SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended
   Jun 30, 2020
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 6.30.20 in millions Php)	1,381,634

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 Stock
12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

Top Frontier Investment Holdings, Inc.
TFHI

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

For the period ended	Jun 30, 2020
Currency (indicate units, if applicable)	Php (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2020	Dec 31, 2019
Current Assets	655,467	638,006
Total Assets	1,965,820	1,931,177
Current Liabilities	436,764	462,762
Total Liabilities	1,381,634	1,329,117
Retained Earnings/(Deficit)	79,250	86,408
Stockholders' Equity	584,186	602,060
Stockholders' Equity - Parent	153,614	162,438
Book Value per Share	367.1	396.26

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	138,728	258,565	352,788	509,485
Gross Expense	135,921	232,451	338,661	452,679
Non-Operating Income	1,632	2,854	3,343	5,820
Non-Operating Expense	9,827	9,479	19,357	23,404
Income/(Loss) Before Tax	-5,388	19,489	-1,887	39,222
Income Tax Expense	-770	5,565	2,125	12,818
Net Income/(Loss) After Tax	-4,618	13,924	-4,012	26,404
Net Income Attributable to Parent Equity Holder	-4,606	4,433	-6,940	6,723
Earnings/(Loss) Per Share (Basic)	-15.17	12.2	-23.46	17.91
Earnings/(Loss) Per Share (Diluted)	-15.17	12.2	-23.46	17.91

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	-17.19	26.96
Earnings/(Loss) Per Share (Diluted)	-17.19	26.96

Other Relevant Information
Please see attached SEC Form 17-Q Financial Report of Top Frontier Investment Holdings, Inc. for the 2nd Quarter of 2020, as filed hereto in compliance with the relevant SEC issuances, which provide that all reports disclosed through the PSE EDGE shall be considered as having been filed with the SEC.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

COVER SHEET

C	S	2	0	0	8	0	3	9	3	9

S. E. C. Registration Number

TOP FRONTIER INVESTMENT HOLDINGS, INC.

(Company's Full Name)

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

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

Virgilio S. Jacinto
Contact Person

(02) 8632-3144
Company Telephone Number

1	2		3	1		SEC Form 17-Q (2nd Quarter 2020)		0	7		0	9
Month			Day			FORM TYPE		Month			Day	

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 **June 30, 2020**

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 June 30, 2020)
Common Shares	**332,886,167***

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

Total Liabilities	**P1,381,634 million**

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

    Yes [√] No [ ]

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

    Philippine Stock Exchange **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [√] No [ ]

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2020 (with comparative figures as of December 31, 2019 and for the period ended June 30, 2019) and Selected Notes to the Consolidated Financial Statements is hereto attached as Annex "A".

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

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

PART II -- OTHER INFORMATION

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

SIGNATURES

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

Issuer	**TOP FRONTIER INVESTMENT HOLDINGS, INC.**
Signature and Title	**AURORA T. CALDERON** Director/Treasurer/Authorized Signatory
Date	August 14, 2020
Signature and Title	**BELLA O. NAVARRA** Chief Finance Officer/Authorized Signatory
Date	August 14, 2020

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND DECEMBER 31, 2019
(In Millions)

ANNEX "A"

ASSETS

		2020 Unaudited		2019 Audited
Current Assets				
Cash and cash equivalents (Notes 9 and 10)	P	344,900	P	286,677
Trade and other receivables - net (Notes 5, 9 and 10)		121,035		132,907
Inventories		93,518		127,468
Current portion of biological assets - net		3,449		4,151
Prepaid expenses and other current assets (Notes 9 and 10)		92,565		86,803
Total Current Assets		655,467		638,006
Noncurrent Assets				
Investments and advances - net		52,986		52,886
Investments in equity and debt instruments (Notes 9 and 10)		6,029		6,101
Property, plant and equipment - net (Note 6)		512,577		495,814
Right-of-use assets - net		194,427		197,245
Investment property - net		54,428		53,528
Biological assets - net of current portion		2,833		2,808
Goodwill - net		120,333		120,392
Other intangible assets - net		261,536		255,836
Deferred tax assets		18,702		18,431
Other noncurrent assets - net (Notes 5, 9 and 10)		86,502		90,130
Total Noncurrent Assets		1,310,353		1,293,171
	P	1,965,820	P	1,931,177

LIABILITIES AND EQUITY

		2020 Unaudited		2019 Audited
Current Liabilities				
Loans payable (Notes 5, 9 and 10)	P	174,325	P	178,507
Accounts payable and accrued expenses (Notes 5, 9 and 10)		154,315		188,166
Lease liabilities - current portion (Notes 5, 9 and 10)		27,631		27,371
Income and other taxes payable		22,039		21,239
Dividends payable (Note 8)		3,385		3,566
Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)		55,069		43,913
Total Current Liabilities		436,764		462,762
Noncurrent Liabilities				
Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)		732,572		638,748
Lease liabilities - net of current portion (Notes 5, 9 and 10)		108,864		122,466
Deferred tax liabilities		64,709		68,016
Other noncurrent liabilities (Notes 5, 9 and 10)		38,725		37,125
Total Noncurrent Liabilities		944,870		866,355
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		4,735		6,401
Retained earnings:				
Appropriated		18,698		19,010
Unappropriated		60,552		67,398
Treasury stock		(76,780)		(76,780)
		153,614		162,438
Non-controlling Interests		430,572		439,622
Total Equity		584,186		602,060
	P	1,965,820	P	1,931,177

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019
(In Millions, Except Per Share Data)

	2020 Unaudited	2019 Unaudited	For the Quarter Ended 2020 Unaudited	For the Quarter Ended 2019 Unaudited
SALES (Note 3)	₱ 352,788	₱ 509,485	₱ 138,728	₱ 258,565
COST OF SALES	300,199	409,133	118,514	209,079
GROSS PROFIT	52,589	100,352	20,214	49,486
SELLING AND ADMINISTRATIVE EXPENSES	(38,462)	(43,546)	(17,407)	(23,372)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(25,508)	(26,952)	(12,823)	(13,926)
INTEREST INCOME	3,798	5,584	1,711	2,859
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	(51)	171	(6)	(37)
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	(404)	65	(73)	32
OTHER INCOME- Net (Note 4)	6,151	3,548	2,996	4,447
INCOME (LOSS) BEFORE INCOME TAX	(1,887)	39,222	(5,388)	19,489
INCOME TAX EXPENSE (BENEFIT)	2,125	12,818	(770)	5,565
NET INCOME (LOSS)	₱ (4,012)	₱ 26,404	₱ (4,618)	₱ 13,924
Attributable to:				
Equity holders of the Parent Company	₱ (6,940)	₱ 6,723	₱ (4,606)	₱ 4,433
Non-controlling interests	2,928	19,681	(12)	9,491
	₱ (4,012)	₱ 26,404	₱ (4,618)	₱ 13,924
Basic and Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	₱ (23.46)	₱ 17.91	₱ (15.17)	₱ 12.20

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

CERTIFIED CORRECT:

BELLA D. NAVARRA
VP, Corporate Finance - Comptrollership

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019
(In Millions)

	2020 Unaudited	2019 Unaudited	For the Quarter Ended 2020 Unaudited	For the Quarter Ended 2019 Unaudited
NET INCOME (LOSS)	**₱ (4,012)**	₱ 26,404	**₱ (4,618)**	₱ 13,924
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	**3**	8	**15**	8
INCOME TAX EXPENSE	**-**	(2)	**(3)**	(2)
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**14**	28	**(7)**	31
INCOME TAX EXPENSE	**(5)**	(7)	**-**	(3)
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	**(4)**	127	**57**	38
	8	154	**62**	72
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
LOSS ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**(3,348)**	(1,802)	**(46)**	(2,498)
NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**2**	8	**3**	3
NET LOSS ON CASH FLOW HEDGES	**(341)**	(518)	**(296)**	(353)
INCOME TAX BENEFIT	**102**	155	**76**	106
	(3,585)	(2,157)	**(263)**	(2,742)
OTHER COMPREHENSIVE LOSS - Net of tax	**(3,577)**	(2,003)	**(201)**	(2,670)
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax	**₱ (7,589)**	₱ 24,401	**₱ (4,819)**	₱ 11,254
Attributable to:				
Equity holders of the Parent Company	**₱ (8,165)**	₱ 5,888	**₱ (4,909)**	₱ 3,441
Non-controlling interests	**576**	18,513	**90**	7,813
	₱ (7,589)	₱ 24,401	**₱ (4,819)**	₱ 11,254

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019
(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				
	Common	Preferred			Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred	Total		
As of January 1, 2020, (Audited)	P 490	P 260	P 120,501	P 25,158	P (3,128)	P (405)	P 1,533	P (2,966)	P 11,367	P 19,010	P 67,398	P (28,457)	P (48,323)	P 162,438	P 439,622	P 602,060
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(1,087)	-	-	-	-	-	(1,087)	(2,261)	(3,348)
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	(7)	-	36	(21)	-	-	-	-	-	8	(12)	(4)
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(153)	-	-	-	-	-	-	-	(153)	(86)	(239)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	7	-	-	-	-	-	-	7	4	11
Equity reserve for retirement plan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	3
Other comprehensive income (loss)	-	-	-	-	(7)	(153)	43	(1,108)	-	-	-	-	-	(1,225)	(2,352)	(3,577)
Net income (loss)	-	-	-	-	-	-	-	-	-	-	(6,940)	-	-	(6,940)	2,928	(4,012)
Total comprehensive income (loss)	-	-	-	-	(7)	(153)	43	(1,108)	-	-	(6,940)	-	-	(8,165)	576	(7,589)
Net addition (reduction) to non-controlling interests and others	-	-	-	-	(5)	-	-	24	(460)	(1,844)	1,626	-	-	(659)	4,487	3,828
Appropriations - net	-	-	-	-	-	-	-	-	-	1,532	(1,532)	-	-	-	-	-
Cash dividends (Note 8):																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,469)	(5,469)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,112)	(4,112)
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,532)	(4,532)
As of June 30, 2020 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (3,140)	P (558)	P 1,576	P (4,050)	P 10,907	P 18,698	P 60,552	P (28,457)	P (48,323)	P 153,614	P 430,572	P 584,186
As of January 1, 2019 (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 47,535	P (28,457)	P (48,323)	P 157,742	P 376,968	P 534,710
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(723)	-	-	-	-	-	(723)	(1,079)	(1,802)
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	78	4	-	-	-	-	-	82	45	127
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(212)	-	-	-	-	-	-	-	(212)	(151)	(363)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	18	-	-	-	-	-	-	18	11	29
Equity reserve for retirement plan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6	6
Other comprehensive income (loss)	-	-	-	-	-	(212)	96	(719)	-	-	-	-	-	(835)	(1,168)	(2,003)
Net income	-	-	-	-	-	-	-	-	-	-	6,723	-	-	6,723	19,681	26,404
Total comprehensive income (loss)	-	-	-	-	-	(212)	96	(719)	-	-	6,723	-	-	5,888	18,513	24,401
Net addition (reduction) to non-controlling interests and others	-	-	-	-	(9)	-	-	-	(334)	-	(78)	-	-	(421)	43,241	42,820
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	(14,852)	14,852	-	-	-	-	-
Cash dividends (Note 8):																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,211)	(6,211)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,405)	(4,405)
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,453)	(2,453)
As of June 30, 2019 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (1,908)	P (326)	P 1,540	P (2,381)	P 12,820	P 14,803	P 69,032	P (28,457)	P (48,323)	P 163,209	P 425,653	P 588,862

