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, 2019

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) 8632-3673

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
Conso. Total Liab. (as of 9.30.19 in millions Php)	1,274,787

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

   ☑ Yes ☐ No

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

   Philippine Stock Exchange ; Common Shares

12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

Top Frontier Investment Holdings, Inc.
TFHI

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

For the period ended	Sep 30, 2019
Currency (indicate units, if applicable)	Php (In Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2019	Dec 31, 2018
Current Assets	620,886	590,238
Total Assets	1,878,616	1,791,192
Current Liabilities	431,539	457,232
Total Liabilities	1,274,787	1,254,060
Retained Earnings/(Deficit)	86,789	78,238
Stockholders' Equity	603,829	537,132
Stockholders' Equity - Parent	165,909	158,790
Book Value per Share	407.99	390.11

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	249,131	262,169	758,616	761,155
Gross Expense	218,423	231,799	671,102	665,108
Non-Operating Income	2,330	1,892	8,150	5,219
Non-Operating Expense	13,489	14,037	36,893	46,599
Income/(Loss) Before Tax	19,549	18,225	58,771	54,667
Income Tax Expense	6,744	5,135	19,562	16,922
Net Income/(Loss) After Tax	12,805	13,090	39,209	37,745
Net Income Attributable to Parent Equity Holder	2,705	2,373	9,428	5,573
Earnings/(Loss) Per Share (Basic)	6.96	5.96	24.87	13.2
Earnings/(Loss) Per Share (Diluted)	6.96	5.96	24.87	13.2

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	27.97	23.6
Earnings/(Loss) Per Share (Diluted)	27.97	23.6

Other Relevant Information
Please see attached SEC Form 17-Q Financial Report of Top Frontier Investment Holdings, Inc. for the 3rd Quarter of 2019, as filed with the Securities and Exchange Commission on November 14, 2019.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

111142019000997

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,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	111142019000997
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	September 30, 2019
No. of Days Late	0
Department	CFD
Remarks	

C O V E R S H E E T

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S. E. C. Registration Number

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

(Company's Full Name)

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

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

Virgilio S. Jacinto

Contact Person

(02) 8632-3144

Company Telephone Number

1 2	3 1	SEC Form 17-Q (3rd Quarter 2019)	0 7	0 9
Month	Day	FORM TYPE	Month	

Day

Fiscal Year

Annual

Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles

Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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, 2019**

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) 8632-3673**
   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, 2019)
Common Shares	**332,886,167***
Net of the 157,310,033 common shares held in Treasury	
Total Liabilities	**P1,274,787 million**

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

    Yes [√] No [ ]

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

    Philippine Stock Exchange **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [√] No [ ]

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2019 (with comparative figures as of December 31, 2018 and for the period ended September 30, 2018) 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, 2019

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

Date November 14, 2019

ANNEX "A"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND DECEMBER 31, 2018
(In Millions)

ASSETS

		2019 Unaudited		2018 Audited
Current Assets				
Cash and cash equivalents (Notes 2, 9 and 10)	₱	286,102	₱	243,545
Trade and other receivables - net (Notes 1, 2, 5, 9 and 10)		129,523		125,042
Inventories (Note 2)		122,266		125,145
Current portion of biological assets - net		4,126		4,245
Prepaid expenses and other current assets (Notes 1, 2, 5, 9 and 10)		78,869		92,261
Total Current Assets		620,886		590,238
Noncurrent Assets				
Investments and advances - net (Note 2)		52,245		50,754
Investments in equity and debt instruments (Notes 9 and 10)		6,078		6,069
Property, plant and equipment - net (Notes 1, 2 and 6)		481,361		651,408
Right-of-use assets - net (Note 1)		197,665		-
Investment property - net (Note 1)		53,340		33,635
Biological assets - net of current portion		3,147		2,844
Goodwill (Note 2)		120,352		120,867
Other intangible assets - net (Notes 1 and 2)		249,121		253,534
Deferred tax assets (Notes 1 and 2)		19,910		19,663
Other noncurrent assets - net (Notes 1, 2, 5, 9 and 10)		74,511		62,180
Total Noncurrent Assets		1,257,730		1,200,954
	₱	1,878,616	₱	1,791,192

LIABILITIES AND EQUITY

		2019 Unaudited		2018 Audited
Current Liabilities				
Loans payable (Notes 2, 5, 9 and 10)	₱	192,598	₱	192,968
Accounts payable and accrued expenses (Notes 1, 2, 5, 9 and 10)		150,455		162,435
Lease liabilities - current portion (Notes 1, 2, 9 and 10)		26,839		22,529
Income and other taxes payable (Note 2)		20,491		19,937
Dividends payable		3,308		3,491
Current maturities of long-term debt - net of debt issue costs (Notes 2, 5, 9 and 10)		37,848		55,872
Total Current Liabilities		431,539		457,232
Noncurrent Liabilities				
Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)		610,058		561,673
Lease liabilities - net of current portion (Notes 1, 2, 9 and 10)		128,020		130,010
Deferred tax liabilities (Note 1)		67,415		65,297
Other noncurrent liabilities (Notes 1, 2, 5, 9 and 10)		37,755		39,848
Total Noncurrent Liabilities		843,248		796,828
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 (Note 2)		9,491		10,923
Retained earnings:				
Appropriated		14,803		29,655
Unappropriated (Note 1)		71,986		48,583
Treasury stock		(76,780)		(76,780)
		165,909		158,790
Non-controlling Interests (Notes 1 and 2)		437,920		378,342
Total Equity		603,829		537,132
	₱	1,878,616	₱	1,791,192

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Millions, Except Per Share Data)

			For the Quarter Ended	
	2019 Unaudited	2018 Unaudited	**2019 Unaudited**	2018 Unaudited
SALES (Note 3)	**₱ 758,616**	₱ 761,155	**₱ 249,131**	₱ 262,169
COST OF SALES	**607,357**	605,005	**198,224**	211,254
GROSS PROFIT	**151,259**	156,150	**50,907**	50,915
SELLING AND ADMINISTRATIVE EXPENSES	**(63,745)**	(60,103)	**(20,199)**	(20,545)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(40,137)**	(29,848)	**(13,185)**	(11,090)
INTEREST INCOME	**8,163**	4,927	**2,579**	1,847
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	**(13)**	(11)	**(184)**	79
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	**-**	303	**(65)**	(34)
OTHER INCOME (CHARGES) - Net (Notes 2 and 4)	**3,244**	(16,751)	**(304)**	(2,947)
INCOME BEFORE INCOME TAX	**58,771**	54,667	**19,549**	18,225
INCOME TAX EXPENSE	**19,562**	16,922	**6,744**	5,135
NET INCOME	**₱ 39,209**	₱ 37,745	**₱ 12,805**	₱ 13,090
Attributable to:				
Equity holders of the Parent Company	**₱ 9,428**	₱ 5,573	**₱ 2,705**	₱ 2,373
Non-controlling interests	**29,781**	32,172	**10,100**	10,717
	₱ 39,209	₱ 37,745	**₱ 12,805**	₱ 13,090
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	**₱ 24.87**	₱ 13.20	**₱ 6.96**	₱ 5.96

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, 2019 AND 2018
(In Millions)

	2019 Unaudited	2018 Unaudited	For the Quarter Ended 2019 Unaudited	For the Quarter Ended 2018 Unaudited
NET INCOME	₱ **39,209**	₱ 37,745	₱ **12,805**	₱ 13,090
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	**51**	37	**43**	2
INCOME TAX EXPENSE	**(15)**	(8)	**(13)**	(1)
NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**36**	86	**8**	45
INCOME TAX EXPENSE	**(7)**	(5)	**-**	(4)
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	**123**	(29)	**(4)**	90
	188	81	**34**	132
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**(1,571)**	3,321	**231**	(555)
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**10**	(18)	**2**	(12)
INCOME TAX BENEFIT (EXPENSE)	**(1)**	5	**(1)**	3
NET LOSS ON CASH FLOW HEDGES	**(813)**	(417)	**(295)**	(417)
INCOME TAX BENEFIT	**244**	122	**89**	122
	(2,131)	3,013	**26**	(859)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**(1,943)**	3,094	**60**	(727)
TOTAL COMPREHENSIVE INCOME - Net of tax	₱ **37,266**	₱ 40,839	₱ **12,865**	₱ 12,363
Attributable to:				
Equity holders of the Parent Company	₱ **8,527**	₱ 6,185	₱ **2,639**	₱ 2,059
Non-controlling interests	**28,739**	34,654	**10,226**	10,304
	₱ **37,266**	₱ 40,839	₱ **12,865**	₱ 12,363

