 5.7% as of September 30, 2018 and December 31, 2017, respectively. The discount rates used for foreign currency-denominated loans range from 2.2% to 3.1% and 1.7% to 2.2% as of September 30, 2018 and December 31, 2017, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedging Accounting

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 uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Changes in fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

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 Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in fair value or cash flows of the hedging instrument are expected to offset the changes in fair value or cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and deferred in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects profit or loss if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is retained until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the cost of non-financial item on initial recognition or, for other cash flow hedges, it is reclassified to profit or loss as a reclassification adjustment in the same period or periods as the hedged cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to 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 the host contract is not a financial asset and 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.

Derivative Instruments Accounted for as Cash Flow Hedges

Cross Currency Swap

As of September 30, 2018, the Group has outstanding cross currency swap with notional amount of US\$120 designated to hedge foreign currency and interest rate exposures on the US dollar-denominated five-year floating rate loan. The Group pays fixed interest and receives floating interest on the notional amount, simultaneous with the interest payments on the hedged loan. The cross currency swap has a negative fair value of P287 as of September 30, 2018.

Currency Options

As of September 30, 2018, the Group has outstanding currency options with notional amount of US\$257 designated to hedge foreign currency exposure on US dollar-denominated obligations maturing up to 2023. As of September 30, 2018, the net positive fair value of the currency options amounted to P139.

Currency Forwards

As of September 30, 2018, the Group has outstanding currency forwards designated to hedge foreign currency exposure on US dollar-denominated obligations maturing in June 2019 with notional amount of US\$15 and positive fair value of P9.

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. As of September 30, 2018, the effective fair value changes on the cash flow hedges that were recognized in other comprehensive income and deferred in equity under "Hedging reserve" account amounted to P285, net of tax. No ineffectiveness was recognized in the consolidated statement of income for the period ended September 30, 2018.

As of June 30, 2018 and December 31, 2017, the Group has no outstanding derivatives accounted for as a cash flow hedge.

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 September 30 and June 30, 2018 and December 31, 2017, 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 P985, P876 and P1,563 as of September 30 and June 30, 2018 and December 31, 2017, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,004, US\$1,257 and US\$1,283 as of September 30 and June 30, 2018 and December 31, 2017, respectively, and with various maturities in 2018. The net positive (negative) fair value of these currency forwards amounted to P57, P248 and

(P445) as of September 30 and June 30, 2018 and December 31, 2017, respectively.

Currency Options

As of September 30 and June 30, 2018, the Group has outstanding currency options with an aggregate notional amount of US\$836 and US\$424, respectively, and with various maturities in 2019 and 2018. The net negative fair value of these currency options amounted to P416 and P650 as of September 30 and June 30, 2018, respectively. The Group has no outstanding currency options as of December 31, 2017.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with maturities in 2018. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 500 metric tons as of September 30 and June 30, 2018. The positive (negative) fair value of these swaps amounted to P1 and (P2) as of September 30 and June 30, 2018, respectively. The Group has no outstanding commodity swaps on the purchase of aluminum as of December 31, 2017.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019 and 2018. 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 were 10.4 million barrels, 21.8 million barrels and 42.6 million barrels as of September 30 and June 30, 2018 and December 31, 2017, respectively. The net negative fair value of these swaps amounted to P809, P119 and P1,177 as of September 30 and June 30, 2018 and December 31, 2017, respectively.

The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary, with various maturities in 2019. 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 notional quantity covered by the commodity swaps is 60,000 metric tons as of September 30 and June 30, 2018 and December 31, 2017. The positive fair value of these swaps amounted to P135, P98 and P62 as of September 30 and June 30, 2018 and December 31, 2017, respectively.

Commodity Options

As of September 30 and June 30, 2018 and December 31, 2017, 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 September 30 and June 30, 2018 and December 31, 2017.

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\$183, US\$147 and US\$169 as of September 30 and June 30, 2018 and December 31, 2017, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their

respective host contracts. The net positive (negative) fair value of these embedded currency forwards amounted to (P260), (P267) and P93 as of September 30 and June 30, 2018 and December 31, 2017, respectively.

Embedded Currency Options

As of September 30 and June 30, 2018 and December 31, 2017, 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 P358, (P726), P748 and P1,411 for the periods ended September 30, 2018 and 2017, and June 30, 2018 and 2017, 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:

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P576	P576	P -	P333	P333
Investments in equity instruments at FVPL	-	231	231	-	170	170
Financial assets at FVOCI	332	5,737	6,069	278	5,843	6,121
Financial Liabilities						
Derivative liabilities	-	2,992	2,992	-	3,487	3,487

The Group has no financial instruments valued based on Level 3 as of September 30, 2018 and December 31, 2017. For the period ended September 30, 2018 and for the year ended December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

11. 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 6 and Note 44 (a) of the 2017 Audited Consolidated Financial Statements, that remain outstanding as of September 30, 2018. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. On September 10, 2018, SMC, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-

468 (the "Petition"). The Petition seeks (i) to declare null and void (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from an increase in SMFB's capital stock, and (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

SMC, SMFB and GSMI filed their respective Answers to the Petition on September 25, 2018. On October 11, 2018, Petitioner filed a Reply to the Answer filed by SMC, SMFB and GSMI. On October 30, 2018, the SEC issued an order setting the case for a preliminary conference on November 13, 2018.