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019
(In Millions)

	2020 Unaudited	2019 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	P (1,887)	P 39,222
Adjustments for:		
Interest expense and other financing charges	25,508	26,952
Depreciation, amortization and others - net	17,968	16,443
Loss (gain) on sale of property and equipment	404	(65)
Equity in net (earnings) losses of associates and joint ventures	51	(171)
Interest income	(3,798)	(5,584)
Operating income before working capital changes	38,246	76,797
Changes in noncash current assets, certain current liabilities and others	12,146	11,391
Cash generated from operations	50,392	88,188
Interest and other financing charges paid	(28,598)	(29,808)
Income taxes paid	(8,454)	(10,986)
Net cash flows provided by operating activities	13,340	47,394
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,408	4,683
Proceeds from sale of property and equipment	546	406
Dividends received	3	4
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(9)
Cash and cash equivalents of a deconsolidated subsidiary	-	(621)
Additions to investments and advances	(548)	(701)
Increase in other noncurrent assets and others	(9,108)	(24,000)
Additions to property, plant and equipment	(30,304)	(27,965)
Net cash flows used in investing activities	(36,003)	(48,203)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	424,335	716,809
Long-term borrowings	146,610	76,503
Payments of:		
Short-term borrowings	(428,168)	(732,547)
Long-term borrowings	(34,705)	(54,636)
Redemption of preferred shares of subsidiaries	(35,956)	-
Cash dividends and distributions paid to non-controlling shareholders	(14,293)	(12,744)
Payments of lease liabilities	(12,301)	(10,969)
Increase in non-controlling interests and others	(1,120)	(42)
Net proceeds from issuance of preferred shares, senior perpetual capital securities and redeemable perpetual securities of subsidiaries	40,875	45,661
Net cash flows provided by financing activities	85,277	28,035
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(4,391)	(3,104)
NET INCREASE IN CASH AND CASH EQUIVALENTS	58,223	24,122
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	286,677	243,545
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 344,900	P 267,667

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
VP, Corporate Finance - Comptrollership

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
JUNE 30, 2020
(In Millions)

	Total	Current	Past Due			
			1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P 73,922	P 42,609	P 7,503	P 4,402	P 4,878	P 14,530
Non-trade	48,459	20,818	1,042	542	568	25,489
Amounts Owed by Related Parties	11,428	9,864	144	161	110	1,149
Total	133,809	**P 73,291**	**P 8,689**	**P 5,105**	**P 5,556**	**P 41,168**
Less allowance for impairment losses	12,774					
Net	**P 121,035**					

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data)

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended June 30, 2020 and comparative financial statements for the same period in 2019 following the presentation rules under Philippine Accounting Standard (PAS) 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 were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on August 6, 2020.

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

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

Adoption of Amended Standards and Framework
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of amended standards and framework as part of PFRS.

Amended Standards and Framework Adopted in 2020

The Group has adopted the following PFRS effective January 1, 2020 and accordingly, changed its accounting policies in the following areas:

- Amendments to References to Conceptual Framework in PFRS set 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 Intenational 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 make other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). 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 definition 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.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). 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.

- Interest Rate Benchmark Reform *(*Amendments to PFRS 9, *Financial Instruments*, PAS 39*, Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures)*. The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:

    - *The Highly Probable Requirement*. When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

    - *Prospective Assessments*. When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

- *PAS 39 Retrospective Assessment*. An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.

- *Separately Identifiable Risk Components*. For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

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

<u>New and Amended Standards Not Yet Adopted</u>
A number of new and amended standards are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- PFRS 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, 2023. 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, *Investments in Associates and Joint Ventures*: 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

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

On October 23 and December 20, 2019, respectively, the Plan of Merger and Articles of Merger were executed by and between SMYPC and SMYAC, whereby the entire assets and liabilities of SMYAC will be transferred to and absorbed by SMYPC, the surviving entity.

On February 24, 2020, the Philippine Securities and Exchange Commission (SEC) approved the merger and issued the Certificate of Filing of the Articles and Plan of Merger.

On the same date, the SEC approved the increase in the authorized capital stock of SMYPC which was filed on October 25, 2019.

On March 1, 2020, the effective date of the merger, SMYPC issued 3,901,011 and 2,100,544 common shares to San Miguel Corporation (SMC) and Nihon Yamamura Glass Co., Ltd. (NYG), respectively, for a total amount of P6,002 as consideration for the net assets of SMYAC pursuant to the terms of the Plan of Merger. The shares were issued out of the increase in the authorized capital stock of SMYPC. With the completion of the merger, SMC and NYG retained their respective ownership in SMYPC of 65% and 35%, respectively.

On July 7, 2020, the application for a tax-free exchange certification/ruling on the merger was filed with the Bureau of Internal Revenue and is still pending as at August 6, 2020.

The merger of SMYAC and SMYPC is considered to be a business combination under common control. The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interest method.

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

3. Segment Information

Operating Segments

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

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

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

The packaging segment is 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 and industrial customers, or through Philippine Wholesale Electricity Spot Market.

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

The infrastructure segment has investments in companies which hold long-term concessions in the infrastructure sector in the Philippines. It is engaged in the management and operation, as well as, construction and development of various infrastructure projects such as major toll roads, airports, railways, bulk water and ports.

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	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Sales																
External sales	**P122,754**	P150,939	**P10,971**	P12,598	**P55,721**	P70,757	**P150,048**	P251,619	**P6,673**	P12,312	**P6,621**	P11,260	**P -**	P -	**P352,788**	P509,485
Inter-segment sales	**61**	168	**3,541**	5,237	**1,456**	1,754	**2,309**	3,188	**2**	3	**10,045**	9,014	**(17,414)**	(19,364)	**-**	-
Total sales	**P122,815**	P151,107	**P14,512**	P17,835	**P57,177**	P72,511	**P152,357**	P254,807	**P6,675**	P12,315	**P16,666**	P20,274	**(P17,414)**	(P19,364)	**P352,788**	P509,485
Results																
Segment results	**P11,206**	P21,411	**P317**	P1,696	**P17,748**	P18,012	**(P16,092)**	P9,581	**P899**	P5,978	**(P289)**	P675	**P338**	(P547)	**P14,127**	P56,806

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	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Timing of revenue recognition														
Sales recognized at point in time	**P122,748**	P150,893	**P10,487**	P12,280	**P -**	P -	**P150,041**	P251,619	**P -**	P -	**P5,402**	P8,980	**P288,678**	P423,772
Sales recognized over time	**6**	46	**484**	318	**55,721**	70,757	**7**	-	**6,673**	12,312	**1,219**	2,280	**64,110**	85,713
Total external sales	**P122,754**	P150,939	**P10,971**	P12,598	**P55,721**	P70,757	**P150,048**	P251,619	**P6,673**	P12,312	**P6,621**	P11,260	**P352,788**	P 509,485

4. Other Income - Net

Other income - net consists of:

	Note	June 30 2020	2019
Construction revenue		**P7,652**	P7,327
Settlement from third party contractors		**3,826**	-
Gain on foreign exchange - net	*9*	**2,131**	4,737
Gain (loss) on derivatives - net	*10*	**334**	(2,281)
Dividend income		**3**	4
Gain on fair valuation of investment		**-**	727
Construction costs		**(7,652)**	(7,327)
Others		**(143)**	361
		P6,151	P3,548

The construction revenue recognized in profit or loss approximates the construction costs recognized. 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 are recognized by reference to the stage of completion of the construction activity of toll road, airport, port and water concession rights as at reporting date.

In 2020, the Group received a settlement from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts.

In 2019, the Group recognized a gain on the fair valuation of investment upon the deconsolidation of Manila North Harbour Port, Inc. amounting to P727.

"Others" consist of rent income, commission income, changes in fair value of financial assets at fair value through profit or loss (FVPL), insurance claims and PSALM monthly fees reduction. This also includes SMYPC's inventory loss from the fire incident at its Manila Plastic Plant in Pandacan, Manila in February 2020 amounting to P312.

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 at June 30, 2020 and December 31, 2019:

	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	**June 30,2020**	**P -**	**P -**	**P -**	**P10,691**	On demand;	Unsecured
	December 31, 2019	-	-	-	10,864	interest bearing	
	June 30,2020	**-**	**-**	**-**	**221**	On demand;	Unsecured
	December 31, 2019	-	-	-	221	non-interest	
Retirement Plans	**June 30,2020**	**143**	**-**	**9,416**	**46**	On demand;	Unsecured;
	December 31, 2019	301	-	9,275	-	interest bearing	no impairment
Associates	**June 30,2020**	**1,169**	**10**	**1,114**	**32**	On demand;	Unsecured;
	December 31, 2019	3,054	178	1,879	251	interest and non-Interest bearing	no impairment
	June 30,2020	**-**	**-**	**-**	**20,119**	Less than 1	Unsecured and
	December 31, 2019	-	-	-	24,588	to 10 years; Interest bearing	secured
Joint Ventures	**June 30,2020**	**134**	**224**	**766**	**57**	On demand;	Unsecured;
	December 31, 2019	364	959	755	56	non-interest bearing	no impairment
Shareholders in Subsidiaries	**June 30,2020**	**19**	**212**	**163**	**2,338**	On demand;	Unsecured;
	December 31, 2019	38	57	183	2,376	non-interest bearing	no impairment
Others	**June 30,2020**	**656**	**1,174**	**164**	**7,538**	On demand;	Unsecured;
	December 31, 2019	2,492	2,468	457	7,539	non-interest bearing	no impairment
Total	**June 30,2020**	**P2,121**	**P1,620**	**P11,623**	**P41,042**		
Total	December 31, 2019	P6,249	P3,662	P12,549	P45,895		

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 New Manila International Airport Project, a project that involves the construction, operation and maintenance 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, professional fees and leases.