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, 2019 AND 2018
(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, 2019, As previously reported (Audited)	P 490	P 260	P 120,501	P 25,158	P (1,899)	P (114)	P 1,444	P (1,662)	P 13,154	P 29,655	P 48,583	P (28,457)	P (48,323)	P 158,790	P 378,342	P 537,132
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16 (Note 1)	-	-	-	-	-	-	-	-	-	-	(624)	-	-	(624)	(731)	(1,355)
As of January 1, 2019, As adjusted	490	260	120,501	25,158	(1,899)	(114)	1,444	(1,662)	13,154	29,655	47,959	(28,457)	(48,323)	158,166	377,611	535,777
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(674)	-	-	-	-	-	(674)	(897)	(1,571)
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	73	6	-	-	-	-	-	79	44	123
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(345)	-	-	-	-	-	-	-	(345)	(224)	(569)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	25	-	-	-	-	-	-	25	13	38
Equity reserve for retirement plan	-	-	-	-	14	-	-	-	-	-	-	-	-	14	22	36
Other comprehensive income (loss)	-	-	-	-	14	(345)	98	(668)	-	-	-	-	-	(901)	(1,042)	(1,943)
Net income	-	-	-	-	-	-	-	-	-	-	9,428	-	-	9,428	29,781	39,209
Total comprehensive income (loss)	-	-	-	-	14	(345)	98	(668)	-	-	9,428	-	-	8,527	28,739	37,266
Net addition (reduction) to non-controlling interests and others	-	-	-	-	(11)	-	-	-	(520)	-	(253)	-	-	(784)	51,817	51,033
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	(14,852)	14,852	-	-	-	-	-
Cash dividends:																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,241)	(9,241)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,956)	(6,956)
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,050)	(4,050)
As of September 30, 2019 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (1,896)	P (459)	P 1,542	P (2,330)	P 12,634	P 14,803	P 71,986	P (28,457)	P (48,323)	P 165,909	P 437,920	P 603,829
As of January 1, 2018 (Audited)	P 490	P 260	P 120,501	P 25,158	P (1,685)	P -	P 1,395	P (1,693)	P (4,059)	P 25,742	P 46,262	P (28,457)	P (48,323)	P 135,591	P 362,444	P 498,035
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	773	-	-	-	-	-	773	2,548	3,321
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	-	-	(34)	10	-	-	-	-	-	(24)	(5)	(29)
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(188)	-	-	-	-	-	-	-	(188)	(107)	(295)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	46	-	-	-	-	-	-	46	22	68
Equity reserve for retirement plan	-	-	-	-	5	-	-	-	-	-	-	-	-	5	24	29
Other comprehensive income (loss)	-	-	-	-	5	(188)	12	783	-	-	-	-	-	612	2,482	3,094
Net income	-	-	-	-	-	-	-	-	-	-	5,573	-	-	5,573	32,172	37,745
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	-	-	-	-	(1)	-	-	19	(2,770)	-	(702)	-	-	(3,454)	(11,110)	(14,564)
Appropriations - net	-	-	-	-	-	-	-	-	-	1,482	(1,482)	-	-	-	-	-
Cash dividends:																
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 1,407	P (891)	P (6,829)	P 27,224	P 49,651	P (28,457)	P (48,323)	P 138,322	P 364,068	P 502,390

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Millions)

	2019 Unaudited	2018 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 58,771	₱ 54,667
Adjustments for:		
Interest expense and other financing charges	40,137	29,848
Depreciation, amortization and others - net	29,183	48,802
Interest income	(8,163)	(4,927)
Equity in net losses of associates and joint ventures	13	11
Gain on sale of investments and property and equipment	-	(303)
Operating income before working capital changes	119,941	128,098
Changes in noncash current assets, certain current liabilities and others	(1,497)	(45,085)
Cash generated from operations	118,444	83,013
Interest and other financing charges paid	(45,143)	(25,731)
Income taxes paid	(15,887)	(18,259)
Net cash flows provided by operating activities	57,414	39,023
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	7,930	4,733
Proceeds from sale of investments and property and equipment	650	1,055
Dividends received	8	39
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(9)	(98,106)
Cash and cash equivalents of a deconsolidated subsidiary	(621)	-
Additions to investments and advances	(785)	(18,401)
Increase in other noncurrent assets and others	(30,972)	(18,556)
Additions to property, plant and equipment	(44,108)	(31,346)
Net cash flows used in investing activities	(67,907)	(160,582)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	1,051,839	769,245
Long-term borrowings	93,462	193,059
Payments of:		
Short-term borrowings	(1,048,141)	(742,449)
Long-term borrowings	(60,713)	(42,461)
Cash dividends and distributions paid to non-controlling shareholders	(20,431)	(22,319)
Payments of lease liabilities	(15,879)	(19,192)
Redemption of preferred shares of a subsidiary	(6,782)	-
Increase (decrease) in non-controlling interests and others	(301)	72
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	41,050	24,881
Net proceeds from issuance of preferred shares of a subsidiary	19,848	-
Redemption of undated subordinated capital securities of a subsidiary	-	(39,769)
Net cash flows provided by financing activities	53,952	121,067
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(902)	1,529
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,557	1,037
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	243,545	206,556
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱ 286,102	₱ 207,593

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, 2019
(In Millions)

	Total	Current	Past Due: 1 - 30 Days	Past Due: 31 - 60 Days	Past Due: Over 60 Days
Trade	P 81,315	P 59,869	P 6,165	P 1,970	P 13,311
Non-trade	49,955	26,353	868	548	22,186
Amounts Owed by Related Parties	11,109	10,174	23	29	883
Total	142,379	**P 96,396**	**P 7,056**	**P 2,547**	**P 36,380**
Less allowance for impairment losses	12,856				
Net	**P 129,523**				

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, 2019 and comparative financial statements for the same period in 2018 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.

<u>Adoption of New and Amended Standards and Interpretation</u>
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 2019

The Group has adopted the following PFRS effective January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- 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 also introduced.

  The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as of January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate ranging from 3.9% to 10.3% as of January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;

- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property.

The impact of the adoption of PFRS 16 as of January 1, 2019 is as follows:

ASSETS	
Trade and other receivables - net	P88
Prepaid expenses and other current assets	(940)
Property, plant and equipment - net	(195,055)
Right-of-use assets - net	203,612
Investment property - net	13,219
Other intangible assets - net	(1,191)
Deferred tax assets	804
Other noncurrent assets - net	(2,569)
	P17,968
LIABILITIES AND EQUITY	
Accounts payable and accrued expenses	(P971)
Lease liabilities - current portion	1,798
Lease liabilities - net of current portion	18,646
Deferred tax liabilities	(24)
Other noncurrent liabilities	(126)
Total Liabilities	19,323
Retained earnings	(624)
Non-controlling interests	(731)
Total Equity	(1,355)
	P17,968

The operating lease commitments as of December 31, 2018 are reconciled as follows to the recognized lease liabilities as of January 1, 2019:

Operating lease commitments as of December 31, 2018	P34,166
Recognition exemption for short-term leases	(236)
Extension and termination options reasonably certain to be exercised	1,883
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(15,369)
Lease liabilities recognized based on the initial application of PFRS 16 as of January 1, 2019	20,444
Finance lease liabilities recognized as of December 31, 2018	152,539
Lease liabilities recognized as of January 1, 2019	P172,983

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments.* The interpretation 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 chosen tax treatment. If it is not probable that the tax authority will accept the 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.

- Long-term Interests (LTI) in Associates and Joint Ventures *(*Amendments to PAS 28, *Investments in Associates and Joint Ventures*)*.* The amendments require the application of PFRS 9, *Financial Instruments*, 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.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or financial assets at fair value through other comprehensive income (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 the early termination.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. 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.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four 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.

  - 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.

  - 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.

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.

<u>New and Amended Standards and Interpretation Not Yet Adopted</u>
A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2019 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:

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

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

- Definition of a Business (Amendments to PFRS 3). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, *Insurance Contracts*, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers the fact that many insurance contracts generate cash flows with substantial variability over a long period. PFRS 17 introduces a new approach that: (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract; (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

  PFRS 17 is effective for annual periods beginning on or after January 1, 2021. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements,* and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 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 IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

2. Business Combination

On March 14 and April 26, 2019, the Philippine Competition Commission and Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in Manila North Harbour Port, Inc. (MNHPI) to International Container Terminal Services, Inc. (ICTSI), respectively. With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while San Miguel Holdings Corp.'s (SMHC) shares remain at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as of April 26, 2019, and recognized the investment at fair market value amounting to P2,600. As a result, the Group recognized a gain amounting to P727, included as part of "Other income (charges) - net" account in the consolidated statements of income (Note 4).

The following summarizes the derecognized accounts at the deconsolidation date:

Cash and cash equivalents	**P621**
Trade and other receivables - net	**548**
Inventories	**280**
Prepaid expenses and other current assets	**169**
Property, plant and equipment - net	**38**
Goodwill	**325**
Other intangible assets - net	**11,214**
Deferred tax assets	**56**
Other noncurrent assets - net	**103**
Loans payable	**(3,568)**
Accounts payable and accrued expenses	**(1,493)**
Income and other taxes payable	**(100)**
Lease liabilities (including current portion)	**(44)**
Long-term debt	**(300)**
Other noncurrent liabilities	**(2,499)**
Non-controlling interest	**(2,847)**
Equity reserves	**(630)**
Total Identifiable Net Assets	**P1,873**

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

The energy segment sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company, electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market.