Separately, the Petitioner filed an Urgent Motion to Issue a Status Quo Order against SMC, SMFB and GSMI dated September 3, 2018. On October 4, 2018, SMFB filed a Comment/Opposition on the Urgent Motions while on October 9, 2018, SMC and GSMI likewise filed a Comment/Opposition to the said Urgent Motion. On November 8, 2018, the SEC denied the Urgent Motion filed by the Petitioner.

- g. Except for the Prepared and Packaged Food and Protein businesses of SMFB, which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicity 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 September 30, 2018.
- 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 end of September 30, 2018. 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.

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 September 30, 2018 and December 31, 2017 for liquidity, solvency and profitability ratios and for the periods ending September 30, 2018 and 2017 for operating efficiency ratios.

	September 2018	December 2017
<u>Liquidity:</u>		
Current Ratio	1.22	1.31
<u>Solvency:</u>		
Debt to Equity Ratio	2.48	2.01
Asset to Equity Ratio	3.48	3.01
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.87%	9.55%
Interest Rate Coverage Ratio	2.83	3.47
	Period Ended September 30	
	2018	2017
<u>Operating Efficiency:</u>		
Volume Growth	8%	3%
Revenue Growth	28%	20%
Operating Margin	13%	14%

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

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

* Annualized for quarterly reporting



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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. (“Top Frontier” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended September 30, 2018 (with comparative figures as of December 31, 2017 and for the period ended September 30, 2017). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2018, 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 (PFRS) have been omitted.

I. 2018 SIGNIFICANT TRANSACTIONS

INVESTMENTS

▪ *San Miguel Food and Beverage, Inc. (SMFB) Consolidation*

On March 23, 2018, the Philippine Securities and Exchange Commission (SEC) approved the amendment to the Articles of Incorporation of San Miguel Pure Foods Company Inc. (SMPFC) consisting of (a) change of the corporate name from SMPFC to SMFB, (b) change in the primary purpose to include engaging in the beverage business, (c) change in the par value of the common shares of SMFB from P10.00 per share to P1.00 per share, and (d) denial of pre-emptive rights to issuances or dispositions of any and all common shares.

On April 5, 2018, San Miguel Corporation (SMC) and SMFB signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB, SMC’s 7,859,319,270 common shares of the capital stock of San Miguel Brewery Inc. (SMB) and 216,972,000 common shares of the capital stock of Ginebra San Miguel Inc. (GSMI) (collectively, the “Exchange Shares”) at the total transfer value of P336,349 million. As consideration for its acquisition of the Exchange Shares, SMFB shall issue in favor of SMC 4,242,549,130 common shares of the capital stock of SMFB (the “New SMFB Shares”). The New SMFB Shares will be issued out of the increase in the authorized capital stock of SMFB from P2,460 million divided into 2,060,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share, to P12,000 million divided into 11,600,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share which has been duly approved by the Board of Directors and shareholders of SMFB.

On June 29, 2018, the SEC approved the increase in authorized capital stock of SMFB by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation.

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of SMC’s ownership in SMFB common shares from 85.37% to 95.87% and the consolidation of the food and beverage business operations of the San Miguel Group under SMFB.

With the approval of the increase in the authorized capital stock of SMFB, the SEC consequently accepted and approved the transfer value of the Exchange Shares amounting to P336,349 million, the investment value of SMFB in SMB and GSML.

As the issuance of the New Shares resulted in SMFB's public ownership level falling below the minimum ten percent (10%) requirement under The Philippine Stock Exchange (PSE) Amended Rule on Minimum Public Ownership (the "MPO Rule"), the PSE suspended the trading of SMFB's common and preferred shares (collectively, the "SMFB Shares") commencing July 6, 2018 and until SMFB is able to secure a favorable ruling/opinion from the Bureau of Internal Revenue (BIR) on the appropriate taxes to be imposed on the trades of SMFB Shares through the PSE for a period not exceeding six months.

On July 20, 2018, SMFB received BIR Ruling No. 1092-2018, granting temporary exemption from the MPO Rule and states that the Share Swap and the follow-on offer of common shares and all trades of SMFB Shares through the PSE during the period not exceeding six months are not subject to capital gains tax of 15% under Revenue Regulations (RR) No. 16-2012 as amended by RR No. 11-2018 (TRAIN Law), and that the stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%) shall be imposed on all trades through the PSE of SMFB Shares during the same period. The temporary exemption is effective until December 31, 2018.

On July 23, 2018, the PSE lifted the trading suspension of SMFB Shares.

On September 19, 2018, SMFB filed with the PSE an Application for Listing of Stocks, for the listing of the New SMFB Shares issued to SMC.

On October 12, 2018, the BIR issued Ruling No. 010-2018 which confirmed the tax-free transfer by SMC of the Exchange Shares, in consideration for the New SMFB Shares. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2018.

The PSE issued a Notice of Approval for the listing of such shares on November 5, 2018 and the New Shares were listed with the PSE effective November 9, 2018.

- *Follow-on Offering of SMFB Shares*

On October 26, 2018, the SEC issued the Order of Registration of Securities and Certificate of Permit to Offer Securities for Sale relating to the offer of up to 1,020,050,000 common shares in SMFB owned by SMC (the "Offer Shares") in a secondary sale transaction, at an offer price of P85.00 per share.

On November 12, 2018, SMC completed the follow-on offering. A total of 400,940,590 common shares plus the over-allotment option of 60,141,090 common shares have been sold to institutional investors inclusive of the PSE Trading Participants' share allocation at a price of P85.00 per share, for a total amount of P39,192 million. With the completion of the follow-on offering, SMFB is compliant with the MPO Rule.