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

6. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2020 and December 31, 2019

	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, 2019 (Audited)	P60,299	P47,396	P136,565	P168,155	P17,793	P159,334	P5,629	P5,594	P85,290	P686,055
Additions	2,424	1,523	234	6,000	1,769	6,266	207	-	48,396	66,819
Acquisition of subsidiaries	1,456	270	-	-	-	647	5	69	79	2,526
Disposals/retirement	(5)	(54)	(69)	(38)	(464)	(2,818)	(35)	-	(316)	(3,799)
Reclassifications	4,105	7,068	(11,426)	223	432	14,788	1,310	-	(38,815)	(22,315)
Currency translation adjustments	(368)	(611)	(1,798)	(153)	(246)	(1,407)	(15)	-	(1,197)	(5,795)
December 31, 2019 (Audited)	67,911	55,592	123,506	174,187	19,284	176,810	7,101	5,663	93,437	723,491
Additions	3,421	78	558	175	136	1,599	7	-	24,330	30,304
Disposals/retirement	(3)	(68)	-	(2)	-	(2,390)	(26)	-	-	(2,489)
Reclassifications	449	2,555	144	492	460	4,099	403	-	(8,102)	500
Currency translation adjustments	(173)	(317)	(750)	(723)	(541)	(1,102)	(13)	-	(1,013)	(4,632)
June 30, 2020 (Unaudited)	**71,605**	**57,840**	**123,458**	**174,129**	**19,339**	**179,016**	**7,472**	**5,663**	**108,652**	**747,174**
Accumulated Depreciation and Amortization										
January 1, 2019 (Audited)	3,422	18,934	24,724	51,444	12,541	99,242	1,550	4,893	-	216,750
Depreciation and amortization	249	1,828	5,487	6,523	1,098	8,609	326	6	-	24,126
Acquisition of subsidiaries	116	164	-	-	-	239	3	45	-	567
Disposals/retirement	(5)	(40)	(3)	(35)	(445)	(2,602)	(21)	-	-	(3,151)
Reclassifications	(20)	59	(17,794)	1	(166)	(3,060)	(86)	-	-	(21,066)
Currency translation adjustments	(64)	(171)	(735)	(214)	(148)	(672)	(6)	-	-	(2,010)
December 31, 2019 (Audited)	3,698	20,774	11,679	57,719	12,880	101,756	1,766	4,944	-	215,216
Depreciation and amortization	183	973	2,768	1,705	503	4,567	192	7	-	10,898
Disposals/retirement	(3)	(36)	-	(2)	-	(1,520)	(25)	-	-	(1,586)
Reclassifications	8	117	-	-	14	(236)	(3)	-	-	(100)
Currency translation adjustments	(5)	(147)	(337)	(535)	(295)	(641)	(5)	-	-	(1,965)
June 30, 2020 (Unaudited)	**3,881**	**21,681**	**14,110**	**58,887**	**13,102**	**103,926**	**1,925**	**4,951**	-	**222,463**
Accumulated Impairment Losses										
January 1, 2019 (Audited)	-	2,751	-	-	-	8,937	26	573	-	12,287
Impairment	-	194	-	-	-	682	-	-	-	876
Disposals/retirement	-	-	-	-	-	(35)	-	-	-	(35)
Reclassifications	-	(73)	-	-	-	-	-	-	-	(73)
Currency translation adjustments	-	(158)	-	-	-	(434)	(2)	-	-	(594)
December 31, 2019 (Audited)	-	2,714	-	-	-	9,150	24	573	-	12,461
Currency translation adjustments	-	(89)	-	-	-	(237)	(1)	-	-	(327)
June 30, 2020 (Unaudited)	-	**2,625**	-	-	-	**8,913**	**23**	**573**	-	**12,134**
Carrying Amount										
December 31, 2019 (Audited)	P64,213	P32,104	P111,827	P116,468	P6,404	P65,904	P5,311	P146	P93,437	P495,814
June 30, 2020 (Unaudited)	**P67,724**	**P33,534**	**P109,348**	**P115,242**	**P6,237**	**P66,177**	**P5,524**	**P139**	**P108,652**	**P512,577**

June 30, 2019

	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, 2019 (Audited)	P60,299	P47,396	P136,565	P168,155	P17,793	P159,334	P5,629	P5,594	P85,290	P686,055
Additions	102	360	44	697	1,577	2,128	4	-	23,053	27,965
Disposals/retirement	(3)	(17)	(2)	-	(263)	(486)	(13)	-	(172)	(956)
Reclassifications	875	2,607	166	105	262	2,633	(354)	-	(7,787)	(1,493)
Acquisition of subsidiaries	16	50	-	-	-	29	-	-	-	95
Currency translation adjustments	(348)	(435)	(1,240)	(120)	(209)	(879)	(8)	-	(796)	(4,035)
June 30, 2019 (Unaudited)	P60,941	P49,961	P135,533	P168,837	P19,160	P162,759	P5,258	P5,594	P99,588	P707,631
Accumulated Depreciation and Amortization										
January 1, 2019 (Audited)	3,422	18,934	24,724	51,444	12,541	99,242	1,550	4,893	-	216,750
Depreciation and amortization	101	876	2,672	3,143	509	4,030	163	3	-	11,497
Disposals/retirement	(3)	(5)	-	-	(248)	(419)	(13)	-	-	(688)
Reclassifications	(18)	657	189	-	(171)	(1,874)	(45)	-	-	(1,262)
Acquisition of subsidiaries	-	7	-	-	-	23	-	-	-	30
Currency translation adjustments	(67)	(97)	(512)	(210)	(112)	(428)	(4)	-	-	(1,430)
June 30, 2019 (Unaudited)	3,435	20,372	27,073	54,377	12,519	100,574	1,651	4,896	-	224,897
Accumulated Impairment Losses									-	
January 1, 2019 (Audited)	-	2,751	-	-	-	8,937	26	573	-	12,287
Disposals and reclassifications	3	-	-	-	-	-	-	-	-	3
Currency translation adjustments	-	(85)	-	-	-	(245)	(1)	-	-	(331)
June 30, 2019 (Unaudited)	3	2,666	-	-	-	8,692	25	573	-	11,959
Carrying Amount										
June 30, 2019 (Unaudited)	P57,503	P26,923	P108,460	P114,460	P6,641	P53,493	P3,582	P125	P99,588	P470,775

Depreciation and amortization charged to operations amounted to P10,898 and P11,497 for the periods ended June 30, 2020 and 2019, respectively.

In 2019, property, plant and equipment was reclassified to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party.

Starting January 1, 2020, Petron adopted the usage method of accounting for depreciation of assets used in production based on capacity utilization. Previously, depreciation is computed using the straight-line method over the estimated useful lives of the assets. The change in depreciation method decreased the depreciation expense by P1,860 for the period ended June 30, 2020.

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:

	June 30	
	2020	2019
Net income (loss) attributable to equity holders of the Parent Company	**(P6,940)**	P6,723
Less dividends on CPS for the period	**809**	809
Net income (loss) attributable to common shareholders of the Parent Company (a)	**(P7,749)**	P5,914
Weighted average number of common shares outstanding (in millions) (b)	**330**	330
Basic and diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**(P23.46)**	P17.91

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

As at June 30, 2020 and 2019, the Parent Company has no dilutive debt or equity instruments.

8. Dividends

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

2020

Date of Declaration	**Date of Record**	**Date of Payment**	**Dividend per Share**
March 12, 2020	**March 12, 2020**	**March 13, 2020**	**P279.00**
May 28, 2020	**May 28, 2020**	**May 29, 2020**	**139.50**

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

On August 6, 2020, the BOD of the Parent Company declared cash dividends at P139.50 per preferred share, payable on August 7, 2020 to shareholders owning preferred shares as at August 6, 2020.

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, investments in equity and debt instruments, 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 th SEC 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.

<u>Interest Rate Risk</u>
Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings and investment securities. 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:

June 30, 2020	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P27,682**	**P76,307**	**P39,741**	**P89,545**	**P56,541**	**P135,764**	**P425,580**
Interest rate	**4.9925% - 12.00%**	**4.0032% - 9.885%**	**4.59% - 9.885%**	**4.5219% - 9.885%**	**4.59% - 9.885%**	**5.1792% - 9.885%**	
Foreign currency-denominated (expressed in Philippine peso)	**2,612**	**2,747**	**32,395**	**1,169**	**1,224**	**13,717**	**53,864**
Interest rate	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**5.5959%**	**5.5959%**	**5.5959%**	
Floating Rate							
Philippine peso-denominated	**2,295**	**2,809**	**3,714**	**1,819**	**2,364**	**19,495**	**32,496**
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**	**BVAL + margin or BSP overnight rate, whichever is higher**	
Foreign currency-denominated (expressed in Philippine peso)	**23,197**	**27,874**	**82,203**	**39,012**	**107,988**	**4,514**	**284,788**
Interest rate	**LIBOR/applicable reference rate + margin**	**LIBOR/applicable reference rate + margin**	**LIBOR/applicable reference rate + margin**	**LIBOR/applicable reference rate + margin**	**LIBOR/applicable reference rate + margin**	**LIBOR/applicable reference rate + margin**	
	P55,786	**P109,737**	**P158,053**	**P131,545**	**P168,117**	**P173,490**	**P796,728**

December 31, 2019	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P24,567	P46,288	P65,491	P53,914	P88,870	P138,315	P417,445
Interest rate	4.9925% - 12.00%	4.0032% - 9.885%	4.8243% - 9.885%	4.5219% - 9.885%	4.63% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	2,467	2,638	1,891	32,855	1,117	13,368	54,336
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	1,034	1,719	2,714	1,042	162	12,000	18,671
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	BVAL + margin or BSP overnight rate, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	16,394	37,404	26,375	100,241	13,510	5,825	199,749
Interest rate	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	
	P44,462	P88,049	P96,471	P188,052	P103,659	P169,508	P690,201

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 P1,586 and P2,184 for the period ended June 30, 2020 and for the year ended December 31, 2019, 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.