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

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as airports, roads, highways, toll roads, freeways, skyways, flyovers, viaducts, interchanges 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Sales																
External sales	**P226,186**	P206,549	**P18,649**	P17,885	**P102,530**	P86,754	**P377,193**	P416,459	**P17,788**	P18,129	**P16,270**	P15,379	**P -**	P -	**P758,616**	P761,155
Inter-segment sales	**179**	71	**7,711**	9,258	**2,612**	2,357	**4,463**	3,402	**4**	-	**14,237**	11,768	**(29,206)**	(26,856)	**-**	-
Total sales	**P226,365**	P206,620	**P26,360**	P27,143	**P105,142**	P89,111	**P381,656**	P419,861	**P17,792**	P18,129	**P30,507**	P27,147	**(P29,206)**	(P26,856)	**P758,616**	P761,155
Results																
Segment results	**P33,350**	P33,328	**P2,492**	P2,170	**P29,416**	P25,195	**P13,373**	P26,362	**P8,887**	P8,827	**P720**	P1,747	**(P724)**	(P1,582)	**P87,514**	P96,047

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Timing of revenue recognition														
Sales recognized at point in time	**P226,122**	P206,459	**P18,144**	P17,368	**P -**	P -	**P377,193**	P416,459	**P -**	P -	**P12,967**	P12,527	**P634,426**	P652,813
Sales recognized over time	**64**	90	**505**	517	**102,530**	86,754	**-**	-	**17,788**	18,129	**3,303**	2,852	**124,190**	108,342
Total external sales	**P226,186**	P206,549	**P18,649**	P17,885	**P102,530**	P86,754	**P377,193**	P416,459	**P17,788**	P18,129	**P16,270**	P15,379	**P758,616**	P761,155

4. Other Income (Charges)

Other income (charges) consists of:

	Note	September 30 2019	2018
Construction revenue		**P12,011**	P11,479
Gain (loss) on foreign exchange - net	*9*	**3,078**	(18,414)
Gain on fair valuation of investment	*2*	**727**	-
Power Sector Assets and Liabilities Management Corporation monthly fees reduction		**105**	779
Gain (loss) on derivatives - net		**(1,463)**	358
Construction costs		**(12,011)**	(11,479)
Others		**797**	526
		P3,244	(P16,751)

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.

“Others” consist of rent income, commission income, changes in fair value of financial assets at fair value through profit or loss (FVPL), gain on settlement of asset retirement obligation (ARO) and insurance claims.

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, 2019 and December 31, 2018:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Shareholders of the Parent Company	**September 30, 2019**	**P-**	**P-**	**P-**	**P11,120**	On demand; interest bearing	Unsecured
	December 31, 2018	-	-	-	11,281		
	September 30, 2019	**-**	**-**	**-**	**221**	On demand; non-interest bearing	Unsecured
	December 31, 2018	-	-	-	221		
Retirement Plans	**September 30, 2019**	**229**	**-**	**9,206**	**-**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2018	399	-	9,516	-		
Associates	**September 30, 2019**	**2,187**	**41**	**1,679**	**136**	On demand; interest and non-Interest bearing	Unsecured; no impairment
	December 31, 2018	2,905	251	1,564	193		
	September 30, 2019	**-**	**-**	**-**	**23,969**	Less than 1 to 10 years; Interest bearing	Unsecured and secured
	December 31, 2018	-	-	-	23,226		
Joint Ventures	**September 30, 2019**	**265**	**782**	**748**	**24**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	76	1,181	684	64		
Shareholders in Subsidiaries	**September 30, 2019**	**20**	**42**	**172**	**2,497**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	125	103	147	2,516		
Others	**September 30, 2019**	**1,986**	**1,994**	**285**	**7,639**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	2,199	1,499	496	7,851		
Total	**September 30, 2019**	**P4,687**	**P2,859**	**P12,090**	**P45,606**		
Total	December 31, 2018	P5,704	P3,034	P12,407	P45,352		

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 payable 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, 2019 and December 31, 2018

	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, 2018 (Audited)	P67,136	P55,119	P296,611	P167,415	P17,441	P143,938	P3,805	P5,594	P69,102	P826,161
Additions	1,699	481	67	426	424	5,195	71	-	38,962	47,325
Disposals/retirement	(58)	(426)	(32)	(16)	(665)	(1,490)	(39)	-	(2)	(2,728)
Reclassifications	(9,204)	(9,283)	28,937	1,776	367	9,541	1,764	-	(46,469)	(22,571)
Acquisition of subsidiaries	906	975	53,226	-	156	2,382	37	-	23,484	81,166
Currency translation adjustments	302	534	408	370	246	683	(9)	-	221	2,755
December 31, 2018 (Audited)	60,781	47,400	379,217	169,971	17,969	160,249	5,629	5,594	85,298	932,108
Adjustment due to adoption of PFRS 16	(1,248)	(917)	(242,642)	(1,816)	(176)	-	(1)	-	8	(246,792)
December 31, 2018 (as adjusted)	59,533	46,483	136,575	168,155	17,793	160,249	5,628	5,594	85,306	685,316
Additions	173	389	64	3,791	1,671	3,193	23	6	34,798	44,108
Disposals/retirement	(4)	(49)	(2)	-	(458)	(1,870)	(17)	-	(317)	(2,717)
Reclassifications	4,681	5,777	6,465	132	230	8,091	(133)	-	(26,779)	(1,536)
Acquisition of subsidiaries	759	67	-	-	-	29	-	-	-	855
Currency translation adjustments	(335)	(463)	(691)	(112)	(191)	(992)	(17)	-	(444)	(3,245)
September 30, 2019 (Unaudited)	**64,807**	**52,204**	**142,411**	**171,966**	**19,045**	**168,700**	**5,484**	**5,600**	**92,564**	**722,781**
Accumulated Depreciation and Amortization										
January 1, 2018 (Audited)	4,310	25,148	46,740	45,088	12,210	92,019	1,399	4,884	-	231,798
Depreciation and amortization	191	1,729	10,740	6,308	1,141	8,127	274	9	-	28,519
Disposals/retirement	(58)	(422)	(8)	(16)	(658)	(1,195)	(33)	-	-	(2,390)
Reclassifications	(1,034)	(7,828)	-	-	(246)	(349)	(12)	-	-	(9,469)
Acquisition of subsidiaries	-	75	17,973	-	31	732	32	-	-	18,843
Currency translation adjustments	13	234	126	257	126	358	(2)	-	-	1,112
December 31, 2018 (Audited)	3,422	18,936	75,571	51,637	12,604	99,692	1,658	4,893	-	268,413
Adjustment due to adoption of PFRS 16	-	(450)	(50,847)	(193)	(63)	-	(108)	-	-	(51,661)
December 31, 2018 (as adjusted)	3,422	18,486	24,724	51,444	12,541	99,692	1,550	4,893	-	216,752
Depreciation and amortization	158	1,351	4,078	4,807	785	6,220	236	4	-	17,639
Disposals/retirement	(4)	(37)	-	-	(444)	(1,595)	(17)	-	-	(2,097)
Reclassifications	(17)	633	189	-	(202)	(1,968)	(49)	-	-	(1,414)
Acquisition of subsidiaries	-	7	-	-	-	23	-	-	-	30
Currency translation adjustments	(53)	(99)	(283)	(207)	(110)	(456)	(6)	-	-	(1,214)
September 30, 2019 (Unaudited)	**3,506**	**20,341**	**28,708**	**56,044**	**12,570**	**101,916**	**1,714**	**4,897**	-	**229,696**

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Accumulated Impairment Losses										
January 1, 2018 (Audited)	P266	P2,315	P -	P -	P -	P8,616	P27	P573	P -	P11,797
Impairment	-	454	-	-	-	163	-	-	-	617
Disposals/retirement	-	-	-	-	-	(13)	-	-	-	(13)
Reclassifications	(266)	(16)	-	-	-	26	-	-	-	(256)
Currency translation adjustments	-	(2)	-	-	-	145	(1)	-	-	142
December 31, 2018 (Audited)	-	2,751	-	-	-	8,937	26	573	-	12,287
Adjustment due to adoption of PFRS 16	-	(76)	-	-	-	-	-	-	-	(76)
December 31, 2018 (as adjusted)	-	2,675	-	-	-	8,937	26	573	-	12,211
Reclassifications	-		-	-	-	(32)	-	-	-	(32)
Acquisition of subsidiaries	3	-	-	-	-	-	-	-	-	3
Currency translation adjustments	-	(126)	-	-	-	(330)	(2)	-	-	(458)
September 30, 2019 (Unaudited)	**3**	**2,549**	**-**	**-**	**-**	**8,575**	**24**	**573**	**-**	**11,724**
Carrying Amount										
December 31, 2018 (Audited)	P57,359	P25,713	P303,646	P118,334	P5,365	P51,620	P3,945	P128	P85,298	P651,408
September 30, 2019 (Unaudited)	**P61,298**	**P29,314**	**P113,703**	**P115,922**	**P6,475**	**P58,209**	**P3,746**	**P130**	**P92,564**	**P481,361**

September 30, 2018

	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, 2018 (Audited)	P67,136	P55,119	P296,611	P167,415	P17,441	P143,938	P3,805	P5,594	P69,102	P826,161
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, 2018 (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, 2018 (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										
September 30, 2018 (Unaudited)	P67,360	P31,773	P306,618	P118,535	P5,507	P46,544	P3,482	P130	P80,190	P660,139

Depreciation and amortization charged to operations amounted to P17,639 and P21,766 for the periods ended September 30, 2019 and 2018, 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	
	2019	2018
Net income attributable to equity holders of the Parent Company	**P9,428**	P5,573
Less dividends on CPS for the period	**1,213**	1,213
Net income attributable to common shareholders of the Parent Company (a)	**P8,215**	P4,360
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)	**P24.87**	P13.20

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

As of September 30, 2019 and 2018, 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:

2019

Date of Declaration	**Date of Record**	**Date of Payment**	**Dividend per Share**
March 14, 2019	**March 14, 2019**	**March 15, 2019**	**P279.00**
May 9, 2019	**May 9, 2019**	**May 10, 2019**	**279.00**
August 8, 2019	**August 8, 2019**	**August 9, 2019**	**139.50**

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

On November 7, 2019, the BOD of the Parent Company declared cash dividends at P279.00 per share to preferred shareholders of record as of November 7, 2019 to be paid on November 8, 2019.