- *Acquisition of the Masinloc Group*

On March 20, 2018, SMC Global Power Holdings Corp. (SMC Global) completed the acquisition of 100% equity interest in Masin-AES Pte. Ltd. (MAPL), AES Transpower Private Ltd. (corporate support services) and AES Philippines Inc. (energy marketing services) (the "Masinloc Group") for a total consideration of US\$1,900 million, subject to a post-closing purchase price adjustment. The transaction involves the acquisition of the Masinloc Power Plant, a coal-fired power plant with an operating capacity of 2 x 315 Megawatt (MW), the on-going power project expansion of 335 MW unit known as Unit 3, and the 10 MW battery energy storage project, all located in the Province of Zambales.

The transaction was financed by the following:

- a) availment by SMC Global of a US\$700 million floating interest rate term loan and a US\$500 million floating interest rate term loan.

The US\$700 million loan is divided into Facility A Loan amounting to US\$200 million maturing on March 12, 2021 and Facility B Loan amounting to US\$500 million maturing on March 13, 2023. The loans are subject to repricing based on LIBOR plus spread.

In September 2018, SMC Global partially paid US\$220 million of the US\$500 million term loan.

- b) availment by SMC of a total of US\$400 million short-term bridge financing loans and US\$400 million floating interest rate term loan maturing on March 13, 2023. The bridge financing loans were fully paid in April 2018.

SMC subscribed to US\$650 million Redeemable Perpetual Securities issued by SMC Global and made a US\$150 million advance to SMC Global.

On August 17, 2018, SMC Global paid the US\$150 million advance from SMC.

REFINANCING OF LOANS

▪ SMC

a) Issuance of P20,000 Million Fixed Rate Peso-denominated Bonds

On March 19, 2018, SMC issued and listed in the Philippine Dealing & Exchange Corp. (PDEX) P20,000 million peso-denominated fixed rate bonds out of the P60,000 million shelf registered Peso bonds of SMC.

The bonds are comprised of the five-year Series E Bonds due 2023, seven-year Series F Bonds due 2025 and ten-year Series G Bonds due 2028.

The Series E, F and G Bonds have fixed interest rate equivalent to 6.2500% per annum, 6.6250% per annum and 7.1250% per annum, respectively.

The proceeds from the issuance were used for the payment of the US\$120 million short-term loan and portion of the US\$300 million long-term debt on July 30, 2018 and August 30, 2018, respectively.

b) Availment of US\$120 Million Term Loan

On September 25, 2018, SMC drew US\$120 million of the US\$300 million five-year term facility to refinance existing US dollar-denominated obligations and for general corporate requirements. The loan is subject to a floating interest rate of LIBOR plus 0.95% margin.

▪ Petron Corporation (Petron)

a) Issuance of US\$500 million Senior Perpetual Capital Securities (SPCS)

On January 19, 2018, Petron issued US\$500 million SPCS with an issue price of 100% to partially refinance the redemption of its existing US\$750 million USCS, for the repayment of indebtedness and for general corporate purposes, including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.

b) Redemption of US\$750 million Undated Subordinated Capital Securities (USCS)

On January 8, 2018, Petron announced a tender offer to holders of its US\$750 million USCS with expiration deadline on January 16, 2018. Tenders amounted to US\$402 million and were settled by Petron on January 22, 2018. The USCS redeemed by Petron pursuant to the tender offer were cancelled.

On August 6, 2018, Petron redeemed the remaining balance of US\$348 million of its USCS from the proceeds of the P15,000 million bridge financing loan availed in the second quarter of 2018. In October 2018, proceeds from the issuance of P20,000 million Bonds was used to pay the P15,000 million bridge financing loan.

▪ **GSMI**

Availment of P1,000 Million Term Loan

On September 24, 2018, GSMI drew P1,000 million from a five-year credit facility dated August 13, 2018 with a local bank to refinance its existing short-term obligations. The loan is carried at amortized cost and is subject to a fixed interest rate, and equal quarterly installments commencing in September 2019.

REDENOMINATION OF FOREIGN CURRENCY DEBT

▪ *Issuance of P10,000 Million Fixed Rate Peso-denominated Notes by SMC*

On May 25, 2018, SMC issued and listed with the PDEX peso-denominated fixed-rate notes ("Notes") amounting to P10,000 million. The Notes have interest rate equivalent to 5.25% per annum due 2020.

The proceeds from the issuance were partially used for additional investments in SMC subsidiaries and to partially fund the payment of US dollar-denominated loan obligations.

▪ *Issuance of P15,000 Million Fixed Rate Peso-denominated Bonds by SMC Global*

On August 17, 2018, SMC Global issued and listed with the PDEX peso-denominated fixed-rate bonds ("Bonds") amounting to P15,000 million. The Bonds have interest rate equivalent to 6.75% per annum due 2023.

The proceeds from the issuance were partly used to refinance/redenominate existing obligations and pay-off outstanding SMC advances obtained for the acquisition of Masinloc Group.

AVAILMENT OF LOANS TO FINANCE INVESTMENT AND CAPEX/PROJECTS

SMC

On June 26, 2018, SMC availed of a US\$300 million five-year Facility Agreement to fund general corporate requirements and/or additional investments.