<u>Foreign Currency Risk</u>
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:

	June 30, 2020		December 31, 2019	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$4,830**	**P240,641**	US$3,471	P175,846
Trade and other receivables	**678**	**33,793**	790	40,020
Prepaid expenses and other current assets	**11**	**563**	11	545
Noncurrent receivables	**18**	**901**	20	1,006
	5,537	**275,898**	4,292	217,417
Liabilities				
Loans payable	**211**	**16,734**	215	10,832
Accounts payable and accrued expenses	**1,599**	**79,600**	1,839	93,100
Long-term debt (including current maturities)	**6,796**	**338,652**	5,018	254,085
Lease liabilities (including current portion)	**1,248**	**62,256**	1,368	69,286
Other noncurrent liabilities	**468**	**23,292**	474	24,029
	10,322	**520,534**	8,914	451,332
Net foreign currency-denominated monetary liabilities	**(US$4,785)**	**(P244,636)**	(US$4,622)	(P233,915)

The Group reported net gains on foreign exchange amounting to P2,131 and P4,737 for the periods ended June 30, 2020 and 2019, 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
June 30, 2020	**49.83**
December 31, 2019	50.64
June 30, 2019	51.24
December 31, 2018	52.58

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
June 30, 2020	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P4,350)**	**(P3,634)**	**P4,350**	**P3,634**
Trade and other receivables	**(154)**	**(389)**	**154**	**389**
Prepaid expenses and other current assets	**(4)**	**(10)**	**4**	**10**
Noncurrent receivables	**-**	**(18)**	**-**	**18**
	(4,508)	**(4,051)**	**4,508**	**4,051**
Loans payable	**50**	**196**	**(50)**	**(196)**
Accounts payable and accrued expenses	**720**	**1,078**	**(720)**	**(1,078)**
Long-term debt (including current maturities)	**5,989**	**4,998**	**(5,989)**	**(4,998)**
Lease liabilities (including current portion)	**1,217**	**884**	**(1,217)**	**(884)**
Other noncurrent liabilities	**458**	**375**	**(458)**	**(375)**
	8,434	**7,531**	**(8,434)**	**(7,531)**
	P3,926	**P3,480**	**(P3,926)**	**(P3,480)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2019	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P3,041)	(P2,554)	P3,041	P2,554
Trade and other receivables	(232)	(495)	232	495
Prepaid expenses and other current assets	(8)	(8)	8	8
Noncurrent receivables	(18)	(14)	18	14
	(3,299)	(3,071)	3,299	3,071
Loans payable	125	178	(125)	(178)
Accounts payable and accrued expenses	1,257	1,461	(1,257)	(1,461)
Long-term debt (including current maturities)	4,220	3,752	(4,220)	(3,752)
Lease liabilities (including current portion)	1,345	965	(1,345)	(965)
Other noncurrent liabilities	448	368	(448)	(368)
	7,395	6,724	(7,395)	(6,724)
	P4,096	P3,653	(P4,096)	(P3,653)

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

Commodity Price Risk

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

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

SMC enters into commodity derivative on behalf of its subsidiaries 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 coal, fuel oil, crude oil, aluminum, soybean meal and wheat.

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

Liquidity Risk

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

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

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

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

June 30, 2020	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	**P344,900**	**P344,900**	**P344,900**	**P -**	**P -**	**P -**
Trade and other receivables - net	**121,035**	**121,035**	**121,035**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,217**	**1,217**	**1,133**	**33**	**51**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**283**	**283**	**283**	**-**	**-**	**-**
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**5,969**	**5,777**	**92**	**77**	**-**	**5,608**
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**215**	**235**	**74**	**6**	**155**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**25,591**	**25,603**	**-**	**315**	**24,822**	**466**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**12,602**	**12,602**	**6,050**	**6,552**	**-**	**-**
Financial Liabilities					**-**	**-**
Loans payable	**174,325**	**174,982**	**174,982**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure retirement obligation (IRO), deferred income and other current non-financial liabilities)	**151,152**	**151,473**	**151,473**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**3,424**	**3,424**	**1,490**	**228**	**1,706**	**-**
Long-term debt (including current maturities)	**787,641**	**948,398**	**90,222**	**140,848**	**517,352**	**199,976**
Lease liabilities (including current portion)	**136,495**	**171,583**	**32,610**	**32,735**	**58,939**	**47,299**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), deferred income and other noncurrent non-financial liabilities)	**28,718**	**28,765**	**-**	**17,766**	**9,767**	**1,232**

December 31, 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	P286,677	P286,677	P286,677	P -	P -	P -
Trade and other receivables - net	132,907	132,907	132,907	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,158	1,158	917	91	150	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	284	284	284	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,953	5,962	44	82	46	5,790
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	257	277	79	71	127	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	25,748	26,399	-	379	25,532	488
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	12,514	12,514	6,256	6,258	-	-
Financial Liabilities						
Loans payable	178,507	179,252	179,252	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	185,334	185,660	185,660	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,122	3,122	1,678	248	1,196	-
Long-term debt (including current maturities)	682,661	852,558	80,816	120,716	451,819	199,207
Lease liabilities (including current portion)	149,837	171,108	35,131	31,509	68,450	36,018
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	27,639	27,650	-	17,313	9,219	1,118

Credit Risk

Credit risk is the risk of financial loss to the Group when 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 noncurrent 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.

	June 30, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand)	**P342,330**	P283,727
Trade and other receivables - net	**121,035**	132,907
Derivative assets	**1,217**	1,158
Investment in debt instruments at FVOCI	**165**	163
Investment in debt instruments at amortized cost	**215**	257
Noncurrent receivables and deposits - net	**25,591**	25,748
Restricted cash	**12,602**	12,514
	P503,155	P456,474

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 loss (ECL) or lifetime ECL. Assets that are credit-impaired are separately presented.

	June 30, 2020					
	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)	**P342,330**	**P -**	**P -**	**P -**	**P -**	**P342,330**
Trade and other receivables	**121,035**	**-**	**12,774**	**-**	**-**	**133,809**
Derivative assets	**-**	**-**	**-**	**1,115**	**102**	**1,217**
Investment in debt instruments at FVOCI	**-**	**-**	**-**	**-**	**165**	**165**
Investment in debt instruments at amortized cost	**65**	**150**	**-**	**-**	**-**	**215**
Noncurrent receivables and deposits	**-**	**25,591**	**705**	**-**	**-**	**26,296**
Restricted cash	**6,050**	**6,552**	**-**	**-**	**-**	**12,602**

	December 31, 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)	P283,727	P -	P -	P -	P -	P283,727
Trade and other receivables	132,907	-	12,715	-	-	145,622
Derivative assets	-	-	-	882	276	1,158
Investment in debt instruments at FVOCI	-	-	-	-	163	163
Investment in debt instruments at amortized cost	71	186	-	-	-	257
Noncurrent receivables and deposits	-	25,748	724	-	-	26,472
Restricted cash	6,256	6,258	-	-	-	12,514

The aging of receivables is as follows:

June 30, 2020	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P42,609**	**P20,818**	**P9,864**	**P73,291**
Past due:				
1 - 30 days	**7,503**	**1,042**	**144**	**8,689**
31 - 60 days	**4,402**	**542**	**161**	**5,105**
61 - 90 days	**4,878**	**568**	**110**	**5,556**
Over 90 days	**14,530**	**25,489**	**1,149**	**41,168**
	P73,922	**P48,459**	**P11,428**	**P133,809**

December 31, 2019	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P63,321	P23,884	P10,161	P97,366
Past due:				
1 - 30 days	8,510	1,972	380	10,862
31 - 60 days	2,415	396	14	2,825
61 - 90 days	853	1,327	23	2,203
Over 90 days	11,733	19,630	1,003	32,366
	P86,832	P47,209	P11,581	P145,622

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, investment in debt instruments 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.

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

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. These include 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 determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. 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.

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

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

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

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

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

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

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 restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

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

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

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.

<u>Classification of Financial Instruments between Liability and Equity</u>
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:

	June 30, 2020		December 31, 2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P344,900**	**P344,900**	P286,677	P286,677
Trade and other receivables - net	**121,035**	**121,035**	132,907	132,907
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,217**	**1,217**	1,158	1,158
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**283**	**283**	284	284
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**5,969**	**5,969**	5,953	5,953
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**215**	**215**	257	257
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**25,591**	**25,591**	P25,748	P25,748
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**12,602**	**12,602**	12,514	12,514
Financial Liabilities				
Loans payable	**174,325**	**174,325**	178,507	178,507
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**151,152**	**151,152**	185,334	185,334
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**3,424**	**3,424**	3,122	3,122
Long-term debt (including current maturities)	**787,641**	**870,963**	682,661	735,514
Lease liabilities (including current portion)	**136,495**	**136,495**	149,837	149,837
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	**28,718**	**28,718**	27,639	27,639

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 at reporting date. Discount rates used for Philippine peso-denominated loans range from 1.8% to 2.8% and 3.1% to 4.5% as at June 30, 2020 and December 31, 2019, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 0.7% and 1.6% to 2.0% as at June 30, 2020 and December 31, 2019, 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 cash flows of the hedging instrument are expected to offset the changes in 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 presented in the "Hedging reserve" account in the consolidated statements of changes in equity . 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			
June 30, 2020	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign currency risk:				
Call spread swaps				
Notional amount	**US$90**	**US$100**	**US$60**	**US$250**
Average forward rate	**P52.41 to P56.15**	**P52.41 to P54.94**	**P52.95 to P56.15**	
Foreign currency and interest rate risks:				
Cross currency swap				
Notional amount	**US$20**	**US$40**	**US$290**	**US$350**
Average Strike rate	**P47.00 to P57.00**	**P47.00 to P57.00**	**P47.00 to P56.50**	
Fixed interest rate	**4.19% to 5.75%**	**4.19% to 5.75%**	**3.60% to 5.80%**	
Interest rate risk:				
Interest rate collar				
Notional amount	**US$15**	**US$30**	**US$60**	**US$105**
Interest rate	**0.44% to 1.99%**	**0.44% to 1.99%**	**0.44% to 1.99%**	

	Maturity			
December 31, 2019	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign currency risk:				
Call spread swaps				
Notional amount	US$129	US$186	US$133	US$448
Average strike rate	P52.71 to P55.55	P52.95 to P56.15	P52.59 to P56.15	
Foreign currency and interest rate risks:				
Cross currency swap				
Notional amount	US$20	US$40	US$280	US$340
Average Strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.80%	
Interest rate risk:				
Interest rate collar				
Notional amount	US$ -	US$30	US$75	US$105
Interest rate	-	0.44% to 1.99%	0.44% to 1.99%	

The following are the amounts relating to hedged items:

June 30, 2020	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign currency risk:			
US dollar-denominated borrowings	**P98**	**P -**	**(P104)**
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	**1,467**	**(1,494)**	**708**
Interest rate risk:			
US dollar-denominated borrowings	**45**	**(32)**	**-**

December 31, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P200	P -	(P178)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	1,224	(1,009)	499
Interest rate risk:			
US dollar-denominated borrowings	(7)	5	-

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:

June 30, 2020	**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$250**	**P93**	**P141**	**Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities**	**(P98)**	**(P24)**	**P4**	**P129**	**Interest expense and other financing charges, and Other income - net**
Foreign currency and interest rate risks:									
Cross currency swap	**350**	**8**	**2,078**	**Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities**	**(1,467)**	**208**	**443**	**91**	**Interest expense and other financing charges, and Other income - net**
Interest rate risk:									
Interest rate collar	**105**	**-**	**45**	**Accounts Payable and accrued expenses and Other noncurrent liabilities**	**(45)**	**(1)**	**-**	**1**	**Interest expense and other financing charges**

December 31, 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	P231	P356	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P200)	(P435)	P -	P307	Interest expense and other financing charges, and Other income - net
Foreign currency and interest rate risks:									
Cross currency swap	340	37	1,475	Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(1,224)	50	721	65	Interest expense and other financing charges, and Other income - net
Interest rate risk:									
Interest rate collar	105	7	-	Other noncurrent assets - net and Accounts payable and accrued expenses	7	-	-	-	

No ineffectiveness was recognized in the 2020 and 2019 consolidated statements 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.