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 FVPL, financial assets at FVOCI, financial assets at amortized cost, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, 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 Securities and Exchange Commission and/or the Philippine Stock Exchange, Inc.

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.

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. The 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 Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and

- changes in the timing of the hedged transactions.

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, 2019	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P27,545	P38,213	P70,868	P57,097	P69,041	P126,333	P389,097
Interest rate	4.9925% - 12.00%	4.3458% - 9.885%	4.0032% - 9.885%	4.7575% - 9.885%	4.5219% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	1,995	2,555	2,687	33,512	1,024	13,084	54,857
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	798	1,664	1,847	2,010	-	-	6,319
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	-	-	
Foreign currency-denominated (expressed in Philippine peso)	8,070	36,189	27,907	98,932	24,577	8,971	204,646
Interest rate	LIBOR + margin	LIBOR + margin, BBSY + margin	LIBOR + margin, BBSY + margin	LIBOR + margin, BBSY + margin	LIBOR + margin, BBSY + margin	LIBOR + margin	
	P38,408	P78,621	P103,309	P191,551	P94,642	P148,388	P654,919

December 31, 2018	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P29,488	P28,159	P51,765	P49,110	P49,465	P161,404	P369,391
Interest rate	5.4583% - 12.00%	4.9925% - 8.6615%	4.0032% - 9.885%	4.8243% - 9.885%	4.5219% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	1,949	2,477	2,607	1,838	33,965	12,222	55,058
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	p1,239	985	1,503	2,347	726	-	6,800
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	-	
Foreign currency-denominated (expressed in Philippine peso)	23,558	20,051	26,404	14,956	99,541	8,756	193,266
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P56,234	P51,672	P82,279	P68,251	P183,697	P182,382	P624,515

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 P2,110 and P2,001 for the period ended September 30, 2019 and for the year ended December 31, 2018, 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.

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.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and

- changes in the timing of the hedged transactions.

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

	September 30, 2019		December 31, 2018	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$3,299**	**P171,003**	US$2,444	P128,554
Trade and other receivables	**768**	**39,881**	770	40,482
Prepaid expenses and other current assets	**4**	**193**	17	926
Noncurrent receivables	**17**	**891**	87	4,552
	4,088	**211,968**	3,318	174,514
Liabilities				
Loans payable	**265**	**13,700**	821	43,147
Accounts payable and accrued expenses	**2,548**	**132,175**	1,475	77,574
Long-term debt (including current maturities)	**5,006**	**259,503**	4,722	248,324
Lease liabilities (including current portion)	**1,374**	**71,219**	1,499	78,799
Other noncurrent liabilities	**458**	**23,790**	457	24,040
	9,651	**500,387**	8,974	471,884
Net foreign currency-denominated monetary liabilities	**(US$5,563)**	**(P288,419)**	(US$5,656)	(P297,370)

The Group reported net gain (losses) on foreign exchange amounting to P3,078 and (P18,414) for the periods ended September 30, 2019 and 2018, 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 US dollar as shown in the following table:

	US Dollar to Philippine Peso
September 30, 2019	**51.83**
December 31, 2018	52.58
September 30, 2018	54.02
December 31, 2017	49.93

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**	
September 30, 2019	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P2,942)**	**(P2,425)**	**P2,942**	**P2,425**
Trade and other receivables	**(243)**	**(698)**	**243**	**698**
Prepaid expenses and other current assets	**(4)**	**(3)**	**4**	**3**
Noncurrent receivables	**(17)**	**(12)**	**17**	**12**
	(3,206)	**(3,138)**	**3,206**	**3,138**
Loans payable	**205**	**204**	**(205)**	**(204)**
Accounts payable and accrued expenses	**547**	**2,382**	**(547)**	**(2,382)**
Long-term debt (including current maturities)	**4,230**	**3,737**	**(4,230)**	**(3,737)**
Lease liabilities (including current portion)	**1,371**	**963**	**(1,371)**	**(963)**
Other noncurrent liabilities	**315**	**369**	**(315)**	**(369)**
	6,668	**7,655**	**(6,668)**	**(7,655)**
	P3,462	**P4,517**	**(P3,462)**	**(P4,517)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2018	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P2,031)	(P1,835)	P2,031	P1,835
Trade and other receivables	(262)	(740)	262	740
Prepaid expenses and other current assets	(8)	(16)	8	16
Noncurrent receivables	(30)	(77)	30	77
	(2,331)	(2,668)	2,331	2,668
Loans payable	575	649	(575)	(649)
Accounts payable and accrued expenses	937	1,404	(937)	(1,404)
Long-term debt (including current maturities)	4,016	3,517	(4,016)	(3,517)
Finance lease liabilities (including current portion)	785	1,050	(785)	(1,050)
Other noncurrent liabilities	307	366	(307)	(366)
	6,620	6,986	(6,620)	(6,986)
	P4,289	P4,318	(P4,289)	(P4,318)

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

Commodity Price Risk

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

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

SMC enters into commodity derivative transactions on behalf of its subsidiaries 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, 2019	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	P286,102	P286,102	P286,102	P-	P-	P-
Trade and other receivables - net	129,523	129,523	129,523	-	-	-
Derivative assets (included under "Prepaid expenses, other current assets" and "Other noncurrent assets" accounts)	1,144	1,144	684	146	314	-
Investments at FVPL (included under "Prepaid expenses and other current assets" account)	288	288	288	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,933	5,946	7	122	49	5,768
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	257	277	119	31	127	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	22,835	23,044	-	589	21,992	463
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	10,979	10,979	5,959	5,020	-	-
Financial Liabilities						
Loans payable	192,598	193,145	193,145	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure restoration obligation (IRO), deferred income and other current non-financial liabilities)	147,663	147,956	147,956	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,139	3,139	1,745	1,260	134	-
Long-term debt (including current maturities)	647,906	808,691	73,355	110,469	450,219	174,648
Lease liabilities (including current portion)	154,859	184,122	31,949	32,371	76,638	43,164
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), accrual for mine rehabilitation and decommissioning, and other noncurrent non-financial liabilities)	28,237	28,329	-	18,540	8,816	973

December 31, 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	P243,545	P243,545	P243,545	P-	P-	P-
Trade and other receivables -net	125,042	125,042	125,042	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	1,545	1,545	1,174	371	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	254	254	254	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments accounts)	5,937	6,026	60	46	235	5,685
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	226	247	49	77	121	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	19,221	19,516	-	2,870	16,304	342
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	14,032	14,032	9,038	4,994	-	-
Financial Liabilities						
Loans payable	192,968	193,914	193,914	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	158,415	158,724	158,724	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,495	2,495	1,929	566	-	-
Long-term debt (including current maturities)	617,545	783,282	89,247	82,220	400,027	211,788
Finance lease liabilities (including current portion)	152,539	169,173	27,042	29,698	76,222	36,211
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	29,216	31,709	-	17,776	9,330	4,603

Credit Risk

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

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

Trade and Other Receivables

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

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

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

Investment in Debt Instruments

The Group limits its exposure to credit risk by investing only in liquid debt instruments with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

Credit Quality

In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

The credit quality of financial assets is being managed by the Group using internal credit ratings. Credit quality of the financial assets were determined as follows:

High grade includes deposits or placements to reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and the Group's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include trade and other receivables and non-current receivables and deposits.

Receivables with high probability of delinquency and default were fully provided with allowance for impairment losses.

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, 2019	December 31, 2018
Cash and cash equivalents (excluding cash on hand)	**P281,336**	P240,014
Trade and other receivables - net	**129,523**	125,042
Derivative assets	**1,144**	1,545
Investment in debt instruments at FVOCI	**163**	206
Investments in debt instruments at amortized cost	**257**	226
Noncurrent receivables and deposits - net	**22,835**	19,221
Restricted cash	**10,979**	14,032
	P446,237	P400,286

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month expected credit losses (ECL) or lifetime ECL. Assets that are credit-impaired are separately presented.

	September 30, 2019					
	Financial Assets at Amortized Cost					
	12-Month ECL	**Lifetime ECL not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P281,336**	**P -**	**P -**	**P -**	**P -**	**P281,336**
Trade and other receivables	**129,523**	**-**	**12,856**	**-**	**-**	**142,379**
Derivative assets	**-**	**-**	**-**	**1,144**	**-**	**1,144**
Investment in debt instruments at FVOCI	**-**	**-**	**-**	**-**	**163**	**163**
Investment in debt instruments at amortized cost	**111**	**146**	**-**	**-**	**-**	**257**
Noncurrent receivables and deposits	**-**	**22,835**	**455**	**-**	**-**	**23,290**
Restricted cash	**5,959**	**5,020**	**-**	**-**	**-**	**10,979**

	December 31, 2018					
	Financial Assets at Amortized Cost					
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash and cash equivalents (excluding cash on hand)	P240,014	P -	P -	P -	P -	P240,014
Trade and other receivables	125,042	-	13,223	-	-	138,265
Derivative assets	-	-	-	1,545	-	1,545
Investment in debt instruments at FVOCI	-	-	-	-	206	206
Investment in debt instruments at amortized cost	40	186	-	-	-	226
Noncurrent receivables and deposits	-	19,221	493	-	-	19,714
Restricted cash	9,038	4,994	-	-	-	14,032

The aging of receivables is as follows:

September 30, 2019	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P59,869**	**P26,353**	**P10,174**	**P96,396**
Past due:				
1 - 30 days	**6,165**	**868**	**23**	**7,056**
31 - 60 days	**1,970**	**548**	**29**	**2,547**
61 - 90 days	**1,481**	**1,698**	**20**	**3,199**
Over 90 days	**11,830**	**20,488**	**863**	**33,181**
	P81,315	**P49,955**	**P11,109**	**P142,379**

December 31, 2018	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P52,659	P22,353	P10,318	P85,330
Past due:				
1 - 30 days	8,450	1,048	340	9,838
31 - 60 days	2,800	3,398	9	6,207
61 - 90 days	1,071	1,710	2	2,783
Over 90 days	11,540	21,749	818	34,107
	P76,520	P50,258	P11,487	P138,265

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period. There are no significant changes in the credit quality of the counterparties during the period.