SMC Consolidated Power Corporation (SCPC)

On January 31, 2018, SCPC drew P2,000 million from the P44,000 million Omnibus Loan and Security Agreement (OLSA) with various local banks dated June 22, 2017 to finance the ongoing construction of the 2x150 MW Limay Coal-fired Power Plant.

Citra Central Expressway Corp. (CCEC)

On March 28, 2018, June 29, 2018 and September 28, 2018, CCEC drew P4,300 million, P4,400 million and P4,700 million, respectively, from the P31,000 million OLSA with various local banks dated December 15, 2014 for the project cost of the North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3).

Luzon Clean Water Development Corporation (LCWDC)

On March 15, 2018, June 18, 2018 and August 15, 2018, LCWDC drew P2,103 million, P1,172 million and P500 million, respectively, from the P5,400 million OLSA with various local banks dated September 16, 2016.

Proceeds of the loan will be used for the Bulacan Bulk Water Supply Project.

Masinloc Power Partners Co. Ltd. (MPPCL)

On July 6, 2018, MPPCL drew US\$60 million from the US\$525 million Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 300MW net capacity coal-fired plant (Unit 3) within the existing facilities of MPPCL. The loan is divided into fixed interest tranche of 5.5959% per annum and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to December 2030.

San Miguel Consolidated Power Corporation (SMCPC)

On August 17, 2018, SMCPC drew P20,322 million from the P21,300 million OLSA with various local banks dated August 9, 2018, to fund the design, construction and operations of the Malita Plant.

San Miguel Yamamura Asia Corporation (SMY Asia)

In the third quarter of 2018, SMY Asia availed of long-term loan amounting to P1,800 million from the P4,000 million term loan facility to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and general funding requirements. The loan is subject to a floating interest rate with maturities up to July 2023.

PAYMENT OF MATURING OBLIGATIONS

SMC

In 2018, SMC paid a total of P2,663 million of its maturing long-term debt.

Energy Group

In 2018, the Energy Group paid a total of P1,890 million of its maturing long-term debt.

Infrastructure Group

The Infrastructure Group paid a total of P9,474 million of its maturing long-term debt in 2018.

Other Subsidiaries

In 2018, Petron, San Miguel Yamamura Packaging Corporation, East Pacific Star Bottlers Phils Inc. and Can Asia, Inc. paid their maturing long-term debt amounting to P3,177 million.

II. FINANCIAL PERFORMANCE

2018 vs. 2017

The Group's consolidated sales revenue for the nine months ended September 30, 2018 amounted to P761,155 million, 28% higher than 2017 mainly driven by higher volumes of SMB, the Food Group and GSMI and favorable selling prices of Petron. Most businesses increased their revenues with Energy, Petron and the core beverage and food businesses posting double-digit growth.

Cost of sales increased by 31% to P605,005 million mainly due to the increase in crude prices and effect of excise tax of Petron; higher sales volume of SMB, and the Food group; higher excise tax of the domestic operations of SMB, operations of MPPCL and the power plants in Bataan and Davao, increase in cost of major raw materials of the Food Group, particularly in feeds (hereinafter referred to as "Animal Nutrition and Health"), dairy and processed meats (collectively and hereinafter referred to as "Prepared and Packaged Food"), as well as the impact of Philippine peso depreciation, and depreciation of power plants of SCPC and SMCPD which started commercial operations in 2017.

Selling and administrative expenses increased mainly due to higher personnel expenses, freight, trucking and handling costs, distribution costs, contracted services costs and advertising and promotions of SMB, expenses of MPPCL, rent expense, higher terminalling fees and Liquefied Petroleum Gas (LPG) cylinder purchases, repairs and maintenance and advertising expenses of Petron.

Consolidated operating income ended higher by 19% to P96,047 million, resulting from higher revenues.

The increase in interest expense and financing charges was mainly due to the higher level of loans payable and long-term debt in 2018 compared to 2017 from the issuance by SMC of the P50,000 million (Series A, B, C, D, E, F and G) bonds in 2017 and 2018, availment of US\$400 million and US\$400 million long-term debt in 2017 and March 2018, respectively, and US\$300 million corporate notes in June 2018; loan availment by SMC Global of US\$1,200 million in 2018 and issuance of P15,000 million Bonds in August 2018 to finance the acquisition of Masinloc Group, and issuance by SMC Global of P20,000 million Bonds in December 2017.

The higher interest income was primarily due to higher average balance of cash and money market placements of the domestic and international operations of SMB, San Miguel Equity Investments Inc. and San Miguel Holdings Corp. (SMHC).

The decrease in equity in net earnings (losses) of associates and joint ventures primarily represents the share of SMC Global on the net loss of Angat Hydropower Corporation (Angat Hydro).

The gain on sale of investments and property and equipment in 2018 pertains to the sale by San Miguel Properties Inc. (SMPI) of its investment in Legacy Homes, Inc. while the gain in 2017 pertains to the sale of service stations by Petron Malaysia to the government. Certain service stations of Petron Malaysia were closed since the lot they are occupying will be used for government projects.

The increase in other charges was primarily due to the higher foreign exchange loss on the translation of the foreign currency denominated long-term debt and finance lease liabilities with the peso depreciating by P4.09 from P49.93 in December 2017 to P54.02 in September 2018.

Consolidated net income of P37,745 million was 5% lower than 2017.

Consolidated recurring net income, excluding the effect of foreign exchange translation amounted to P50,974 million, 19% higher than last year.