	June 30, 2020		December 31, 2019	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	**(P1,004)**	**P321**	(P538)	P342
Changes in fair value:				
Foreign currency risk	**(4)**	**(24)**	-	(435)
Foreign currency risk and interest rate risk	**(1,136)**	**208**	(1,394)	50
Interest rate risk	**(52)**	**(1)**	7	-
Amount reclassified to profit or loss	**447**	**221**	721	372
Tax effect	**223**	**(121)**	200	(8)
Ending balance	**(P1,526)**	**P604**	(P1,004)	P321

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, foreign currency and commodity derivatives entered into by the Group.

Interest Rate Swap

The Group has outstanding interest rate swap with notional amount of US$300 as at December 31, 2019. 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 P730 as at December 31, 2019. The Group has no outstanding interest rate swap as at June 30 and March 31, 2020.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$754, US$793 and US$770 as at June 30 and March 31, 2020 and December 31, 2019, respectively, and with various maturities in 2020. The net negative fair value of these currency forwards amounted to P196, P106 and P175 as at June 30 and March 31, 2020 and December 31, 2019, respectively.

Currency Options

As at June 30 and March 31, 2020 and December 31, 2019, the Group has outstanding currency options with an aggregate notional amount of US$1,548, US$1,330 and US$1,278, respectively, and with various maturities in 2020. The net negative fair value of these currency options amounted to P137, P529 and P53 as at June 30 and March 31, 2020 and December 31, 2019, respectively.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum, oil and coal requirements, with various maturities in 2020. 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 of aluminum covered by the commodity swaps is 600 and 900 metric tons as at June 30 and March 31, 2020, respectively. The negative fair value of these swaps amounted to P2 and P8 as at June 30 and March 31, 2020, respectively. The Group has minimal outstanding commodity swaps on the purchase of aluminum as at December 31, 2019.

The outstanding equivalent notional quantity of oil covered by the commodity swaps is 17.2, 22.7 and 12.5 million barrels as at June 30 and March 31, 2020 and December 31, 2019, respectively. The net positive (negative) fair value of these swaps amounted to (P2), P584 and P331 as at June 30 and March 31, 2020 and December 31, 2019, respectively.

The outstanding notional quantity of coal covered by the commodity swaps is 45,000 and 233,000 metric tons as at March 31, 2020 and December 31, 2019, respectively. The net negative fair value of these swaps amounted to P5 and P3 as at March 31, 2020 and December 31, 2019, respectively. The Group has no outstanding commodity swaps on the purchase of coal as at June 30, 2020.

Commodity Options
As at June 30 and March 31, 2020, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 2.2 and 1.5 million barrels, respectively. The net positive (negative) fair value of these commodity options amounted to P40 and (P256) as at June 30 and March 31, 2020, respectively. As at December 31, 2019, the Group has no outstanding three-way options entered as hedge of forecasted purchases of crude oil.

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$224, US$205 and US$188 as at June 30 and March 31, 2020 and December 31, 2019, 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 positive fair value of these embedded currency forwards amounted to P251, P172 and P220 as at June 30 and March 31, 2020 and December 31, 2019, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P334, (P2,281), P2,150 and (P1,270) for the periods ended June 30, 2020 and 2019, and March 31, 2020 and 2019, respectively.

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

	June 30, 2020	December 31, 2019
Balance at beginning of year	**(P1,964)**	(P950)
Net change in fair value of derivatives:		
Designated as accounting hedge	**(1,009)**	(1,807)
Not designated as accounting hedge	**436**	(3,054)
	(2,537)	(5,811)
Less fair value of settled instruments	**(330)**	(3,847)
Balance at end of year	**(P2,207)**	(P1,964)

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

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

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

Fair Value Hierarchy

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

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

	June 30, 2020			December 31, 2019		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P1,217**	**P1,217**	P -	P1,158	P1,158
Financial assets at FVPL	**-**	**283**	**283**	-	284	284
Financial assets at FVOCI	**440**	**5,529**	**5,969**	443	5,510	5,953
Financial Liabilities						
Derivative liabilities	**-**	**3,424**	**3,424**	-	3,122	3,122

The Group has no financial instruments valued based on Level 3 as at June 30, 2020 and December 31, 2019. For the period ended June 30, 2020 and for the year ended December 31, 2019, 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

Issuance of US$500 Million Senior Perpetual Capital Securities (SPCS) by SMC

On July 29, 2020, SMC issued US$500 SPCS at an issue price of 100%, with a fixed initial rate of distribution of 5.5% per annum. The securities were issued under SMC's US$3,000 Medium Term Note and Securities Programme.

Redemption of Series "2" Preferred Shares – Subseries D (SMC2D Preferred Shares) by SMC

On August 6, 2020, the BOD of SMC approved the redemption on September 21, 2020 of its outstanding 89,333,400 SMC2D preferred shares at a redemption price of P75.00 per share, plus any accumulated unpaid cash dividends to be paid on September 21, 2020.

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, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

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, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 44 (a) of the 2019 Audited Consolidated Financial Statements, that remain outstanding as at June 30, 2020. 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 at and for the period ended June 30, 2020.

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 at end of June 30, 2020. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

i. Long-term Debt Agreements

   The debt agreements contain, among others, covenants relating to merger and consolidation, negative pledge, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock. Also, certain agreements of a subsidiary include a one-time automatic waiver of compliance with financial ratios upon written notice to the lenders and without need of further action from the latter.

   The Group is in compliance with the covenants of the debt agreements or obtained the necessary waivers as at June 30, 2020 and December 31, 2019.

j. Effect of Coronavirus Disease 2019 (COVID-19)

   On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the COVID-19. In response to the increasing number of COVID-19 cases in the country, the government implemented the Enhanced Community Quarantine (ECQ) in National Capital Region and other key cities in Luzon from

March 15, 2020 to May 15, 2020, which restricted travel movements, allowing only essential travel. Among the lockdown measures implemented included suspension of work or alternative working arrangements in the private sector except in establishments providing basic necessities, restrictions on delivery of goods, suspension of mass transport facilities and travel restrictions. The ECQ was eased starting May 16, 2020 with government converting most cities to Modified Enhanced Community Quarantine including Metro Manila and Cebu until May 31, 2020 while some regions were placed under either General Community Quarantine (GCQ) or Modified General Community Quarantine (MGCQ). On June 1, 2020, quarantine measures were relaxed and National Capital Region was placed under GCQ which further allowed the operation of businesses and certain forms of public transportation.

The Group saw a rebound after the easing of some restrictions during ECQ which showed an immediate positive impact on the businesses. With government efforts to re-open the economy paving the way for the lifting of liquor bans in major cities nationwide, consumption of beer and liquor products resumed. Demand for power also increased with the opening of some commercial and industrial establishments. Traffic volumes on operating tollways also improved, while sales of Prepared and Packaged Food remained strong.

These recent gains however, were not enough to make up for what was lost during the entire ECQ period. Given the restricted mobility and curtailed economic activities, the Group's consolidated sales and profits in the first semester of 2020 declined as compared with the same period last year.

San Miguel Food and Beverage Inc.'s consolidated sales for the first half is lower than the same period in 2019. This was mainly brought about by the significant decline in the Beer division sales during the ECQ, which was partly offset by the higher sales from Spirits division and Prepared and Packaged Food segment of the Food division.

The Prepared and Packaged Food segment benefitted from consumer stock piling and donations of essential packaged goods during the quarantine period.

Petron's sales volume from its Philippine and Malaysian operations also was down amidst a sharp decline in fuel demand because of the COVID-19 impact.

The extent to which the COVID-19 pandemic impacts the Group will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19 both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that Top Frontier Investment Holdings, Inc. and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of June 30, 2020 and December 31, 2019 for liquidity, solvency and profitability ratios and for the periods ending June 30, 2020 and 2019 for operating efficiency ratios.

	June 2020	December 2019
Liquidity:		
Current Ratio	**1.50**	1.38
Quick Ratio	**1.07**	0.91
Solvency:		
Debt to Equity Ratio	**2.37**	2.21
Asset to Equity Ratio	**3.37**	3.21
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**(2.57%)**	5.98%
Interest Rate Coverage Ratio	**0.93**	2.44
Return on Assets	**0.93%**	2.61%

	Period Ended June 30	
	2020	2019
Operating Efficiency:		
Volume Growth (Decline)	**(20%)**	3%
Revenue Growth (Decline)	**(31%)**	2%
Operating Margin	**4%**	11%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets – Inventory – Prepayments}}{\text{Current Liabilities}}$
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	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income*}}{\text{Average Total Assets}}$

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*

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 at and for the period ended June 30, 2020 (with comparative figures as at December 31, 2019 and for the period ended June 30, 2019). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2020, 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. 2020 SIGNIFICANT TRANSACTIONS

MERGER OF SAN MIGUEL YAMAMURA PACKAGING CORPORATION (SMYPC) AND SAN MIGUEL YAMAMURA ASIA CORPORATION (SMYAC)

On October 23 and December 20, 2019, respectively, the Plan of Merger and Articles of Merger were executed by and between SMYPC and SMYAC, whereby the entire assets and liabilities of SMYAC will be transferred to and absorbed by SMYPC, the surviving entity.

On February 24, 2020, the Philippine Securities and Exchange Commission (SEC) approved the merger and issued the Certificate of Filing of the Articles and Plan of Merger.

On the same date, the SEC approved the increase in the authorized capital stock of SMYPC which was filed on October 25, 2019.

On March 1, 2020, the effective date of the merger, SMYPC issued 3,901,011 and 2,100,544 common shares to San Miguel Corporation (SMC) and Nihon Yamamura Glass Co., Ltd. (NYG), respectively, for a total amount of P6,002 million as consideration for the net assets of SMYAC pursuant to the terms of the Plan of Merger. The shares were issued out of the increase in the authorized capital stock of SMYPC. With the completion of the merger, SMC and NYG retained their respective ownership in SMYPC of 65% and 35%, respectively.

On July 7, 2020, the application for a tax-free exchange certification/ruling on the merger was filed with the Bureau of Internal Revenue and still pending as at August 6, 2020.

AVAILMENT OF LONG-TERM DEBT

- **SMC**

  On March 19, 2020, SMC drew the remaining US$1,950 million from the term loan facility amounting to US$2,000 million for general corporate purposes. The term of the loan is for five years and is subject to a floating interest rate. The maturity date of the loan is on September 27, 2024.