The Group's cash and cash equivalents, derivative assets, financial assets at FVOCI, financial assets at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties.

The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

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

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

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

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

Other Market Price Risk
The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and 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

Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

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

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

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 with the objective of holding 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.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, 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.

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 the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group's investments in equity and debt 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 derivative financial assets that are not designated as cash flow hedge. 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, the Group may irrevocably designate a financial asset 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 the consolidated statements of income as incurred. Changes in fair value 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. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL 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. 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 the consolidated statements of income. 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 that are not designated as cash flow hedge 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 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.

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 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.

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

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

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

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

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.

Impairment of Financial Assets

The Group recognizes allowance for ECL on financial assets at amortized cost and investments in debt instruments at FVOCI.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, 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 ECLs, 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 ECLs 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.

At each reporting date, the Group assesses whether these financial assets at amortized cost and investments in debt instruments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses in other comprehensive income, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

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.

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, 2019		December 31, 2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P286,102**	**P286,102**	P243,545	P243,545
Trade and other receivables - net	**129,523**	**129,523**	125,042	125,042
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,144**	**1,144**	1,545	1,545
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**288**	**288**	254	254
Financial assets at FVOCI (including current portion presented under "Prepaid expenses and other current assets" account)	**5,933**	**5,933**	5,937	5,937
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**257**	**257**	226	226
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**22,835**	**22,835**	19,221	19,221
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**10,979**	**10,979**	14,032	14,032
Financial Liabilities				
Loans payable	**192,598**	**192,598**	192,968	192,968
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**147,663**	**147,663**	158,415	158,415
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**3,139**	**3,139**	2,495	2,495
Long-term debt (including current maturities)	**647,906**	**695,587**	617,545	623,889
Lease liabilities (including current portion)	**154,859**	**154,859**	152,539	152,539
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, deferred income, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	**28,237**	**28,237**	29,216	29,216

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

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

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

Financial Assets at FVPL and 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, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.9% to 4.8% and 5.2% to 7.1% as of September 30, 2019 and December 31, 2018, respectively. The discount rates used for foreign currency-denominated loans range from 1.6% to 2.1% and 2.5% to 3.0% as of September 30, 2019 and December 31, 2018, 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 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. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the 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 recognized 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 the consolidated statements of income 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 the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

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: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. 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 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.

However, an embedded derivative is not separated if the host contract is a financial asset.

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

The Group designated the following derivative financial instruments as cash flow hedges:

	Maturity			
September 30, 2019	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign currency risk				
Call spread swaps				
Notional amount	**US$61**	**US$181**	**US$206**	**US$448**
Average strike rate	**P52.87 to P55.58**	**P52.58 to P56.15**	**P52.59 to P56.15**	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	**US$10**	**US$30**	**US$300**	**US$340**
Strike rate	**P47.00 to P57.50**	**P47.00 to P57.17**	**P47.00 to P56.75**	
Fixed interest rate	**4.19% to 5.75%**	**4.19% to 5.75%**	**4.19% to 5.80%**	

	Maturity			
December 31, 2018	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign currency risk				
Currency forwards				
Notional amount	US$15	US$ -	US$ -	US$15
Average forward rate	P54.27	-	-	
Call spread swaps				
Notional amount	US$22	US$65	US$220	US$307
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P52.95 to P57.16	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	US$ -	US$ -	US$120	US$120
Strike rate	-	-	P54.31	
Fixed interest rate	-	-	5.80%	

The following are the amounts relating to hedged items:

September 30, 2019	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign currency risk			
US dollar-denominated borrowings	**P127**	**P -**	**(P100)**
Foreign currency and interest rate risks			
US dollar-denominated borrowings	**740**	**(989)**	**324**

December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated borrowings	P11	P -	(P77)
Foreign currency and interest rate risks			
US dollar-denominated borrowings	1,020	(538)	419

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

September 30, 2019	**Notional Amount**	**Carrying Amount Assets**	**Carrying Amount Liabilities**	**Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included**	**Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income**	**Cost of Hedging Recognized in Other Comprehensive Income**	**Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income**	**Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income**	**Line Item in the Consolidated Statement of Income Affected by the Reclassification**
Foreign currency risk:									
Call spread swaps	**US$448**	**P403**	**P417**	**Prepaid expenses and other current assets, Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities**	**(P127)**	**(P265)**	**(P5)**	**P232**	**Interest expense and other financing charges, and Other income (charges)**
Foreign currency and interest rate risk:									
Cross currency swap	**340**	**92**	**1,345**	**Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities**	**(740)**	**(168)**	**242**	**33**	**Interest expense and other financing charges, and Other income (charges)**

December 31, 2018	Notional Amount	Carrying Amount Assets	Carrying Amount Liabilities	Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
Foreign currency risk:									
Currency forwards	US$15	P -	P15	Accounts payable and accrued expenses	(P11)	(P4)	P11	P7	Other income (charges)
Call spread swaps	307	386	332	Prepaid expenses and other current assets, Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities	-	(183)	-	70	Interest expense and other financing charges, and Other income (charges)
Foreign currency and interest rate risk:									
Cross currency swap	120	-	377	Other noncurrent liabilities	(1,020)	598	252	-	Interest expense and other financing charges, and Other income (charges)

No ineffectiveness was recognized in the 2019 and 2018 consolidated statement of income.

The table below provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	September 30, 2019		December 31, 2018	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	**(P538)**	**P342**	P -	P -
Changes in fair value:				
Foreign currency risk	**5**	**(265)**	(11)	(187)
Foreign currency risk and interest rate risk	**(887)**	**(168)**	(1,020)	598
Amount reclassified to profit or loss	**237**	**265**	263	77
Tax effect	**194**	**50**	230	(146)
Ending balance	**(P989)**	**P224**	(P538)	P342

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, 2019 and December 31, 2018, 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 P663, P565 and P1,104 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$818, US$523 and US$912 as of September 30 and June 30, 2019 and December 31, 2018, respectively, and with various maturities in 2019. The negative fair value of these currency forwards amounted to P175, P192 and P297 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

Currency Options

As of September 30 and June 30, 2019 and December 31, 2018, the Group has outstanding currency options with an aggregate notional amount of US$1,074, US$1,205 and US$370, respectively, and with various maturities in 2019. The net negative fair value of these currency options amounted to P144, P445 and P10 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

Call Spread Swaps
As of September 30 and June 30, 2019, the Group has outstanding call spread swaps with a notional amount of US$15 maturing on December 2019. The negative fair value of these call spread swaps amounted to P2 and P3, respectively.

The Group has no outstanding call spread swaps as of December 31, 2018.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2019. 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 200, 1,000 and 1,500 metric tons as of September 30 and June 30, 2019 and December 31, 2018, respectively. The negative fair value of these swaps amounted to P3, P7 and P10 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019. Under the agreements, 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 11.8, 12.2 and 17.0 million barrels as of September 30 and June 30, 2019 and December 31, 2018, respectively. The net positive (negative) fair value of these swaps amounted to (P144), P166 and P489 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

The Group has outstanding fixed swap agreements covering its coal requirements, 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 159,000, 358,000 and 60,000 metric tons as of September 30 and June 30, 2019 and December 31, 2018, respectively. The net positive (negative) fair value of these swaps amounted to (P49), (P138) and P96 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

Commodity Options
As of September 30 and June 30, 2019 and December 31, 2018, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 1.0, 1.5 and 0.15 million barrels, respectively. The positive fair value of these commodity options amounted to P288, P228 and P137 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

Embedded Derivatives
The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$278, US$176 and US$187 as of September 30 and June 30, 2019 and December 31, 2018, 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 fair value of these embedded currency forwards amounted to P164, P193 and P87 as of September 30 and June 30, 2019 and December 31, 2018, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P1,463), P358, (P2,281) and P748 for the periods ended September 30, 2019 and 2018, and June 30, 2019 and 2018, respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	September 30, 2019	December 31, 2018
Beginning balance	**(P950)**	(P3,154)
Net change in fair value of derivatives:		
Designated as accounting hedge	**(1,339)**	(453)
Not designated as accounting hedge	**(1,271)**	853
	(3,560)	(2,754)
Less fair value of settled instruments	**(1,565)**	(1,804)
Ending balance	**(P1,995)**	(P950)

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, 2019			December 31, 2018		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P1,144**	**P1,144**	P -	P1,545	P1,545
Financial assets at FVPL	**-**	**288**	**288**	-	254	254
Financial assets at FVOCI	**421**	**5,512**	**5,933**	386	5,551	5,937
Financial Liabilities						
Derivative liabilities	**-**	**3,139**	**3,139**	-	2,495	2,495

The Group has no financial instruments valued based on Level 3 as of September 30, 2019 and December 31, 2018. For the period ended September 30, 2019 and for the year ended December 31, 2018, 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. Subsequent Event

Merger of San Miguel Yamamura Asia Corporation (SMYAC) and San Miguel Yamamura Packaging Corporation (SMYPC)

On September 12, 2019, the BOD of SMC approved: (i) the purchase by SMC of 5% of SMYAC, (ii) the merger of SMYAC with SMYPC, where SMYPC will be the surviving entity, and (iii) the delegation of authority to management to determine the relevant terms and conditions of any deed, agreement or document required to give effect to the proposed transactions.