2017 vs. 2016

The Group's consolidated sales revenue for the third quarter of 2017 amounted to P596,981 million, 20% higher than 2016, mainly driven by continuous sales growth from Petron, the Infrastructure business and the combined revenues from the core Beverage, Food and Packaging businesses, which grew 11%.

Consolidated operating income reached P80,837 million, 14% higher than 2016 as a result of sustained sales growth from the different businesses and effective fixed cost management 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 SMC Global and Petron and the higher average borrowing level and rate of Petron, net of decrease in interest expense due to payment of long-term debt by MTD Manila Expressways, Inc. and Series D bonds by SMB.

The increase in interest income was primarily due to higher average US dollar-denominated placements of SMC and average peso placements of SMB and SMC Global. 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), cash generated from operations of SMB and balance of the proceeds from the P42,000 million 12-year term loan of SMC Global.

The increase in equity in net earnings in 2017 primarily represents the share of SMC Global in the lower net loss of Angat Hydro, share of SMPI in the higher net income of Bank of Commerce, net of provision by GSML for future losses in Thai San Miguel Liquor Co. Ltd.

The gain on sale of investments and property and equipment in 2017 pertains to the sale of service stations by Petron Malaysia to the government. 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 decrease in other charges was primarily due to the recognition of lower foreign exchange loss on the translation of the US dollar-denominated long-term debt and loans payable and finance lease liabilities as a result of the lower depreciation of the Philippine peso against the US dollar in 2017 compared to 2016. The decrease in other charges was partly offset by the loss on derivatives which primarily pertains to the loss on commodity hedging of Petron.

The higher income tax expense was mainly due to increase in taxable net income of Petron Malaysia, SMB, San Miguel Foods Inc. (SMFI) and SMPI and the cessation of the income tax holiday of South Luzon Tollway Corporation in December 2016.

Consolidated net income amounted to P39,746 million in 2017.

Share of NCI on the Group's net income increased in 2017 mainly due to the higher net income of Petron and SMB.

Excluding the effect of foreign exchange translation and the income from discontinued operations in 2016, net income for the period ended September 30, 2017 at P42,844 million was 21% higher than the comparable 2016 net income of P35,552 million.

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

1. FOOD AND BEVERAGE

2018 vs. 2017

SMFB sustained its strong growth momentum for the nine-month period in 2018 registering consolidated revenues of P206,620 million, 15% higher than P180,436 million in 2017. This was mainly driven by volume and revenue growth across Beer, Ginebra and Food Divisions. Similarly, operating income of P34,025 million grew 17% from same period last year.

a. SMB

SMB revenues amounted to P93,362 million, 16% higher from last year, mainly driven by robust volumes, 9% higher than last year. Consumption across the country remained strong with Red Horse and San Miguel Pale Pilsen maintaining their position as SMB's top selling brands. SMB's domestic performance was propelled by consistent and engaging consumption-generating initiatives and defense programs which further strengthened the equity of the SMB brands.

SMB's International Operations posted higher revenues from last year resulting from better sales mix and improved volumes, with Indonesia and exports operations accounting for bulk of the increase.

SMB's consolidated operating income rose to P25,912 million, 21% higher than last year.

b. GSMI

GSMI continued its growth momentum posting a 13% volume growth compared to last year. The flagship brand Ginebra San Miguel continued to drive growth momentum, backed by its nationwide "Ginebra Ako" campaign and consumer promotions. Vino Kulafu - GSMI's Chinese wine also continued to post strong growth.

This translated to revenues of P17,915 million, 17% higher vs. same period last year. Operating income reached P1,328 million, 52% higher than previous year due to strong volumes and lower operating costs.

c. Food Group

Food Group posted consolidated revenues of P95,345 million, 13% higher than last year on account of the strong performance of Animal Nutrition and Health, Poultry and Meats (hereinafter referred to as "Protein"), and Prepared and Packaged Food businesses. Most of the food business segments registered double-digit revenue growth resulting from increased sales volume and better selling prices.

Income from operations of P6,779 million, however ended at par compared to last year resulting from double-digit increases in some raw material costs, higher selling and administrative expenses, additional operating expenses from its ongoing expansion projects as well as the impact of continuing peso depreciation.

Revenues from the Animal Nutrition and Health segment registered revenues of 14%, driven by higher volumes across all feed types and price adjustments initiated to temper the impact of rising raw material prices. The Protein segment saw revenue growth of 12% benefiting from higher chicken volumes and favorable selling prices.

Revenues of the Flour Milling business increased by 7% to P7,144 million boosted by higher flour volumes and improved selling prices.

The Prepared and Packaged Food Business sustained its 15% revenue growth owing to improved volumes in major sales channels and price increases implemented to cushion the impact of rising costs of major raw materials.

2017 vs. 2016

The combined sales revenues of SMFB as of September 30, 2017 grew 11% to P180,436 million from P163,047 million in 2016. Operating income reached P29,039 million in 2017, an increase of 16% from the same period in 2016.

a. SMB

The performance of SMB for the nine-month period continued to achieve strong growth with consolidated volumes reaching 188.6 million cases, 13% higher than 2016. This was mainly driven by the impressive performance of the domestic operations posting double digit volume growth at 16%, boosted by the effective promotion campaigns and consumer and trade programs that further strengthened its brand equity and increased consumption of the SMB brands.

With higher domestic volumes, coupled with better selling prices, including the contribution from the International operations, consolidated revenues of SMB reached P80,656 million, 16% higher than 2016 while operating income grew 14% to P21,408 million.

b. GSMI

GSMI sustained its growth momentum with sales volumes reaching 20.5 million cases, 14% higher than the same period in 2016. The flagship brand Ginebra San Miguel and Vino Kulafu continued to post double digit growth which was boosted by the ongoing volume generating programs and equity enhancing campaigns of GSMI.