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

  On March 31, 2020, MPPCL drew US$43 million from the US$525 million Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335 megawatts (Unit 3 of Masinloc Power Plant) coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche with maturities up to December 2030.

- **Atlantic Aurum Investments Philippines Corporation (AAIPC)**

  In March and June 2020, AAIPC availed a total of P4,500 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. Proceeds of the loan were mainly used for the construction of North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3) Project. The loan is payable in 40 quarterly installments up to December 14, 2029 and subject to fixed interest rate.

- **Petron Corporation (Petron)**

  a) On April 22, 2020, Petron availed of JPY15,000 million term loan, subject to floating interest rate. Repayment of principal will be made in seven equal semi-annual amortization beginning March 27, 2022. The maturity date of the loan is on March 27, 2025. The proceeds were used to prepay part of the July and December amortizations of the US$1,000 million term loan facility.

  b) On April 27, 2020, Petron availed of P5,000 million term loan which will be amortized quarterly for four years beginning July 27, 2021 and is subject to fixed interest rate. The maturity date of the loan is on April 27, 2025. The proceeds were used to finance working capital and other general corporate requirements.

- **San Miguel Foods, Inc. (SMFI)**

  On various dates in April and May 2020, SMFI drew the remaining P8,000 million from the P18,000 million term loan facility for the purpose of refinancing its existing short-term loan obligations, to fund capital expansion projects and for other general corporate requirements. The loan is subject to a floating interest rate with a one-time option to convert to fixed rate within two years. The loan is payable in ten years, in quarterly installments, which will commence in March 2023. The maturity date of the loan is on December 12, 2029.

ISSUANCE OF P15,000 MILLION FIXED-RATE PESO-DENOMINATED BONDS AND REDEMPTION OF PERPETUAL SERIES “2” PREFERRED SHARES BY SAN MIGUEL FOOD AND BEVERAGE, INC. (SMFB)

On February 21, 2020, the SEC issued to SMFB the Permit to Sell P15,000 million fixed-rate bonds, consisting of five-year Series A Bonds due in 2025 and seven-year Series B Bonds due in 2027.

The bonds were issued and listed in the Philippine Dealing & Exchange Corp. on March 10, 2020.

The Series A and Series B Bonds have fixed interest rate equivalent to 5.050% per annum and 5.250% per annum, respectively.

The proceeds were used to redeem the outstanding perpetual series “2” preferred shares on March 12, 2020 and payment of transaction-related fees, costs and expenses.

REDEMPTION OF FIXED-RATE PESO-DENOMINATED NOTES BY SMC

On May 26, 2020, SMC redeemed the P10,000 million two-year fixed-rate Peso-denominated notes issued on May 25, 2018.

The notes were redeemed from the proceeds of the US$1,950 million loan drawn in March 2020.

ISSUANCE OF SENIOR PERPETUAL CAPITAL SECURITIES (SPCS) BY SMC GLOBAL POWER HOLDINGS CORP. (SMC GLOBAL)

On January 21, 2020, SMC Global issued US$600 million SPCS at an issue price of 100%, with an initial rate of distribution of 5.7% per annum. The securities were listed on the Singapore Exchange Securities Trading Limited on January 22, 2020. The net proceeds will be applied by SMC Global for the funding requirements of the development and completion of its battery energy storage systems (BESS) projects and for general corporate purposes.

Apart from pursuing coal projects, SMC Global is also focused on investing in BESS and renewable energy projects as part of its objective to operate in an environmentally-responsible manner while considering energy security and affordability to its customers.

REDEMPTION OF SERIES “1” PREFERRED SHARES (SMCP1) BY SMC

As approved by the Board of Directors (BOD) on March 12, 2020, SMC redeemed on April 14, 2020 all the outstanding SMCP1 totaling 279,406,667 preferred shares at a redemption price of P75.00 per share, plus any accumulated unpaid cash dividends. SMC paid P20,956 million to the holders of SMCP1.

The SMCP1 was redeemed from the proceeds of the US$1,950 million drawn in March 2020 out of the US$2,000 million facility agreement.

The shares redeemed were not considered retired and may be re-issued by SMC at a price to be determined by the BOD. The shares are merely suspended until re-issued by SMC, upon the approval of the application for lifting of trading suspension by SMC, in accordance with the listing rules of the Philippine Stock Exchange.

ISSUANCE OF REDEEMABLE PERPETUAL SECURITIES (RPS) BY SMC

In June 2020, SMC issued a total of P10,810 million RPS at an issue price of 100% for general corporate requirements.

The RPS are capital securities with no fixed redemption date. The security holders have the right to receive distribution at the rate of 5% per annum, payable quarterly in arrears every March, June, September and December of each year commencing on September 2020. SMC has the right to defer this distribution under certain conditions.

PAYMENT OF OTHER MATURING OBLIGATIONS

In the first semester of 2020, the Group paid P17,626 million of maturing obligations funded by cash generated from operations.

Petron, SMC, Energy, Infrastructure, and other businesses paid a total of P7,824 million, P4,028 million, P2,892 million, P2,336 million and P546 million, respectively, of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2020 vs. 2019

The Group's consolidated sales for the first semester of 2020 declined by 31% to P352,788 million from P509,485 million of the same period in 2019, while consolidated operating income was at P14,127 million, 75% lower from P56,806 million last year. This was mainly brought on by Petron's losses coupled with the drop in sales of the Beer and Non-Alcoholic Beverages (NAB) division under Food and Beverage business due to the liquor ban implemented during the Enhanced Community Quarantine (ECQ).

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) was at P41,272 million lower than last year's P78,688 million even with the EBITDA of the Energy business and the Food division under Food and Beverage business showed double-digit increase compared to the same period last year.

Lower cost of sales by 27% to P300,199 million resulted primarily from the: (a) decrease in sales volume and lower prices of raw materials and other costs of Petron and the Food and Beverage business, and (b) Energy business' (i) lower power purchases due to lower average spot prices and volumes as a result of community quarantine, (ii) lower coal cost and inventory consumption of Sual Power Plant due to decline in net generation, longer outages, and declining average cost of coal, and (iii) lower energy fees due to lower net generation of the Sual, Ilijan and San Roque Power Plants and lower natural gas prices for the Ilijan Power Plant.

The decrease in selling and administrative expenses by 12% to P38,462 million was mainly due to the lower distribution costs and advertising and promotions expenses of the Beer and NAB division under Food and Beverage business.

The decrease in interest expense and other financing charges was mainly due to: (a) Energy business' (i) lower interest on finance lease liabilities of the entities under Independent Power Producer Administration (IPPA) Agreements due to declining principal balance, (ii) higher capitalization of interest by MPCCL for its ongoing construction projects, and (b) Petron's lower average interest rate despite higher borrowing level and reduced bank charges.

The decrease in interest income was primarily due to lower interest rates and average balance of cash and money market placements.

The decrease in equity in net earnings (losses) of associates and joint ventures was mainly due to the share in higher net loss of Angat Hydropower Corporation (Angat Hydro), reduced by the higher share in net income of Manila North Harbour Port, Inc. (MNHPI), from two months share in 2019 to six months in 2020. MNHPI was deconsolidated and became a joint venture effective April 2019.

Loss on sale of property and equipment in 2020 pertains mainly to the loss on retirement of SMYPC Manila Plastics Plant's fixed assets caused by the fire incident in Pandacan, Manila.

The increase in other income - net was mainly due to the: (a) settlement received by the Energy business from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts, net of (b) SMYPC Manila Plastic Plant's inventory loss from the fire incident in Pandacan, Manila in February 2020, and (c) Infrastructure business' gain recognized in 2019 on the fair valuation of MNHPI upon deconsolidation.

The lower income tax expense was primarily due to: (a) Petron's tax benefit from loss before tax for the first semester of 2020 versus income before tax in the same period last year and (b) lower taxable income of San Miguel Brewery Inc. (SMB).

Consolidated net loss amounted to P4,012 million for the first semester of 2020, compared to consolidated net income of P26,404 million in the same period last year.

Share of non-controlling interests (NCI) on the Group's net income decreased mainly due to net loss of Petron for the first semester of 2020 versus net income in the same period last year and lower net income of SMB.

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

1. FOOD AND BEVERAGE

SMFB's consolidated sales for the first half amounted to P122,815 million, 19% lower than the same period in 2019. This was mainly brought about by the significant decline in the Beer division sales during the ECQ, which was partly offset by the higher sales from Spirits division and Prepared and Packaged Food segment of the Food division.

Consolidated operating income and net income amounted to P11,363 million and P7,338 million, both lower by 47% and 50%, respectively.

a. Beer and NAB Division

SMB, for the first half, posted consolidated sales of P42,793 million, 39% lower versus last year as consolidated volume declined by 44%.

Correspondingly, consolidated operating income amounted to P7,359 million, 61% down from last year. Net income stood at P5,023 million.

Domestic Operations
Domestic operations' volume was 46% lower than last year mainly due to the implementation of ECQ in mid-March, liquor bans and the temporary closure of on-premise and off-premise outlets. With the easing of restrictions from ECQ to General Community Quarantine and gradual re-opening of the economy, domestic operations' performance picked up by mid-May with significant beer volume recovery in June.

Tempered volumes translated to sales of P38,465 million and operating income of P7,152 million, lower by 40% and 61% than last year, respectively. Given these challenges, effective cost management via rationalized spending, tighter business controls and other cost saving initiatives were implemented which helped sustain the domestic operations' positive profit level in the first semester.

International Operations
International operations performance likewise reflected the effect of the different levels of lockdown and restrictions in the countries we operate particularly in Indonesia. Hong Kong, Vietnam and its Exports markets, however, have registered favorable results.

b. Spirits Division

Ginebra San Miguel Inc.'s (GSMI) volume quickly rebounded after the ECQ restrictions have been eased and liquor ban lifted in most key cities middle of May. While volume still ended 10% lower, this was an improvement from the 14% deficit in the first quarter. This brought second quarter profit to grow more than 2x versus the same period last year.

Volumes were boosted by continued push of its brand relevance, prompt replenishment of its stocks in starved outlets, as well as expanding its products in e-commerce channels via the San Miguel Treats online store and promotion through its online '*Ginumanfest'* live concert held last June 20.

First half consolidated sales ended slightly higher than the same period last year at P14,843 million.

Operating income amounted to P1,807 million, 13% higher than last year and net income grew 28% to P1,257 million from last year.

c. Food Division

The Food division registered relatively flat consolidated sales of P65,180 million during the first half. Its January to June performance primarily reflected the impact of the ECQ imposed in March, which led to the closure of many food service and retail establishments and restricted the movement of goods to the trade. Although, most of the Food segments started to recover in June with the easing of quarantine measures, the overall sales performance of the Protein and Animal Nutrition and Health segments was severely affected by the ECQ but cushioned by the strong performance of the Prepared and Packaged Food segment.