On October 23, 2019, SMC purchased 5% of the total issued and outstanding capital stock of SMYAC, making the ownership share of SMC and Nihon Yamamura Glass Company, Ltd. in both SMYPC and SMYAC 65% and 35%, respectively.

12. 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 43 (a) of the 2018 Audited Consolidated Financial Statements, that remain outstanding as of September 30, 2019. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

f. Except for the Prepared and Packaged Food, and Protein businesses of San Miguel Food and Beverage, Inc., which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended September 30, 2019.

h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of September 30, 2019. 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, 2019 and December 31, 2018 for liquidity, solvency and profitability ratios and for the periods ending September 30, 2019 and 2018 for operating efficiency ratios.

	September 2019	December 2018
Liquidity:		
Current Ratio	**1.44**	1.29
Solvency:		
Debt to Equity Ratio	**2.11**	2.33
Asset to Equity Ratio	**3.11**	3.33
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**6.69%**	4.76%
Interest Rate Coverage Ratio	**2.46**	2.63

	Period Ended September 30	
	2019	2018
Operating Efficiency:		
Volume Growth	**3%**	8%
Revenue Growth	**0%**	28%
Operating Margin	**12%**	13%

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*

ANNEX “B”

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. (“Top Frontier” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended September 30, 2019 (with comparative figures as of December 31, 2018 and for the period ended September 30, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2019, 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. 2019 SIGNIFICANT TRANSACTIONS

INVESTMENT

- **Deconsolidation of Manila North Harbour Port, Inc. (MNHPI)**

  On March 14 and April 26, 2019, respectively, the Philippine Competition Commission (PCC) and the Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI). With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while San Miguel Holdings Corp.’s (SMHC) shares remain at 43.33%.

  As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as of April 26, 2019, and recognized the investment at fair market value amounting to P2,600 million. As a result, the Group recognized a gain amounting to P727 million, included as part of “Other income (charges) - net” account, in the consolidated statements of income.

LONG-TERM DEBT

- **Masinloc Power Partners Co. Ltd. (MPPCL)**

  On January 11, 2019, MPPCL availed of US$35 million loan from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 300MW (Unit 3) coal-fired power plant within the existing facilities of MPPCL. The loan is divided into a fixed interest tranche of 5.5959% per annum and a floating interest tranche based on a six-month LIBOR plus margin, with maturities up to December 2030.

- **Citra Central Expressway Corp. (CCEC)**

  On March 27, 2019, CCEC availed of P1,000 million loan from the P31,000 million Omnibus Loan and Security Agreement with various local banks dated December 15, 2014 for the project cost of the North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3).

- **Petron Corporation (Petron)**

  In May and July 2019, Petron availed of US$536 million and US$264 million loans, respectively, from its US$800 million term loan facility to refinance Dollar-denominated and Peso-denominated bilateral short-term loans, to be used to partially prepay its existing US$1,000 million term loan facility and for general corporate purposes. The loan is subject to floating interest rate. Repayment of principal will be made in seven (7) equal semi-annual amortizations beginning May 15, 2021. The maturity date of the loan is on May 15, 2024.

- **San Miguel Corporation (SMC)**

  On June 24, 2019, SMC availed of a P16,000 million fixed-rate seven-year term loan for general corporate purposes.

- **San Miguel Consolidated Power Corporation (SMCPC)**

  On July 31, 2019, SMCPC availed of the remaining P978 million from a P21,300 million loans, 12-year Omnibus Loan and Security Agreement with a syndicate of local banks dated August 9, 2018. The loan is subject to a fixed interest rate of 6.5077% and payable in quarterly installments up to August 2030. Proceeds of the loan were mainly used to finance the remaining payables from the construction works for the Davao Greenfield Power Plant.

- **San Miguel Yamamura Australasia Pty. Ltd.**

  On July 31, 2019, San Miguel Yamamura Australasia Pty. Ltd. entered into a syndicated facility agreement amounting to AUD100 million, of which AUD80 million has been drawn. The loan is amortized over five (5) years and is subject to interest based on Bank Bill Swap Rate or BBSY rate plus 1.5% to 1.9% margin. Proceeds of the loan were used to refinance maturing short-term obligations and general corporate purposes.

FIXED-RATE PESO-DENOMINATED BONDS

- **Shelf-Registration of P60,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC Global Power Holdings Corp. (SMC Global) and Issuance of P30,000 Million Bonds**

  On March 29, 2019, the Philippine Securities and Exchange Commission approved the shelf registration of up to P60,000 million worth of fixed-rate Peso-denominated bonds of SMC Global.

  On April 24, 2019, SMC Global issued and listed in the Philippine Dealing & Exchange Corp. the first tranche of the fixed-rate Peso-denominated bonds amounting to P30,000 million.

  The bonds are comprised of the three-year Series H Bonds due 2022, five-year Series I Bonds due 2024 and seven-year Series J Bonds due 2026.

The Series H, I and J Bonds have fixed interest rates per annum equivalent to 6.8350%, 7.1783% and 7.6000%, respectively.

The net proceeds were used by SMC Global for payment of maturing long-term debt and short-term loan and in investments in power-related assets, and payment of transaction-related fees, costs and expenses.

- **Redemption of Fixed-Rate Peso-Denominated Bonds by San Miguel Brewery Inc. (SMB)**

  On April 2 and 3, 2019, SMB redeemed its Series E and C fixed-rate Peso-denominated bonds amounting to P10,000 million and P2,810 million, respectively. The Series E and C bonds formed part of the P20,000 million and P38,800 million fixed-rate bonds issued in 2012 and 2009, respectively.

SENIOR PERPETUAL CAPITAL SECURITIES (SPCS)

- **Issuance of US$800 Million SPCS by SMC Global**

  On April 25, 2019, SMC Global issued US$500 million SPCS (the "Original Securities") at an issue price of 100%, with an initial rate of distribution of 6.5% per annum. The SPCS was listed in the Singapore Stock Exchange on April 26, 2019. The net proceeds of the Original Securities will be used and applied by SMC Global for the redemption of US$300 million Undated Subordinated Capital Securities in November 2019, and for general corporate purposes, including capital expenditures and investments in power-related assets.

  On July 3, 2019, SMC Global issued an additional US$300 million SPCS (the "Additional Securities'') at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25 to (and excluding) July 3, 2019. The Additional Securities were consolidated into and form a single series with the Original Securities issued in April 2019, bringing its total securities to US$800 million (the "Securities"). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price. The Additional Securities was also listed in the Singapore Stock Exchange on July 4, 2019. The net proceeds of the Additional Securities will be used by SMC Global for general corporate purposes, investments in power-related assets and repayment of indebtedness.

  As of September 30, 2019, the net proceeds of the Securities are still part of the cash and cash equivalents balance.

PREFERRED SHARES

- **Issuance of 20,000,000 Series 3 Perpetual Preferred Shares by Petron**

  On June 25, 2019, Petron issued and listed on the Philippine Stock Exchange 13,403,000 Series 3A and 6,597,000 Series 3B Perpetual Preferred Shares for a total amount of P20,000 million.

  Dividends are 6.8713% and 7.1383% per annum for Series 3A and Series 3B, respectively.

  The net proceeds were used for the repayment of maturing short-term loans and general corporate purposes. The remaining balance which is allocated for the redemption of the

Series 2A Preferred Shares in November 2019, is still in the cash and cash equivalents balance of Petron as of September 30, 2019.

- **Redemption of Series "2'' Preferred Shares - Subseries B (SMC2B Preferred Shares) by SMC**

  On September 23, 2019, SMC redeemed 90,428,200 SMC2B Preferred Shares at a redemption price of P75.00 per share. SMC paid P6,782 million to the holders of SMC2B Preferred Shares. SMC initially obtained a short-term bridge financing loan to redeem the SMC2B Preferred Shares.

  The bridge financing loan was paid using the proceeds of the P10,000 million worth of fixed rate Peso-denominated bonds issued by SMC on October 4, 2019.

PAYMENT OF MATURING OBLIGATIONS

During the nine-month period ended September 30, 2019, the Group paid P17,224 million of maturing obligations funded by cash generated from operations.

The Infrastructure business, Petron and Energy business paid a total of P8,619 million, P4,858 million and P2,807 million, respectively, of their maturing long-term debt.

While, the Packaging business paid a total amount of P940 million of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2019 vs. 2018

The Group's consolidated sales revenue for the nine months ended September 30, 2019 amounted to P758,616 million, at par versus 2018. Higher volumes from the Energy business and San Miguel Food and Beverage continue to drive revenue growth, but this was moderated by the decline in sales performance of Petron.