This drove revenues to reach P15,330 million, 16% higher than 2016. Operating income amounted to P947 million, 45% higher than 2016.

c. Food Group

The Food Group sustained its good performance during the nine-month period, registering consolidated revenues of P84,452 million, 5% higher than 2016 as the Protein and Processed Meats ("Value-added Meats") businesses continued to post higher volumes and favorable selling prices.

The continuous drive to improve operational efficiencies coupled with better sales mix and lower costs of some major raw materials further increased operating income to reach P6,750 million, 20% higher than 2016.

2. PACKAGING

2018 vs. 2017

The Packaging business contributed sales revenues of P27,143 million, 21% higher from 2017. Increase was mainly due to the solid performance of the glass, plastics, and Australian operations which continue to drive growth.

Coupled with stringent fixed cost management and better productivity, operating income, likewise posted double digit growth reaching P2,434 million, 13% higher than 2017.

2017 vs. 2016

The consolidated revenues of the San Miguel Yamamura Packaging Group for the nine-month period in 2017 grew 13% to P22,360 million from 2016. The growth was largely due to higher sales from the metal and plastics businesses and continued growth in contribution from the Australian operations. Operating income grew by 13% in 2017 to P2,162 million, from 2016.

3. ENERGY

2018 vs. 2017

SMC Global for the nine-month period posted consolidated off-take volume of 17,670 gigawatt hours (GWH), 38% higher than last year mainly due to the additional generation from the Limay & Malita (with a total of 5 units at 150MW each, running in 2018 vs. 3 units in 2017) and Masinloc power plants (2 units with a combined capacity of 659 MW starting March 20, 2018) as well as better contributions from the Sual and San Roque power plants compared to last year. With higher off-take volumes and average realization price, consolidated revenues grew by 43% to P89,111 million from P62,117 million the previous year.

Operating income reached P25,753 million, 31% higher.

2017 vs. 2016

SMC Global posted consolidated off-take volume of 12,818 GWH for the nine-month period in 2017, 6% lower than 2016 which was mainly due to lower bilateral volumes from the Sual and Ilijan power plants. The Ilijan Power plant underwent a scheduled annual maintenance shutdown, concurrently with the Malampaya gas facility from January 28 to February 16, 2017. Likewise, Sual Power Plant's Unit 2 encountered a shutdown starting on June 14, 2017 and is scheduled to be synchronized to the grid on November 10, 2017 using a temporary replacement transformer. The installation of a permanent replacement transformer was completed in February 2018.

However, the start of the commercial operation of Units 1 for both the new power plants in Malita, Davao and Limay, Bataan and the improvement in San Roque plant's power dispatch covered up for the power requirements needed.

Revenue in 2017 ended 2% higher than 2016 to P62,117 million brought about by higher average realization prices and spot market price. Operating income in 2017 was 14% lower than 2016 at P19,668 million, as a result of higher fuel costs (coal and natural gas prices), replacement power purchases, lower bilateral volumes from both Sual and Ilijan and the sale of the Limay Cogen in 2016.

4. FUEL AND OIL

2018 vs. 2017

Petron's consolidated net income increased by 3% in the first nine months of 2018 despite the industry-wide decline in fuel demand due to high pump prices. The modest growth was mainly driven by sustained volumes growth in the Philippine market, robust performance of its Malaysian operations, and contributions from its petrochemical business.

Consolidated volumes reached 81.4 million barrels, nearly 1.2 million higher than last year. This was mainly supported by Petron Malaysia which continued to gain ground

fueled by a 10% increase in retail sales and Philippine volumes which slightly increased by 1%, net of international trading, despite high local pump prices.

Consolidated revenues from the Philippines and Malaysia grew 34% to P419,861 million from 2017's P313,505 million, reflecting higher international oil prices and increase in volumes.

Bellwether Dubai crude recorded a 25% increase from December 2017 to average US\$77.25 per barrel in September 2018. Consolidated operating income slightly went up by 1% to P22,252 million from last year.

Petron's Bataan refinery continued to run at 95% capacity which supported local sales and produced high-value petrochemicals. The number of Petron stations in the Philippines and Malaysia also continue to grow in number.

2017 vs. 2016

The performance of Petron for the nine-month period in 2017 continued to present outstanding results. The sustained performance of Petron was mainly driven by its continued focus on high-value segments and strong sales volumes from both its Philippines and Malaysian operations.

Combined volumes from the Philippines and Malaysia reached 80.3 million barrels, 1% higher than 2016. The sales of Petron in the retail segment grew 8% as a result of its continuing network expansion in both markets coupled with innovative loyalty programs. Its lubricants and high-margin products such as gasoline and Jet A-1, including petrochemicals posted double-digit growth.

5. INFRASTRUCTURE

2018 vs. 2017

SMC Infrastructure posted consolidated revenues and operating income of P18,129 million and P8,905 million which both grew 10% from last year as traffic volume at all operating tollroads continue to grow.

2017 vs. 2016

The consolidated revenue of the Infrastructure business as of September 30, 2017 reached P16,520 million, 13% higher than 2016, mainly driven by the sustained growth in traffic volume from all operating toll roads and increase in passenger arrival at the Boracay airport. Operating income grew 9% to P8,086 million.