Revenue of the Protein segment, which consists of Magnolia Chicken and Monterey Meats businesses, declined by 6% compared to the same period last year. Many of food service customers, including fast food chains and *lechon manok* outlets, were forced to close shop during the ECQ. Likewise, sales in wet markets and supermarkets were affected due to decreased foot traffic resulting from lack of public transportation and closure of some poultry stalls as market days were reduced in certain areas.

The Animal Nutrition and Health segment experienced a 10% decline in revenue as volume fell across most of its feed segments, primarily due to the impact of the ECQ and the African Swine Fever. However, Animal Nutrition and Health segment saw an opportunity to grab market share from competitors whose operations were hampered by the lockdown. This allowed the segment to post a 3% growth in volume in June.

Meanwhile, the Prepared and Packaged Food segment sustained its 17% revenue growth for the first half, cushioning the impact of the ECQ on the Food division, as it benefitted from consumer stock piling and donations of essential packaged goods during the quarantine period. As in-home dining became the norm, consumer demand for canned meats such as corned beef and SPAM, as well as refrigerated meats soared. Sales of dairy products likewise grew by double-digits.

Even as volume improved by 5%, revenue of the Flour segment ended flat in the first half. Volumes were lifted by the increased demand for breads by households and the resumption of operations of institutional customers. With the restaurants shut down and everyone under a lockdown, most people emerged as chefs and bakers and pushed sales of retail baking premixes and baking ingredients.

Despite challenging market conditions, the Food division's consolidated operating income doubled to P2,246 million from the same period last year due to improved product mix, lower prices of major raw materials, and various cost-saving initiatives. Consolidated net income amounted to P1,338 million from P447 million last year.

2. PACKAGING

The Packaging business' performance for the first semester continued to be dragged down by the low volumes from its key customers, particularly Beer and Spirits divisions of Food and Beverage business, which were partly offset by the steady deliveries from its health and pharmaceutical customers, improved sales from the food and beverage sectors for home consumption and the stable performance from its Malaysia operations, as well as increased trading and manufacturing activities of the Australasia business.

Sales and operating income amounted to P14,512 million and P318 million, down by 19% and 81%, respectively.

3. ENERGY

SMC Global's consolidated sales for the first half amounted to P57,177 million, 21% lower versus last year, as off-take volume of 12,837 gigawatt hours (gwh), posted a 12% decline from same period last year. This was primarily due to the deferral of the commencement to supply Manila Electric Company (Meralco) under the 290MW mid-merit power supply agreement and the 260MW extended contract pending Energy Regulatory Commission (ERC) approval. The provisional approval of the ERC on the mid-merit contract was issued only on March 16, 2020, while the approval on the extension is still pending. Moreover, the new Meralco baseload power supply agreements that took effect on December 26, 2019 have lower contract rates compared to the power supply contracts that expired in December 25, 2019.

Though sales volume from industrial and contestable customers declined during the government-imposed quarantine period, this was compensated by improved utility demand. The Group also has an effective take-or-pay arrangement with most of its utility customers.

With lower fuel costs and power dispatch strategies implemented, operating income ended slightly lower at P18,120 million versus same period last year. Net income, on the other hand, amounted to P9,063 million, 25% higher than last year.

4. FUEL AND OIL

Petron's challenges persisted throughout the six months period this year as global crude prices remained volatile which have been worsened by the decline in demand during the ECQ period, specifically during the second quarter.

Consolidated sales amounted to P152,357 million for the first half of 2020, 40% lower from P254,807 million in the same period last year. Consolidated sales volume from its Philippine and Malaysian operations also was down 19% to 41.9 million barrels from 51.9 million barrels a year ago amidst a sharp decline in fuel demand because of the Coronavirus Disease 2019's (COVID-19) impact.

The worldwide lockdowns resulted in an unprecedented demand destruction which led to a sustained drop in oil prices, reaching record low levels in 26 years. Dubai crude collapsed by almost 70% or US$44/bbl from January to April and oil price fell to as low as US$13/bbl in the daily trading. Refining margins also remained weak in the region as oil consumption declined. The combined slump in demand, poor refining margins, and collapse in prices resulted in Petron's consolidated net loss of P14,236 million for the first six months of 2020 versus its P2,620 million net income in 2019. Declining crude prices caused inventory losses of nearly P15 billion during this period. Petron continues to improve its productivity and reduces expenses to cope with COVID-19's impact.

5. INFRASTRUCTURE

The Infrastructure business' operating toll roads similarly reflected the full impact of the ECQ lockdown from mid-March until mid-May which restricted travel movements throughout Luzon. This brought traffic volume to drop by 40% for the first half.

Consolidated sales likewise fell 46% to P6,675 million, while operating income stood at P951 million.

A significant recovery in traffic flow has already been seen after the easing of the ECQ restrictions with some operating toll roads already registering near pre-COVID-19 level.

2019 vs. 2018

The Group's consolidated sales for the first semester of 2019 amounted to P509,485 million, 2% higher than 2018, mainly driven by strong performance of Energy and Food and Beverage businesses. This was driven mainly by higher volumes for most of the major businesses.

Cost of sales increased by 4% from P393,751 million in 2018 to P409,133 million in 2019. The increase primarily resulted from the full six months operations of Masinloc Power Plant, Unit 2 of Davao Power Plant and Unit 3 of Limay Power Plant, higher energy fees of Ilijan and Sual Power Plants, higher average natural gas price for Ilijan and increased average spot prices of the Energy business. The increase was also due to the volume growth of the Food and Beverage business and higher prices of major raw materials of the Food division.

Selling and administrative expenses increased mainly due to: (a) higher distribution costs, advertising and promotions, taxes and licenses and amortization expenses of Beer and NAB division and higher logistics costs and personnel expenses of the Food division of the Food and Beverage business, and (b) higher taxes and licenses, personnel expenses, fuel and oil, travel and transportation, utilities and supplies expenses of the Energy business.

The Group's consolidated operating income amounted to P56,806 million, 14% lower than 2018, mainly due to Petron, which continue to be weighed down by the prevailing volatile movements in world crude oil prices and weak refining margins. The Bataan Refinery of Petron was temporarily shutdown for the scheduled major maintenance and additional repair works needed after the April 22, 2019 earthquake. The Food and Beverage business, particularly the Food division, also continues to be affected by rising raw material costs and low chicken prices due to higher inventory coming from imports. The decline was partly offset by the higher operating income of Beer and Spirits divisions and the Energy business.

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 earnings of associates and joint ventures mainly represents the share of SMC Global on Angat Hydro lower net loss in 2019 as compared to 2018.

The gain on sale of property and equipment in 2019 pertains mainly to the sale of service stations by Petron Malaysia on government's compulsory acquisition for various projects, while 2018 pertains mainly to the sale by San Miguel Properties, Inc. of its investment in Legacy Homes, Inc.

The other income - net in 2019 versus other charges - net in 2018 was primarily due to the appreciation of the Philippine Peso in June 2019 compared to the depreciation of the Philippine Peso in June 2018, resulting to a foreign exchange gain in 2019 compared to a foreign exchange loss 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, (b) higher taxable income of SMB and South Premiere Power Corp. (SPPC), and (c) 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.

Consolidated net income amounted to P26,404 million in 2019.

Share of NCI decreased in 2019 mainly due to the lower net income of Petron, partly offset by the increase in the share of NCI on SMB's higher net income.

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

1. FOOD AND BEVERAGE

SMFB’s consolidated sales for the first semester of 2019 reached P151,107 million, 10% higher than P137,608 million reported in the same period in 2018, mainly driven by Beer and Spirits’ strong volume. Consolidated operating income, however, ended 6% lower at P21,568 million on account of the decline in the Food division’s performance.

Net income stood at P14,670 million.

a. Beer and NAB Division

SMB’s consolidated sales for the first semester of 2019 reached P70,283 million, 12% higher than the same period in 2018, as consolidated volume increased by 10%.

Domestic Operations
Domestic operations posted an 11% volume growth from 2018, as consumption continued to be robust in all key areas around the country. This has been boosted by SMB’s new sales and marketing campaigns initiatives, consistent consumer penetration via trade programs and various activities which proved to further strengthen its brand equity, with Red Horse and San Miguel Pale Pilsen maintaining its position as the top selling brands for SMB.

International Operations
International operations, meanwhile, posted a slight decline in volume due to the slowdown in sales of its local mainstream brands which has been partly offset by the healthy growth of San Miguel brands.

As a result, SMB's consolidated operating income rose to P18,933 million, up 9%, while net income grew to P13,258 million, 12% higher from 2018.

b. Spirits Division

GSMI concluded the first semester of 2019 with strong volume growth, which was 17% higher than 2018's level led by its core brands Ginebra San Miguel and Vino Kulafu, the result of the business' relentless sales efforts to expand more through distribution and support from its continuous consumer promos and advertising campaigns such as the highly anticipated jersey collection, *'Dosenang Lakas May Instant Pa-Buenas'* under-the cap-promo and numerous on-ground *Ginumanfest* activations across the country.

Along with price adjustments implemented during the second quarter of 2019, sales grew 20% to P14,695 million from 2018. Operating income hit P1,596 million, 85% higher than 2018 level, the result of strong volume, higher revenues and lower costs.

Net income ended at P980 million, 94% higher from 2018.

c. Food Division

The Food division's consolidated sales for the first semester of 2019 amounted to P66,131 million, 5% higher than 2018 with all its businesses posting revenue growth boosted by higher volumes and better selling prices from almost all categories.

Protein segment revenue grew 3%, driven mainly by poultry's 9% volume growth, backed by higher chicken sales from its stable-priced channels.

Animal Nutrition and Health segment revenue also grew 3% due to favorable market prices and higher sales from high margin products such as B-Meg Integra, hog feeds premium line and veterinary medicines.

Prepared and Packaged Food segment, meanwhile, provided double-digit revenue growth of 13%, driven mainly by value-added meats' and butter, margarine and cheese' 4% and 6% volume growth, respectively, coupled with better selling prices from its core products - Tender Juicy, Purefoods Corned Beef, Nuggets, Luncheon Meat, and Magnolia breadfill and spreads.

Flour segment revenue, on the other hand, grew 10% on a 3% volume growth and higher selling prices.

The Food division's operating income, however, ended significantly lower than 2018 at P1,063 million mainly due to the prevailing rising cost of raw materials and the effect of the oversupply of poultry which dragged down selling prices during the first quarter of 2019.

Poultry prices, while still lower compared to figures in 2018, have shown some recovery during the second quarter of 2019.

Similarly, net income ended lower at P447 million.