Cost of sales amounted to P607,357 million, slightly higher than 2018 at P605,005 million. The increase primarily resulted from the: (a) volume growth of San Miguel Food and Beverage and higher prices of major raw materials of the Food business, and (b) higher power purchase costs of Sual and San Roque Power Plants and Albay Power and Energy Corporation, full nine months operations of Masinloc Power Plant, Malita Power Plant Unit 2 and Limay Power Plant Unit 3, and higher energy fees of Ilijan and Sual Power Plants. This was reduced by the decrease in average crude prices and lower sales volume of Petron.

Selling and administrative expenses increased by 6% at P63,745 million compared to last year. The increase was mainly due to higher distribution costs, advertising and promotions, and depreciation and amortization expenses of SMB, full nine months operations of Masinloc Power Plant, Malita Power Plant Unit 2 and Limay Power Plant Unit 3, and higher personnel expenses of the Energy business, and higher logistics costs and personnel expenses of the Food business.

The Group's consolidated operating income amounted to P87,514 million, 9% lower than last year, as Petron continued to be weighed down by the effect of volatile world crude oil prices, weak refining margins and lower volumes. The Food business under San Miguel Food and Beverage also continues to be affected by rising raw material costs in most of its business segments. The decline, however, was moderated by SMB, Ginebra San Miguel Inc. (GSMI) and the Energy business' strong results during the period.

The higher interest expense and other financing charges was mainly due to the higher level of long-term debt and generally higher interest rate in 2019 compared to 2018.

The higher interest income was primarily due to the higher interest rate and average balance of cash and money market placements.

The increase in equity in net losses mainly represents higher share in the net losses of the Group's joint ventures, net of the share in MNHPI's income for the period May to September 2019.

The gain on sale of investments and property and equipment in 2018 pertains mainly to the sale by San Miguel Properties, Inc. (SMPI) of its investment in Legacy Homes, Inc.

Other income - net in 2019 versus other charges - net in 2018 was primarily due to the appreciation of the Philippine Peso by P0.75 in September 2019 compared to the depreciation of the Philippine Peso by P4.09 in September 2018, resulting to a foreign exchange gain of P3,078 million in 2019 compared to a foreign exchange loss of P18,414 million in 2018.

The higher income tax expense was primarily due to the: (a) higher provision for deferred income tax expense recognized by the Energy business on the temporary difference of monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease-related expenses and the temporary differences on foreign exchange translation and capitalized borrowing costs, (b) recognition by SMC of deferred income tax expense for the unrealized foreign exchange gain in 2019 compared to deferred income tax benefit for the unrealized foreign exchange loss in 2018, and (c) higher taxable income of SMB, MPPCL and South Premiere Power Corp. (SPPC). This was partially offset by lower provision for income tax recognized by Petron, the Food business and San Miguel Energy Corporation (SMEC) due to the decline in taxable income.

Consolidated net income amounted to P39,209 million in 2019, 4% lower than last year.

Share of non-controlling interests (NCI) decreased in 2019 mainly due to the lower net income of Petron, partly offset by the increase in share of NCI on San Miguel Food and Beverage's higher net income.

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

1. FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc.'s (SMFB) consolidated revenue for the nine-month period in 2019 reached P226,365 million, 10% higher than P206,620 million reported in the same period in 2018, mainly driven by Beer and Spirits' strong volumes. Consolidated operating income, however, ended slightly lower at P33,585 million on account of the decline in the Food business' performance.

Net income stood at P22,922 million, which is flat versus the same period last year.

a. Beer and Non-Alcoholic Beverages (NAB) Segment

SMB kept its growth trend during the nine-month period, with consolidated volumes reaching 222.0 million cases, 8% higher than the previous year.

Domestic operations volumes grew 9% from last year which continue to benefit from the ongoing campaigns and consumer and trade programs that further strengthened the equity and brand awareness for the portfolio of beer products, in particular, Red Horse and San Miguel Pale Pilsen, maintaining its position as the top selling brands for SMB.

SMB's international operations, meanwhile, continue to deliver favorable revenue and operating income growth on the back of improved performances of Exports, Vietnam and Thailand.

With strong volumes and better selling prices, SMB's consolidated revenues and operating income reached P103,883 million and P28,200 million, up 11% and 9%, respectively.

Net income grew to P19,835 million, 12% higher from last year.

b. Spirits Segment

GSMI's September year-to-date volumes remained strong posting a 15% growth from last year. GSMI's key brands continue to benefit from the thematic campaigns "Pilipino Ako, Ginebra Ako" of Ginebra San Miguel, "Lakas sa Magandang Bukas" of Vino Kulafu and "I Choose Mojito" of GSM Blue, as well as, the 2019 Jersey collection promo, wider sales distribution and numerous on-ground activations. Revenues reached P21,430 million, 20% higher than last year.

Backed by strong volumes, higher revenues and lower costs, operating income hit P2,209 million, 66% higher than last year's level.

Net income hit P1,325 million, 68% higher from the previous year.

c. Food Segment

The Food business' consolidated revenues for the nine-month period amounted to P101,054 million, 6% higher than last year with all its businesses posting revenue growth driven by better selling prices.

Protein business revenues grew 5%, driven by improvements in poultry prices, backed by higher chicken sales from its stable-priced channels and the shift of consumer preferences to chicken from pork due to the African Swine Fever disease outbreak that hit Luzon and Metro Manila. During the third quarter, poultry prices have shown signs of recovery which were higher compared to the previous year. Year-to-date average prices, however, is still lower compared to last year's level.

Animal Nutrition & Health business revenues was relatively flat as commercial volumes declined on account of lower sales of broiler and layer feeds brought about by delayed loading of chicks by commercial raisers.

Prepared and Packaged Food business provided double-digit revenue growth of 13% brought by the strong performance of core products - Tender Juicy, Purefoods Nuggets, Magnolia Milk, Buttercup Margarine and Cheezee, which was supported with aggressive marketing campaigns.

Flour revenues sustained its good performance, which grew 8%, on account of higher volumes and better selling prices.

The Food segment's operating income for the first nine months, however, ended significantly lower than last year at P3,209 million mainly due to lower poultry prices at the start of the year and higher raw material costs of most of its businesses.

Net income for the Food business ended lower at P1,783 million.

2. PACKAGING

Packaging business' sales revenues amounted to P26,360 million during the nine-month period. Metal, plastics and Malaysian operations continued to lead growth for the group.

With efforts on improving efficiencies and better management of fixed costs, operating income amounted to P2,493 million, 2% higher than 2018.

3. ENERGY

SMC Global posted consolidated off-take volume of 21,581 gigawatt hours (gwh), 22% higher than the same period last year. This was the result of higher bilateral sales volume and improved operations from Sual, Ilijan and San Roque power plants alongside the additional power generated from the Limay and Malita power plants as well as the full nine-month operation of Masinloc power plant. This pushed consolidated revenues to reach P105,142 million, up 18% from P89,111 million last year.

Consequently, consolidated operating income increased by 16% to P29,974 million, while consolidated net income ended at P11,385 million, more than double compared to last year's level.

4. FUEL AND OIL

Petron's consolidated revenues of P381,656 million for the first nine months of 2019 was down by 9% versus 2018, which was mainly due to lower sales volume from its Philippine operations which declined by 7% as a result of its Bataan Refinery's emergency shutdown last April. This was partially cushioned by Malaysia's volume increase of 2%. Global oil prices also remained volatile and lower compared to last year because of ongoing trade wars.

Consolidated operating income and net income settled at P13,871 million and P3,623 million, down by 38% and 70% from 2018, respectively.

5. INFRASTRUCTURE

The Infrastructure business posted a combined 6% volume growth for the nine-month period brought about by consistent increase in traffic volumes of all the operating toll roads. This drove consolidated revenues to reach P17,792 million, while operating income amounted to P8,965 million.

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 San Miguel Food and Beverage 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: (a) increase in crude prices and effect of excise tax of Petron, (b) higher sales volume of SMB and the Food business, (c) higher excise tax of the domestic operations of SMB, (d) operations of MPPCL and the power plants in Bataan and Davao, (e) increase in cost of major raw materials of the Food business, particularly Feeds under Animal Nutrition and Health business and dairy and processed meats under Prepared and Packaged Food business, (f) as well as the impact of Philippine Peso depreciation, and (g) depreciation of power plants of SMC Consolidated Power Corporation's (SCPC) Units 1 and 2 and SMCPC's Unit 1 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 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 other financing charges was mainly due to the: (a) 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; (b) 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 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.

The gain on sale of investments and property and equipment in 2018 pertains to the sale by 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 Philippine 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 2017.

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

1. FOOD AND BEVERAGE

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, Spirits and Food segments. Similarly, operating income of P34,025 million grew 17% from same period in 2017.

a. Beer and NAB Segment

SMB revenues amounted to P93,362 million, 16% higher from same period in 2017, mainly driven by robust volumes, 9% higher than 2017. 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 same period in 2017 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 2017.

b. Spirits Segment

GSMI continued its growth momentum posting a 13% volume growth compared to 2017. 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 versus the same period in 2017.

Operating income reached P1,328 million, 52% higher than 2017 due to strong volumes and lower operating costs.

c. Food Segment

Food segment posted consolidated revenues of P95,345 million, 13% higher than 2017 on account of the strong performance of Animal Nutrition and Health, Protein and Prepared and Packaged Food businesses. Most of the food businesses 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 2017 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 Philippine Peso depreciation.