III. FINANCIAL POSITION

2018 vs. 2017

Consolidated total assets as of September 30, 2018 amounted to about P1,750,225 million, P253,426 million higher than December 31, 2017. The increase was primarily due to the increase in inventories, the consolidation of the Masinloc Power assets and the recognition of goodwill on the consolidation.

The increase in trade and other receivables is mainly attributable to the increase in trade customer balances of Petron due to higher prices and excise taxes on fuel and increase in Petron Malaysia's government subsidy receivable, higher bilateral and spot sales of SMC Global and acquired trade and other receivables through MPPCL. These were offset by the

decrease in receivable balances of the Food Group mainly due to collection of trade receivables from 2017 peak season sales.

Inventories increased by P36,553 million due to higher prices of crude oil and finished products including excise taxes of Petron, consolidation of the materials and supplies of MPPCL, inventory build-up of the Food Group in preparation for December peak season sales and lesser production days, and higher inventory levels of SMB in preparation for higher product demand towards the fourth quarter of the year.

The increase in biological assets was primarily due to Poultry's expansion of farm capacities to support increasing supply requirement and higher growing cost due to increase in importation cost of parent stock.

The increase in prepaid expenses and other current assets was primarily due to the net increase in restricted cash from additional loan drawdown of SMHC, consolidation and increase in MPPCL's prepaid expenses and higher prepaid taxes of Petron, SMC Global, SMHC and SMC Asia Car Distributors Corp., reclassification of restricted cash from noncurrent to current by SCPC, net of the reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited (ULCBVI) from current to non-current.

The increase in investments and advances-net represents mainly the additional investment of San Miguel Holdings Limited (SMHL).

The increase of P77,573 million in property, plant and equipment was primarily due to the consolidation of the power plant and properties of Masinloc Power and costs of the on-going construction of Masinloc power plant Unit 3; and costs of the expansion projects of Petron and the Food Group.

The increase in investment property represents mainly the acquisition by SMPI of properties located in Mariveles, Bataan, Aklan and Makati City.

The increase in goodwill mainly represents the goodwill recognized as a result of the consolidation of Masinloc Group.

Deferred tax assets increased mainly due to the effect of recognition of higher unrealized foreign exchange loss on the revaluation of foreign currency denominated long-term debt and loans payable as a result of the depreciation of the Peso against the US Dollar in September 2018 compared to December 2017.

Other noncurrent assets increased by P9,662 million mainly due to the reclassification of advances to contractors of ULCBVI from current to noncurrent assets, capitalized expenditures on the construction of the Metro Rail Transit Line 7 (MRT 7) Project and purchase of containers by SMB.

Loans payable increased by P30,287 million mainly due to net availment of working capital loans by Petron Group, net availment of peso loans for general corporate purposes by the Food Group, and consolidation of the loans payable of Masinloc entities, offset by net payments of SMC Global and GSML.

The increase in accounts payable and accrued expenses was mainly due to higher prices of crude and petroleum products of Petron, consolidation of the balances of Masinloc entities, and increase in inventory purchases of the Beverage Group, net of payments made by SCPC of its outstanding payables.

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities of South Premiere Power Corp. (SPPC), San Miguel Energy Corporation (SMEC), and Strategic Power Devt. Corp. (SPDC) which are payable up to September 30, 2019 and the assumed finance lease liability of MPPCL.

The increase in income and other taxes payable was mainly due to higher value-added tax (VAT) payable of SMC Global for services rendered during the period.

Dividends payable decreased primarily due to the dividend payments made by Citra Metro Manila Tollways Corporation.

The higher amount of long-term debt by P198,040 million resulted from the availments made by SMC Global Power of US\$1,200 million, SMC's availment of US\$400 million loan and US\$300 million corporate notes, to finance the acquisition of Masinloc Power and for investment and general corporate purposes; availments for capital expenditures of SMCP and CCEC; consolidation of the long-term debt of MPPCL; SMC's issuance of Series E, F and G Bonds, issuance of P10,000 million fixed-rate corporate notes and availment of US\$120 million term loan; and forex adjustment on the US dollar denominated loans, net of payments for the period.

The decrease in noncurrent finance lease liabilities was mainly due to payments by SMEC, SPDC, and SPPC of monthly fixed fees to Power Sector Assets and Liabilities Management Corporation (PSALM) and reclassifications to current portion of finance lease liabilities of SPPC, SMEC and SPDC which are payable up to September 30, 2019, net of foreign exchange loss and interest expense recognized on the finance lease.

Equity reserves decreased primarily due to the depreciation of the Philippine Peso against the US Dollar.

The increase in unappropriated retained earnings primarily represents the net income for the period, net of appropriations for the period.

2017 vs. 2016

Consolidated total assets as of September 30, 2017 amounted to P1,468,080 million, P41,094 million higher than December 31, 2016. The increase was primarily due to the increase in cash and cash equivalents, inventories, property, plant and equipment and other noncurrent assets.

The increase in cash and cash equivalents by P9,774 million was mainly on account of the remaining balance of the proceeds from the P42,000 million 12-year term loan availed by SCPC on June 28, 2017 net of funds used for debt refinancing/payment and capital expenditures, and cash generated from operations of SMB, Petron and the Food Group net of payment of loans and capital expenditures.

Trade and other receivables decreased by P7,774 million mainly due to the collection of receivable from PLDT, Inc. and Globe Telecom related to the sale of the investment in shares of stock of Vega net of the increase in trade receivables of SMEC and SPPC due to higher bilateral sales from external customers.