2. PACKAGING

The Packaging business delivered sales of P17,835 million during the first semester of 2019, 2% higher versus 2018 mainly from increased sales from Glass, Plastics, Metal, Flexibles and Malaysian operations.

Operating income amounted to P1,697 million, 3% higher than 2018.

3. ENERGY

SMC Global posted consolidated off-take volume of 14,635 gwh during the first semester of 2019, 28% higher than the same period in 2018 from new bilateral contracts obtained from both the regulated and contestable power markets. These were supplied through the additional power generated from the Masinloc, Limay and Malita Power Plants, combined with the improved plant capacity factors from the Sual and Ilijan Power Plants. These resulted to a 26% increase in consolidated sales to P72,511 million from P57,430 million in 2018.

Consequently, consolidated operating income increased by 8% to P18,384 million, while consolidated net income of P7,263 million grew significantly higher versus the same period in 2018.

4. FUEL AND OIL

Petron's performance for the first semester of 2019 continued to be affected by the volatile movements in world crude oil prices and weak refining margins. The Bataan Refinery was temporarily shutdown for its scheduled major maintenance and additional repair works needed following the April 22, 2019 earthquake. Demand in the Philippine market also slowed down due to the effect of the second tranche of the excise tax increase under the Tax Reform for Acceleration and Inclusion Law. This resulted to lower consolidated volumes of 51.9 million barrels, even with Malaysia's higher volumes. Consolidated sales reached P254,807 million, down by 7% during the first half of 2019.

Consolidated operating income and net income settled at P9,787 million and P2,620 million, 37% and 72% decline from 2018, respectively.

5. INFRASTRUCTURE

SMC Infrastructure's operating toll roads vehicular traffic volumes continue to grow posting a combined 6% increase during the first half of 2019. Consolidated sales amounted to P12,315 million.

Operating income reached P6,030 million.

III. FINANCIAL POSITION

<u>2020 vs. 2019</u>

Consolidated total assets as at June 30, 2020 amounted to about P1,965,820 million, P34,643 million or 2% higher than December 31, 2019. The increase was primarily due to the higher balance of cash and cash equivalents, partially offset by the decrease in trade and other receivables and inventories.

The increase in cash and cash equivalents by P58,223 million was mainly from the issuance by SMC of US$1,950 million corporate notes and RPS and by SMC Global of US$600 million SPCS. The increase was reduced by SMC's redemption of SMCP1 and payment of corporate notes, various capital expenditures of the Group, and payment of dividends and distributions.

The decrease in trade and other receivables by P11,872 million was mainly due to the lower trade customer balances by Petron attributable to lower fuel prices and drop in sales volume.

The decrease in inventories by P33,950 million was attributable mainly to lower prices as well as lower volume of crude and finished products of Petron Philippines.

The decrease in current portion of biological assets by P702 million was mainly due to the Poultry segment's reduction in flocks loaded due to reduced available capacity from delayed or prolonged harvest.

The increase in prepaid expenses and other current assets by P5,762 million was primarily due to: (a) MPPCL's net addition on its restricted cash account and increase in input taxes of the Energy business during the period, and (b) Petron's higher prepaid insurance, unused creditable withholding taxes and specific tax and product replenishment claims.

The decrease in accounts payable and accrued expenses by P33,851 million was mainly due to lower liabilities for crude and petroleum products of Petron brought about by the drop in prices as at end of first semester 2020 versus end of December 2019 and lower outstanding liabilities to contractors and vendors for services purchased by Petron.

The decrease in dividends payable by P181 was mainly due to lower dividends declared by SMC as a result of the redemption of its SMC2B Preferred Shares in September 2019.

The increase in total long-term debt, net of debt issue costs, by P104,980 million was due mainly to: (a) SMC 's availment of US$1,950 million corporate notes, (b) SMFB's issuance of P15,000 million fixed-rate Peso-denominated bonds. The increase was partly offset by foreign exchange adjustments on the foreign currency-denominated loans.

The decrease in deferred tax liabilities by P3,307 million was largely due to: (a) recognition of deferred tax assets by Petron arising from net operating loss carry-over (NOLCO) for the period, net of (b) higher deferred tax liabilities recognized by San Miguel Energy Corporation (SMEC), SPPC and Strategic Power Devt. Corp. (SPDC) mainly on the difference of monthly fixed payments to PSALM over the finance lease-related expenses, particularly on the additional foreign exchange gain recognized on the US Dollar-denominated finance lease liabilities.

The decrease in total lease liabilities by P13,342 million was primarily due to the payments made to PSALM by the entities under IPPAs.

The decrease in equity reserves by P1,666 million pertains mainly to the currency translation adjustments for the period resulting from the appreciation of Philippine Peso against the US Dollar.

The decrease in unappropriated retained earnings by P6,846 million was mainly due to net loss for the period.

2019 vs. 2018

Consolidated total assets as of June 30, 2019 amounted to P1,845,831 million, P54,639 million higher than December 31, 2018. The increase was primarily due to the increase in cash and cash equivalents from the issuance of SPCS by SMC Global in April 2019 and the recognition of right-of-use (ROU) assets with the adoption of PFRS 16, *Lea*ses.

The increase in trade and other receivables by P9,824 million was mainly attributable to the: (a) higher bilateral and spot sales of SPPC and SMEC, and from the new power plants in Limay and Masinloc, and (b) increase in trade customer balances of Petron attributable to higher fuel prices, partly offset by the decrease in Petron Malaysia's Government subsidy receivable.

The decrease in prepaid expenses and other current assets by P16,841 million was primarily due to the: (a) decrease in Petron's input tax, goods and services tax and other prepaid taxes as a result of collection of input tax claim from the government and utilization of input tax for the period in 2019, and (b) decrease in Citra Central Expressway Corp.'s restricted cash balance.

The decrease in property, plant and equipment by P180,633 million, the balance of the ROU assets of P202,121 million and the increase in investment property by P15,288 million were primarily the result of the adoption of PFRS 16.

The increase in biological assets - net of current portion by P263 million was caused by the increase in production cost, mainly due to higher feed costs.

The increase in deferred tax assets by P1,107 million was mainly due to the recognition of deferred tax assets by the Food division of Food and Beverage business arising from NOLCO and minimum corporate income tax, and the effect of the adoption of PFRS 16 to the Group.

The increase in other noncurrent assets by P10,149 million was mainly due to advances of MPGC to suppliers and contractors for the construction of its power plant, capitalized costs on the construction of Metro Rail Transit Line 7 Project and purchase of new containers by SMB.

The decrease in loans payable by P19,842 million was mainly due to the net repayment of US Dollar and Philippine Peso short-term loans by Petron, settlement of US$120 million short-term loan by SMC Global, offset by net availment by SMC of short-term Peso loans for general corporate purposes.

The increase in total lease liabilities by P9,002 million was primarily the result of the adoption of PFRS 16 by the Group, net of the payments made to PSALM by the entities under IPPAs.

The increase in dividends payable by P326 million primarily represents the dividends declared by PT. Delta Djakarta Tbk. on June 19, 2019, which was paid on July 18, 2019 to its minority shareholders.

The increase in total long-term debt, net of debt issue costs, by P16,074 million was due to the: (a) issuance of P30,000 million fixed-rate Peso-denominated bonds by SMC Global, (b) total drawdown of US$536 million from US$800 million long-term loan facility by Petron, and (c) availment of P16,000 million long-term corporate notes by SMC, (d) offset by the redemption of Series C and E bonds of SMB and partial prepayment of US Dollar and refinancing of Philippine Peso loans by Petron.

The decrease in other noncurrent liabilities by P1,965 million was mainly due to the deconsolidation of MNHPI, net of the increase in derivative liability of SMC due to foreign exchange and fair valuation.

The decrease in equity reserves by P1,178 million pertains to the currency translation adjustments for the period in 2019 resulting from the appreciation of Philippine Peso against the US Dollar.

The decrease in appropriated retained earnings by P14,852 million was attributable to the reversals 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 by P20,449 million was primarily due to the reversal of appropriations and net income for the period in 2019.

The increase in NCI by P47,311 million pertains to the issuance of SPCS by SMC Global and preferred shares by Petron.

Equity

The increase (decrease) in equity is due to:

(In millions)	June 30	
	2020	2019
Net addition to non-controlling interests and others	**P3,828**	P42,820
Other comprehensive loss	**(3,577)**	(2,003)
Net income (loss) during the period	**(4,012)**	26,404
Cash dividends and distributions	**(14,113)**	(13,069)
	(P17,874)	P54,152

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	June 30	
	2020	2019
Net cash flows provided by operating activities	**P13,340**	P47,394
Net cash flows used in investing activities	**(36,003)**	(48,203)
Net cash flows provided by financing activities	**85,277**	28,035

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

Net cash flows used in investing activities included the following:

(In millions)	June 30	
	2020	2019
Additions to property, plant and equipment	**(P30,304)**	(P27,965)
Increase in other noncurrent assets and others	**(9,108)**	(24,000)
Additions to investments and advances	**(548)**	(701)
Dividends received	**3**	4
Proceeds from sale of property and equipment	**546**	406
Interest received	**3,408**	4,683
Cash and cash equivalents of a deconsolidated subsidiary	**-**	(621)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**-**	(9)

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

(In millions)	**June 30**	
	2020	2019
Proceeds from long-term debt - net	**P111,905**	P21,867
Net proceeds from issuance of preferred shares, senior perpetual capital securities and redeemable perpetual securities of subsidiaries	**40,875**	45,661
Payment of short-term loans - net	**(3,833)**	(15,738)
Payment of lease liabilities	**(12,301)**	(10,969)
Payment of cash dividends and distributions	**(14,293)**	(12,744)
Redemption of preferred shares of subsidiaries	**(35,956)**	-

The effect of exchange rate changes on cash and cash equivalents amounted to (P4,391 million) and (P3,104 million) for the periods ended June 30, 2020 and 2019, respectively.

V. KEY PERFORMANCE INDICATORS

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

	June 2020	December 2019
Liquidity:		
Current Ratio	**1.50**	1.38
Quick Ratio	**1.07**	0.91
Solvency:		
Debt to Equity Ratio	**2.37**	2.21
Asset to Equity Ratio	**3.37**	3.21
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**(2.57%)**	5.98%
Interest Rate Coverage Ratio	**0.93**	2.44
Return on Assets	**0.93%**	2.61%

	Periods Ended June 30	
	2020	2019
Operating Efficiency:		
Volume Growth (Decline)	**(20%)**	3%
Revenue Growth (Decline)	**(31%)**	2%
Operating Margin	**4%**	11%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets – Inventory – Prepayments}}{\text{Current Liabilities}}$

KPI	Formula
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	$\dfrac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\dfrac{\text{Net Income*}}{\text{Average Total Assets}}$
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*