Revenues from the Animal Nutrition and Health business 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 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.

2. PACKAGING

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.

3. ENERGY

SMC Global for the nine-month period posted consolidated off-take volume of 17,670 gwh, 38% higher than 2017 mainly due to the additional generation from the Limay & Malita (with a total of 5 units at 150MW each, running in 2018 versus 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 2017. With higher off-take volumes and average realization price, consolidated revenues grew by 43% to P89,111 million from P62,117 million in 2017.

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

4. FUEL AND OIL

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 in 2017. 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 same period in 2017.

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.

5. INFRASTRUCTURE

The Infrastructure business posted consolidated revenues and operating income of P18,129 million and P8,905 million which both grew 10% from same period in 2017 as traffic volume at all operating tollroads continue to grow.

III. FINANCIAL POSITION

2019 vs. 2018

Consolidated total assets as of September 30, 2019 amounted to about P1,878,616 million, P87,424 million higher than December 31, 2018. The increase was primarily due to the increase in cash and cash equivalents from issuance of SPCS by SMC Global in April and July 2019, issuance of preferred shares by Petron in June 2019, and the recognition of right-of-use (ROU) assets with the adoption of PFRS 16, *Leases*, effective January 1, 2019.

The decrease in prepaid expenses and other current assets was primarily due to the: (a) decrease in Petron's input tax and goods and services tax, and utilization of tax credit certificates, and (b) decrease in CCEC's net restricted cash balance to finance the Toll Collection System project. The decrease was partly offset by Petron's higher Product Replenishment claims and higher input tax for the on-going Skyway Stage 3 and Metro Rail Transit 7 (MRT 7) projects.

The decrease in property, plant and equipment by P170,047 million, the balance of the ROU assets amounting to of P197,665 million and the increase in investment property by P19,705 million were primarily the result of the adoption of PFRS 16.

The increase in biological assets - net of current portion was caused by the increase in production cost, mainly due to higher feed costs.

The increase in other noncurrent assets was mainly due to the: (a) advances of Mariveles Power Generation Corporation to suppliers and contractors for the construction of the Mariveles Power Plant, (b) capitalized costs on the construction of MRT 7 and Section 3A-2 (Binalonan to Pozzorubio) of the Tarlac-Pangasinan-La Union Expressway (TPLEX) projects, and (c) purchase of new containers by SMB.

The decrease in accounts payable and accrued expenses was mainly due to the settlement in 2019 of outstanding liabilities as of December 2018 to various suppliers and contractors by Petron and the Infrastructure business and the deconsolidation of MNHPI.

The increase in lease liabilities - current portion pertains to the recognition of current lease liabilities for ROU assets as a result of the adoption of PFRS 16 and the reclassification from noncurrent to current of the lease liabilities under Independent Power Producer Administration agreements due up to September 30, 2020 by the Energy business.

The decrease in dividends payable primarily represents the dividends paid by Citra Metro Manila Tollways Corporation (CMMTC) to its minority shareholders.

The increase in long-term debt (current and noncurrent) was due to the: (a) issuance of P30,000 million fixed-rate Peso-denominated bonds by SMC Global, (b) availment of the US$800 million long-term loan facility by Petron, and (c) issuance of P16,000 million long-term corporate notes by SMC. The increase was partially offset by the: (a) redemption of Series C and E bonds of SMB, (b) settlement of maturing obligations by Petron, the Energy business, SMC and the Infrastructure business, and (c) foreign currency adjustment on the US Dollar-denominated loans.

The decrease in other noncurrent liabilities was mainly due to the deconsolidation of MNHPI.

The decrease in reserves pertains to the currency translation adjustments for the period resulting from the appreciation of Philippine Peso against the US Dollar.

The decrease in appropriated retained earnings was attributable to the reversals of appropriation made by the: (a) Energy business for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and SPDC, and (b) SMB for the Sta. Rosa Plant Packaging Line 2 and Polo Brewery Line 3 Projects and for the payment of Series C and E bonds.

The increase in unappropriated retained earnings was primarily due to the reversal of appropriations and net income for the period.

The increase in NCI primarily pertains to the issuance of SPCS by SMC Global and issuance of preferred shares by Petron net of the redemption by SMC of its 90,428,000 SMC2B Preferred Shares.

2018 vs. 2017

Consolidated total assets as of September 30, 2018 amounted to about P1,750,193 million, P253,394 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 was mainly attributable to the: (a) 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, and (b) 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 business mainly due to collection of trade receivables from 2017 peak season sales.

Inventories increased by P36,553 million due to the 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 business 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 2018.

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: (a) net increase in restricted cash from additional loan drawdown of SMHC, (b) consolidation and increase in MPPCL's prepaid expenses, (c) higher prepaid taxes of Petron, SMC Global, SMHC and SMC Asia Car Distributors Corp., and (d) reclassification of restricted cash from noncurrent to current by SCPC. The increase was partially offset by 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.

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 business.

The increase in investment property represents mainly the acquisition by SMPI of properties located in 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 Philippine 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 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 business, and consolidation of the loans payable of Masinloc entities, offset by net payments of SMC Global and GSMI.

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 business, 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 SPPC, SMEC, and SPDC which are payable up to September 30, 2019 and the consolidation of the finance lease liability of MPPCL.

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

Dividends payable decreased primarily due to the dividend payments made by CMMTC.

The higher amount of long-term debt by P198,040 million resulted from the: (a) availments made by SMC Global of US$1,200 million loan, 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, (b) loan availments for capital expenditures of SMCPC and CCEC, (c) consolidation of the long-term debt of MPPCL, (d) 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 (e) foreign exchange 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 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 cash dividends and distributions and net appropriations for the period.

Equity

The increase (decrease) in equity is due to:

(In millions)	**September 30**	
	2019	2018
Net addition (reduction) to non-controlling interests and others	**P51,033**	(P14,564)
Net income during the period	**39,209**	37,745
Cash dividends and distributions	**(20,247)**	(21,920)
Other comprehensive income (loss)	**(1,943)**	3,094
Adjustments due to adoption of PFRS 16	**(1,355)**	-
	P66,697	P4,355

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**September 30**	
	2019	2018
Net cash flows provided by operating activities	**P57,414**	P39,023
Net cash flows used in investing activities	**(67,907)**	(160,582)
Net cash flows provided by financing activities	**53,952**	121,067

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 used in investing activities primarily includes the following:

(In millions)	**September 30**	
	2019	2018
Additions to property, plant and equipment	**(P44,108)**	(P31,346)
Increase in other noncurrent assets and others	**(30,972)**	(18,556)
Additions to investments and advances	**(785)**	(18,401)
Cash and cash equivalents of a deconsolidated subsidiary	**(621)**	-
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(9)**	(98,106)
Interest received	**7,930**	4,733
Proceeds from sale of investments and property and equipment	**650**	1,055
Dividends received	**8**	39

Net cash flows provided by financing activities primarily includes the following:

(In millions)	September 30	
	2019	2018
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	**P41,050**	P24,881
Proceeds from long-term debt - net	**32,749**	150,598
Net proceeds from issuance of preferred shares of a subsidiary	**19,848**	-
Proceeds from short-term loans - net	**3,698**	26,796
Payment of cash dividends and distributions	**(20,431)**	(22,319)
Payment of lease liabilities	**(15,879)**	(19,192)
Redemption of preferred shares of a subsidiary	**(6,782)**	-
Redemption of undated subordinated capital securities of a subsidiary	**-**	(39,769)

The effect of exchange rate changes on cash and cash equivalents amounted to (P902 million) and P1,529 million for the periods ended September 30, 2019 and 2018, respectively.

V. OTHER MATTERS

- **Consent Solicitation**

On November 5, 2019, SMC announced a consent solicitation to secure the approval of the holders of the US$800 million, 4.875% Notes Due 2023 (the "Notes") to the proposed amendments to certain terms and conditions of the Notes and in the Trust Deed of the Notes in order to align the covenant and provisions of the Notes with the relevant covenants and provisions on the issued P10 billion retail bond and to the contracted US$1.75 billion dollar-denominated syndicated term loan facility by SMC on October 4, 2019 and September 27, 2019, respectively.

The Notes are listed and traded on the Singapore Exchange Securities Trading Limited (SGX) and the results of the consent solicitation will be announced on the SGX.

- **Acquisition of Holcim Philippines, Inc.**

On May 10, 2019, SMC, through First Stronghold Cement Industries, Inc., a subsidiary of San Miguel Equity Investments, Inc., signed a definitive agreement to acquire a controlling interest in Holcim Philippines, Inc. from entities controlled by LafargeHolcim. The acquisition is subject to the approval of the PCC.

VI. KEY PERFORMANCE INDICATORS

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

	September 2019	December 2018
Liquidity:		
Current Ratio	**1.44**	1.29
Solvency:		
Debt to Equity Ratio	**2.11**	2.33
Asset to Equity Ratio	**3.11**	3.33
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**6.69%**	4.76%
Interest Rate Coverage Ratio	**2.46**	2.63

	Periods Ended September 30	
	2019	2018
Operating Efficiency:		
Volume Growth	**3%**	8%
Revenue Growth	**0%**	28%
Operating Margin	**12%**	13%

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

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

* *Annualized for quarterly reporting*