The increase in inventories by P8,348 million was mainly due to the increased importation by the Food Group of certain major raw materials for feeds and basic flour and the intentional build-up of other major raw materials to support expected increase in volume in the succeeding months, higher prices of crude oil tempered by lower volume of Petron and inventory build-up by the Packaging Business of glass and plastics and physical hedge of resins in anticipation of the peak season for the coming months and price increase, respectively.

Biological assets increased by P498 million mainly due to higher volume of live broilers grown and poultry breeder stocks to support the anticipated demand requirements in 2017.

The decrease in assets held for sale by P119 million was due to the sale of certain machinery and equipment to Northern Cement Corp. by SMC Powergen Inc. in July 2017.

The increase in investments and advances was mainly due to advances for investment made by SMHL to Bryce Canyon Investments Limited.

Noncurrent assets increased by P11,692 million mainly due to the capitalized project costs incurred for the MRT 7 Project, increase in noncurrent portion of the subsidy receivable from Department of Public Works and Highways for the construction costs incurred in Section 3A-2 (Binalonan to Pozzorubio) of TPLEX Project, higher noncurrent prepaid input VAT on additional purchases relating to the construction of power plants and the transfer of funds to restricted cash for debt servicing and capital expenditure requirement.

The decrease in loans payable was mainly due to the net payments made by SMC and settlement by Petron of the P15,000 million bridge loan availed on December 23, 2016, offset by availments made by SMC Global and SMCPC for Malita, Davao capex requirements.

Accounts payable and accrued expenses increased by P11,803 million mainly due to the purchase and build-up of major raw materials to support expected increase in volume in the peak season and accrual of operating expenses driven by increased level of production of SMFI and higher liabilities for crude and finished product importation of Petron.

The higher amount of long-term debt resulted from the issuance by SMC of fixed rate - bonds on March 1 and April 7, 2017 and the availment by Petron of the P15,000 million term loan, net of payments made by SMB of the Series D Bonds, Infrastructure Group, and Petron Malaysia of their maturing long-term debt.

Deferred tax liabilities increased by P2,358 million mainly due to the: (1) temporary differences arising from the: (a) different method of depreciation used by Petron for tax reporting and financial accounting for the Limay, Bataan power plant and RMP-2 and unrealized foreign exchange differential of Petron, and (b) actual monthly payments to PSALM over the finance lease liability-related expenses of SPPC.

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

The increase in other noncurrent liabilities was mainly due to retention payable to the contractors of MRT 7 and Bulacan Bulk Water projects, additional long term liability of MNHPI for the purchase of machinery and equipment, the increase in liquefied petroleum gas cylinder deposits, and the recognition of accretion expense and forex loss on the revaluation of the noncurrent liability to the Privatization Management Office by Philnico Industrial Corp.

Equity reserves increased by P521 million mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

Non-controlling interests increased by P14,524 million mainly due to the share of non-controlling stockholders in the higher net income of SMC, Petron, SMB, the Food Group and Infrastructure and translation adjustments, net of dividends declared to the non-controlling stockholders of SMC, Petron and SMB.

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	September 30	
	2018	2017
Income during the period	P37,745	P39,746
Other comprehensive income	3,094	2,660
Adjustments due to PFRS 9 and 15	78	-
Addition (reduction) to non-controlling interests and others	(14,564)	1,133
Cash dividends and distributions	(21,920)	(20,018)
	P4,433	P23,521

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	September 30	
	2018	2017
Net cash flows provided by operating activities	P39,023	P74,578
Net cash flows used in investing activities	(160,582)	(34,333)
Net cash flows provided by (used in) financing activities	121,067	(30,257)

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.

Net cash flows provided by (used in) investing activities primarily includes the following:

<i>(In millions)</i>	September 30	
	2018	2017
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(P98,106)	(P1,265)
Additions to property, plant and equipment	(31,346)	(27,944)
Increase in other noncurrent assets and others	(18,556)	(20,887)
Additions to investments and advances and financial assets at fair value through other comprehensive income	(18,401)	(1,565)
Interest received	4,733	3,035
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	-	13,020

Net cash flows provided by (used in) financing activities primarily includes the following:

<i>(In millions)</i>	September 30	
	2018	2017
Proceeds from long-term debt – net	P150,598	P30,802
Proceeds from (payment of) short-term loans - net	26,796	(22,740)
Net proceeds from senior perpetual securities of a subsidiary and others	24,881	-
Redemption of undated subordinated capital securities of a subsidiary	(39,769)	-
Payment of cash dividends and distributions	(22,319)	(20,072)
Payment of finance lease liabilities	(19,192)	(18,630)

The effect of exchange rate changes on cash and cash equivalents amounted to P1,529 million and (P214) million for the periods ended September 30, 2018 and 2017, respectively.

V. KEY PERFORMANCE INDICATORS

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

	September 2018	December 2017
<u>Liquidity:</u>		
Current Ratio	1.22	1.31
<u>Solvency:</u>		
Debt to Equity Ratio	2.48	2.01
Asset to Equity Ratio	3.48	3.01
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.87%	9.55%
Interest Rate Coverage Ratio	2.83	3.47
	Periods Ended September 30	
	2018	2017
<u>Operating Efficiency:</u>		
Volume Growth	8%	3%
Revenue Growth	28%	20%
Operating Margin	13%	14%

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

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

* Annualized for quarterly reporting